

Powerchip Semiconductor Corporation

**Financial Statements for the
Nine Months Ended September 30, 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 September 30, 2006 and 2005, and the related statements of income and cash flows for the nine months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

As stated in Note 11 to the financial statements, we did not review the financial statements for the nine months ended September 30, 2006 and 2005 of equity-method investees. The carrying values of those investments as of September 30, 2006 and 2005 were NT\$8,652,702 thousand and NT\$5,020,170 thousand, respectively, and the related net investment incomes for the nine months ended September 30, 2006 and 2005 were NT\$102,487 thousand and NT\$29,200 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 determined to be necessary had the financial statements of investees referred to in the 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 - “Financial Instruments: Recognition and Measurement” and No. 36 - “Financial Instruments: Disclosure and Presentation” and related revisions of previously released Statements.

October 17, 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

SEPTEMBER 30, 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	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 27,306,679	14	\$ 35,692,392	24	Financial liabilities at fair value through profit or loss - current (Notes 2, 3, 5, 14 and 23)	\$ 2,067,260	1	\$ 1,815	-
Financial assets at fair value through profit or loss - current (Notes 2, 3, 5 and 23)	5,122,674	3	2,753,944	2	Accounts payable (Note 24)				
Available-for-sale financial assets - current (Notes 2, 3, 6, and 23)	464,662	-	121,073	-	Related parties	1,061,195	-	574,849	-
Held-to-maturity financial assets - current (Notes 2, 3, 9, 23 and 24)	6,000	-	165,000	-	Third parties	7,216,592	4	4,457,256	3
Accounts receivable, net (Notes 2, 7, 24 and 25)					Income tax payable (Notes 2 and 20)	809,356	-	-	-
Related parties	6,978,268	4	1,999,781	1	Accrued expenses (Notes 2, 3 and 24)	3,308,273	2	2,323,549	2
Third parties	4,359,911	2	2,729,006	2	Payables on equipment	23,181,114	12	15,627,101	10
Other receivables (Note 3)	662,723	-	242,958	-	Convertible bonds payable (Notes 2, 14 and 23)	8,708,190	5	5,375,759	4
Inventories, net (Notes 2 and 8)	9,734,414	5	6,642,203	5	Current portion of long-term bank loans (Notes 15 and 23)	7,606,667	4	5,831,667	4
Prepaid expenses	209,355	-	99,422	-	Current portion of long-term obligations under capital lease (Notes 2, 12 and 23)	-	-	41,278	-
Deferred income tax assets - current (Notes 2 and 20)	367,822	-	1,347,914	1	Other current liabilities	<u>290,075</u>	<u>-</u>	<u>122,941</u>	<u>-</u>
Restricted deposits (Note 25)	836,007	1	1,502,878	1					
Other current assets	<u>50,255</u>	<u>-</u>	<u>16,913</u>	<u>-</u>	Total current liabilities	<u>54,248,722</u>	<u>28</u>	<u>34,356,215</u>	<u>23</u>
Total current assets	<u>56,098,770</u>	<u>29</u>	<u>53,313,484</u>	<u>36</u>					
LONG-TERM INVESTMENTS					LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
Held-to-maturity financial assets - noncurrent (Notes 2, 3, 9, 23 and 24)	199,000	-	130,000	-	Convertible bonds payable (Notes 2, 14 and 23)	14,993,627	8	14,720,993	10
Financial assets carried at cost - noncurrent (Notes 2, 3, 10 and 23)	551,026	-	626,681	1	Long-term bank loans (Notes 15 and 23)	<u>24,805,000</u>	<u>13</u>	<u>17,448,792</u>	<u>11</u>
Equity-method investments (Notes 2, 11 and 24)	<u>8,652,702</u>	<u>5</u>	<u>5,020,170</u>	<u>3</u>					
Total long-term investments	<u>9,402,728</u>	<u>5</u>	<u>5,776,851</u>	<u>4</u>	Total long-term liabilities	<u>39,798,627</u>	<u>21</u>	<u>32,169,785</u>	<u>21</u>
PROPERTIES (Notes 2, 12, 21 and 25)					OTHER LIABILITIES				
Cost					Accrued pension cost (Notes 2 and 16)	34,209	-	34,155	-
Buildings	10,006,894	5	7,753,280	5	Guarantee deposits	<u>4,974</u>	<u>-</u>	<u>5,879</u>	<u>-</u>
Machinery and equipment	154,665,052	80	106,960,833	71	Total other liabilities	<u>39,183</u>	<u>-</u>	<u>40,034</u>	<u>-</u>
Research and development equipment	774,022	-	412,657	-	Total liabilities	<u>94,086,532</u>	<u>49</u>	<u>66,566,034</u>	<u>44</u>
Facility equipment	20,453,095	11	15,784,996	11					
Transportation equipment	17,475	-	19,822	-	SHAREHOLDERS' EQUITY (Notes 17 and 18)				
Office equipment	417,069	-	359,505	-	Capital stock, \$10 par value				
Equipment under capital lease	-	-	761,708	-	Authorized - 9,000,000 thousand shares in 2006 and 7,500,000 thousand shares in 2005				
Miscellaneous equipment	<u>1,243,256</u>	<u>1</u>	<u>826,290</u>	<u>1</u>	Issued - 6,279,281 thousand shares in 2006 and 5,575,267 thousand shares in 2005	62,792,808	33	55,752,674	37
Accumulated depreciation	<u>187,576,863</u>	<u>97</u>	<u>132,879,091</u>	<u>88</u>	Capital surplus (Notes 2 and 17)				
	<u>(74,220,008)</u>	<u>(38)</u>	<u>(54,581,982)</u>	<u>(36)</u>	Paid-in capital in excess of par value	15,217,924	8	12,727,952	8
	113,356,855	59	78,297,109	52	Arising from conversion of bonds	4,031,771	2	3,974,027	3
Construction in progress and advance payments	<u>9,479,938</u>	<u>5</u>	<u>8,043,326</u>	<u>5</u>	Arising from treasury stock	5,388	-	3,290	-
Net properties	<u>122,836,793</u>	<u>64</u>	<u>86,340,435</u>	<u>57</u>	Arising from long-term investments	24,399	-	20,730	-
OTHER ASSETS					Retained earnings				
Assets leased to others, net (Note 2)	147,188	-	165,316	-	Appropriation for legal reserve	2,774,552	1	2,132,816	2
Refundable deposits	30,484	-	29,644	-	Appropriation for special reserve	31,566	-	252	-
Deferred charges, net (Notes 2, 13, 21, 24 and 26)	2,706,279	1	3,473,736	2	Unappropriated earnings	14,971,112	8	9,356,438	6
Deferred income tax assets - noncurrent (Note 2 and 20)	919,930	1	674,698	1	Others				
Spare parts, net	461,615	-	431,315	-	Unrealized gains on financial assets (Notes 2, 3, 11 and 23)	366,019	-	-	-
Others	<u>34,429</u>	<u>-</u>	<u>17,971</u>	<u>-</u>	Cumulative translation adjustments (Note 2)	(8,429)	-	(8,038)	-
Total other assets	<u>4,299,925</u>	<u>2</u>	<u>4,792,680</u>	<u>3</u>	Treasury stock (at cost) - 89,518 thousand shares in 2006 and 15,992 thousand shares in 2005 (Notes 2 and 19)	<u>(1,655,426)</u>	<u>(1)</u>	<u>(302,725)</u>	<u>-</u>
TOTAL	<u>\$ 192,638,216</u>	<u>100</u>	<u>\$ 150,223,450</u>	<u>100</u>	Total shareholders' equity	<u>98,551,684</u>	<u>51</u>	<u>83,657,416</u>	<u>56</u>
					TOTAL	<u>\$ 192,638,216</u>	<u>100</u>	<u>\$ 150,223,450</u>	<u>100</u>

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

(With Deloitte & Touche review report dated October 17, 2006)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

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

(Reviewed, Not Audited)

	2006		2005	
	Amount	%	Amount	%
GROSS SALES	\$ 61,219,528		\$ 39,245,520	
SALES RETURNS AND ALLOWANCES	<u>2,119,742</u>		<u>1,816,820</u>	
NET SALES (Notes 2 and 24)	59,099,786	100	37,428,700	100
COST OF SALES (Notes 21 and 24)	<u>41,619,762</u>	<u>71</u>	<u>30,592,534</u>	<u>81</u>
GROSS PROFIT BEFORE UNREALIZED INTERCOMPANY GROSS PROFIT	17,480,024	29	6,836,166	19
UNREALIZED INTERCOMPANY PROFIT (Note 2)	<u>(149,675)</u>	<u>-</u>	<u>(4,088)</u>	<u>-</u>
GROSS PROFIT	<u>17,330,349</u>	<u>29</u>	<u>6,832,078</u>	<u>19</u>
OPERATING EXPENSES (Notes 21 and 24)				
Selling	360,304	1	198,363	1
General and administrative	1,498,019	2	1,168,929	3
Research and development	<u>1,862,502</u>	<u>3</u>	<u>1,227,160</u>	<u>3</u>
Total operating expenses	<u>3,720,825</u>	<u>6</u>	<u>2,594,452</u>	<u>7</u>
OPERATING INCOME	<u>13,609,524</u>	<u>23</u>	<u>4,237,626</u>	<u>12</u>
NONOPERATING INCOME AND GAINS				
Valuation gains on financial assets, net (Notes 2, 3, 5 and 23)	543,455	1	17,210	-
Interest (Notes 2 and 23)	428,176	1	302,380	1
Gain on disposal of financial instruments, net (Notes 2 and 24)	134,653	-	640,402	2
Dividend income (Note 2)	104,638	-	47,121	-
Equity in earnings of equity-method investees, net (Notes 2 and 11)	102,487	-	29,200	-
Gain on disposal of properties (Note 2)	91,276	-	13,609	-
Foreign exchange gain, net (Notes 2 and 3)	43,910	-	-	-
Indemnity income	22,133	-	24,398	-
Rebate of ECB/GDR management fee	4,300	-	24,593	-
Others (Note 24)	<u>60,661</u>	<u>-</u>	<u>63,374</u>	<u>-</u>
Total nonoperating income and gains	<u>1,535,689</u>	<u>2</u>	<u>1,162,287</u>	<u>3</u>

(Continued)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

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

(Reviewed, Not Audited)

	2006		2005	
	Amount	%	Amount	%
NONOPERATING EXPENSES AND LOSSES				
Interest (Notes 2, 12, 14 and 23)	\$ 672,916	1	\$ 435,455	1
Valuation losses on financial liabilities, net (Notes 2, 5 and 23)	479,425	1	-	-
Impairment loss on financial assets (Notes 2 and 10)	88,521	-	4,026	-
Provision for losses on inventories and spare parts (Note 2)	81,151	-	83,839	1
Issuance cost of convertible bond allocated to financial liabilities at fair value through profit or loss (Notes 2 and 14)	27,403	-	-	-
Loss on disposal of properties (Note 2)	2,559	-	52,854	-
Foreign exchange loss, net (Notes 2 and 3)	-	-	48,630	-
Others	52,560	-	62,168	-
Total nonoperating expenses and losses	<u>1,404,535</u>	<u>2</u>	<u>686,972</u>	<u>2</u>
INCOME BEFORE INCOME TAX	13,740,678	23	4,712,941	13
INCOME TAX (EXPENSE) BENEFIT (Notes 2 and 20)	<u>(1,780,034)</u>	<u>(3)</u>	<u>580,774</u>	<u>1</u>
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	11,960,644	20	5,293,715	14
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>\$ 11,993,564</u>	<u>20</u>	<u>\$ 5,293,715</u>	<u>14</u>
	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 22)				
Basic	<u>\$ 2.30</u>	<u>\$ 2.01</u>	<u>\$ 0.84</u>	<u>\$ 0.95</u>
Diluted	<u>\$ 1.94</u>	<u>\$ 1.70</u>	<u>\$ 0.74</u>	<u>\$ 0.83</u>

(Continued)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

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

(Reviewed, Not Audited)

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

	<u>2006</u>		<u>2005</u>	
NET INCOME	<u>\$11,996,465</u>		<u>\$5,284,790</u>	
	<u>2006</u>		<u>2005</u>	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE				
Basic	<u>\$ 2.30</u>	<u>\$ 2.01</u>	<u>\$ 0.84</u>	<u>\$ 0.95</u>
Diluted	<u>\$ 1.94</u>	<u>\$ 1.70</u>	<u>\$ 0.74</u>	<u>\$ 0.83</u>

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

(With Deloitte & Touche review report dated October 17, 2006)

(Concluded)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 11,993,564	\$ 5,293,715
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,644,798	11,403,929
Amortization	1,227,632	1,085,420
Unrealized intercompany profit	149,675	4,088
Valuation gains on financial assets	(543,455)	(17,210)
Valuation losses on financial liabilities	479,425	-
Foreign exchange gains on financial assets	(1,043)	-
Amortization of discount on held-to-maturity financial assets	-	(100)
Provision for doubtful accounts	74,984	11,329
Provision for sales discounts	250,000	70,000
Provision for losses on inventories and spare parts	81,151	83,839
Equity in earnings of equity-method investees, net	(102,487)	(29,200)
Impairment losses on financial assets	88,521	4,026
Cash dividends from equity-method investees	34,233	23,102
Gain on disposal of investments, net	(133,983)	(389,372)
Loss (gain) on disposal of properties, net	(88,717)	39,245
Deferred income tax expense (benefit)	953,685	(590,143)
Amortization of discount on commercial paper issued	1,377	2,571
Foreign exchange loss on convertible bonds payable	116,799	389,442
Amortization of discount on convertible bonds payable	79,297	-
Foreign exchange loss on long-term bank loans	-	47,520
Issuance costs of the early redemption of convertible bonds	1	-
Issuance costs of convertible bonds allocated to financial liabilities at fair value through profit or loss	27,403	-
Net changes in operating assets and liabilities		
Held-for-trading financial assets	(1,443,424)	(1,398,511)
Accounts receivable	(6,999,340)	(906,838)
Other receivables	(168,508)	16,201
Inventories	(2,611,482)	(1,591,017)
Prepaid expenses	40,939	90,361
Other current assets	(38,971)	(5,813)
Held-for-trading financial liabilities	63,845	(2,129)
Accounts payable	2,236,178	34,535
Income tax payable	809,356	-
Accrued expenses	1,099,924	(273,395)
Other current liabilities	(8,671)	91,297
Accrued pension costs	813	(17,364)
Net cash provided by operating activities	<u>23,313,519</u>	<u>13,469,528</u>

(Continued)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
Available-for-sale financial assets	\$ (60,000)	\$ -
Held-to-maturity financial assets	(25,000)	(110,000)
Equity-method investments	(2,816,851)	(1,279,930)
Financial assets carried at cost	(351,685)	(40)
Properties	(40,831,705)	(33,212,577)
Deferred charges	(428,772)	(864,692)
Proceeds of disposal of:		
Available-for-sale financial assets	4,820	350,373
Held-to-maturity financial assets	25,000	90,000
Equity-method investments	33,499	-
Financial assets carried at cost	8,973	-
Properties	102,635	212,810
Decrease in restricted deposits	376,369	620,339
Increase in spare parts	(71,634)	(36,726)
Increase in other assets	(15,799)	(9,111)
Increase in refundable deposits	<u>(5,377)</u>	<u>(6,217)</u>
Net cash used in investing activities	<u>(44,055,527)</u>	<u>(34,245,771)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank loans	(773,534)	-
Proceeds of:		
Issuance of convertible bonds	5,142,381	15,098,080
Long-term bank loans	12,250,000	8,000,000
Issuance of capital stock	5,527,420	5,989,200
Exercise of employee stock options	524,396	784,986
Sales of treasury stock	7,559	181,746
Repayments of long-term bank loans	(6,806,017)	(3,104,386)
Redemption of convertible bonds	(6,522)	-
Decrease in capital lease obligation	-	(123,832)
Increase in guarantee deposits	321	307
Cash bonus to employees	(287,215)	(639,837)
Cash dividend paid for common stock	(3,042,429)	(4,167,245)
Remuneration paid to directors and supervisors	<u>(172,329)</u>	<u>(575,853)</u>
Net cash provided by financing activities	<u>12,364,031</u>	<u>21,443,166</u>

(Continued)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2006	2005
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$ (8,377,977)	\$ 666,923
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>35,684,656</u>	<u>35,025,469</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 27,306,679</u>	<u>\$ 35,692,392</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income tax paid	<u>\$ 39,472</u>	<u>\$ 33,695</u>
Interest paid (excluding amounts capitalized of \$190,019 thousand in 2006 and \$129,609 thousand in 2005)	<u>\$ 595,955</u>	<u>\$ 425,569</u>
Noncash investing and financing activities		
Transfer of financial assets carried at cost to available-for-sale financial assets	<u>\$ 298,313</u>	<u>\$ -</u>
Reclassification of deferred charges into properties	<u>\$ 2,486</u>	<u>\$ -</u>
Current portion of long-term liabilities	<u>\$ 7,606,667</u>	<u>\$ 5,872,945</u>
Treasury stock - corporation's stock held by its subsidiaries	<u>\$ 33,141</u>	<u>\$ -</u>
Reclassification of properties into deferred charges	<u>\$ 200</u>	<u>\$ 935</u>
Conversion of bonds	<u>\$ -</u>	<u>\$ 1,349,549</u>
Cash paid for acquisition of properties		
Total acquisition	\$ 50,281,692	\$ 34,123,412
Payable, beginning of period	13,731,127	14,716,266
Payable, end of period	<u>(23,181,114)</u>	<u>(15,627,101)</u>
	<u>\$ 40,831,705</u>	<u>\$ 33,212,577</u>

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

(With Deloitte & Touche review report dated October 17, 2006)

(Concluded)

POWERCHIP SEMICONDUCTOR CORPORATION

NOTES TO FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

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

(Reviewed, Not Audited)

1. ORGANIZATION AND OPERATION

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

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

As of September 30, 2006 and 2005, the Corporation had 5,945 and 4,508 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, assets primarily for the purpose of being traded 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 and those primarily for the purpose of being traded. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

Cash Equivalents

Commercial paper and bonds purchased under resell 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, except derivatives, are initially recognized at fair value plus transaction costs that are directly attributable to the instrument acquisition; others are initially recognized at fair value with transaction cost expenses as incurred. When fair value subsequently measured, 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 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.

The fair values of listed stock 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.

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. Materials and supplies are recorded at actual cost; 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 Investment under Equity Method," 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 amounts 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

Issuance costs of convertible bonds, except those of bonds issued on or after January 1, 2006, are amortized from the issuance date to the expiration date of the redemption period. For those bonds issued on or after January 1, 2006, issuance costs are allocated to all components, using their relative fair value, pursuant to the recently released Statements of Financial Accounting Standard.

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; 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 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 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, issued before December 31, 2005, solely as a liability. In addition, the capital stock account is credited with the par value of the Corporation's common shares into which bonds are converted. The carrying values of the bonds and other assets and liabilities related to those convertible bonds as of the conversion date in excess of the amounts credited to the capital stock account are credited to the capital surplus account. When the bondholder exercises the put option, the difference between the payment and the book value of the bonds and other assets and liabilities related to these convertible bonds is credited or charged to current income.

For convertible bonds issued on or after January 1, 2006, the carrying values of host contract are recorded in total proceeds from the issuance less the (1) fair values of embedded derivatives and (2) issuance costs allocated to bond payable under the initially relative recognized amount. When the fair value of the bonds is subsequently measured at amortized cost using the effective rate method, the related interest expense or redemption gain is recognized as loss or earnings. When the bondholder exercises the conversion option before bond maturity, the adjusted carrying value of the debt components (bonds and embedded derivatives are included) is credited to a capital stock accounts. For bonds, it is accounted for by the interest method until the day before the conversion date; for embedded derivatives, it is the fair value of the day before the conversion date.

Employee Stock Options

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 Discounts

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 nine months ended September 30, 2005 have been reclassified to be consist with the financial statements as of and for the nine months ended September 30, 2006.

3. ACCOUNTING CHANGES

On January 1, 2006, the Corporation adopted the recently released Statements of Financial Accounting Standards ("Statements" or SFAS) No. 34 - "Financial Instruments: Recognition and Measurement" and SFAS No. 36 - "Financial Instruments: Disclosure and Presentation" 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:

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)	Recognized as a Separate Component of Shareholders' Equity (Net of Tax)
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 nine months ended September 30, 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 nine months ended September 30, 2005 were reclassified to be consistent with the financial statements as of and for the nine months ended September 30, 2006. The previously issued financial statements as of and for the nine months ended September 30, 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 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 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 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 nine months ended September 30, 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:

	Before Reclassification	After Reclassification
<u>Balance Sheet</u>		
Short-term investment, net	\$ 2,666,964	\$ -
Other receivables	47,284	-
Long-term investment accounted for by the cost method	747,754	-
Long-term bonds investments	334,696	-
Accrued expenses	(1,815)	-
Financial assets at fair value through profit or loss - current	-	2,753,944
Available-for-sale financial assets - current	-	121,073

(Continued)

	Before Reclassification	After Reclassification
Held-to-maturity financial assets (including current and noncurrent portion)	\$ -	\$ 295,000
Financial assets carried at cost - noncurrent	-	626,681
Financial liabilities at fair value through profit or loss - current	-	(1,815)
	<u>\$ 3,794,883</u>	<u>\$ 3,794,883</u>

Statement of Income

Gain on disposal of investments	\$ 389,372	\$ -
Reversal of allowance for decline in value of short-term investments	161,646	-
Foreign exchange gain, net	106,594	-
Valuation gains on financial assets	-	17,210
Gain on disposal of financial instruments	-	640,402
	<u>\$ 657,612</u>	<u>\$ 657,612</u>

(Concluded)

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 under Equity Method" and SFAS No. 25 - "Business Combinations." 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 nine months ended September 30, 2006.

4. CASH AND CASH EQUIVALENTS

	<u>September 30</u>	
	2006	2005
Time deposits	\$ 24,241,485	\$ 32,779,414
Bonds purchased under resell agreements	1,842,860	66,770
Demand deposits	952,020	1,260,794
Checking accounts	270,214	8,827
Cash on hand	100	100
Commercial paper purchased	-	1,576,487
	<u>\$ 27,306,679</u>	<u>\$ 35,692,392</u>

Overseas bank deposits as of September 30, 2006 and 2005 are summarized as follows:

	<u>September 30</u>	
	2006	2005
Japan - JPY627,701 thousand in 2006 and JPY245,250 thousand in 2005	\$ 176,133	\$ 71,858
Luxembourg - US\$2,709 thousand in 2006 and US\$2,629 thousand in 2005	89,667	87,256
Singapore - US\$73 thousand, JPY54,640 thousand and HK\$1,255 thousand	23,091	-
Hong Kong - US\$7 thousand and HK\$2,772 thousand	12,014	-
	<u>\$ 300,905</u>	<u>\$ 159,114</u>

5. FINANCIAL INSTRUMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Financial assets held-for-trading	\$ 5,073,583	\$ 2,714,248
Financial assets designated at fair value through profit or loss	<u>49,091</u>	<u>39,696</u>
	<u>\$ 5,122,674</u>	<u>\$ 2,753,944</u>

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Financial liabilities held-for-trading	<u>\$ 2,067,260</u>	<u>\$ 1,815</u>

Financial instruments held for trading as of September 30, 2006 and 2005 are summarized as follows:

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Financial assets		
Domestic listed stocks	\$ 4,052,907	\$ 1,890,509
Foreign listed stocks - US\$279 thousand and JPY2,320,660 thousand in 2006; US\$727 thousand and JPY1,339,256 thousand in 2005	660,400	416,509
Mutual funds	357,362	359,946
Forward exchange contracts	<u>2,914</u>	<u>47,284</u>
	<u>\$ 5,073,583</u>	<u>\$ 2,714,248</u>
Financial liabilities		
Interest rate swap contracts	\$ 59,284	\$ 1,815
Forward exchange contracts	45,503	-
Debt components of convertible bonds (Note 14)		
Conversion option	1,851,317	-
Put option	<u>111,156</u>	<u>-</u>
	<u>\$ 2,067,260</u>	<u>\$ 1,815</u>

The domestic listed stocks above with carrying amount of \$8,836 thousand as of September 30, 2005 had been placed in the Centralized Securities Depository Enterprise for those investee companies that are applying for the first-time listing on the stock exchange or OTC exchange.

The Corporation used forward exchange contracts, foreign-currency option contracts and interest rate swap contracts in the nine months ended September 30, 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.

In the nine months ended September 30, 2006, the Corporation had no currency option contracts. As of September 30, 2005, all currency option contracts had expired.

Outstanding forward exchange contracts as of September 30, 2006 and 2005 were as follows:

Items	Currency	Maturity	Contract Amount (In Thousands)
<u>September 30, 2006</u>			
Buy JPY	NT\$ vs. JPY	November 7, 2006 - December 21, 2006	NT\$5,676,990/JPY 20,000,000
<u>September 30, 2005</u>			
Buy US\$	NT\$ vs. US\$	October 24, 2005 - December 29, 2005	NT\$4,609,272/US\$142,000
Buy JPY	NT\$ vs. JPY	October 13, 2005	NT\$706,825/JPY2,400,000
Buy JPY	US\$ vs. JPY	October 13, 2005 - November 10, 2005	US\$50,504/JPY5,600,000
Buy EUR	US\$ vs. EUR	October 24, 2005 - November 28, 2005	US\$12,240/EUR10,000

Outstanding interest rate swap contracts as of September 30, 2006 and 2005 were as follows:

Contract Amount (In Thousands)	Period	Range of Interest Rates Paid	Range of Interest Rates Received
<u>September 30, 2006</u>			
\$ 500,000	May 31, 2004 - March 24, 2009	1.70%-5.46%	1.46%-1.66%
500,000	June 1, 2004 - March 24, 2009	1.85%	1.46%-1.66%
500,000	June 3, 2004 - March 24, 2009	1.60%-5.46%	1.46%-1.66%
500,000	June 16, 2004 - March 24, 2009	3.32%-4.26%	1.46%-1.66%
200,000	July 2, 2004 - May 20, 2007	1.50%-5.40%	1.45%-1.64%
200,000	July 2, 2004 - May 20, 2007	3.32%-4.35%	1.45%-1.64%
200,000	July 2, 2004 - May 20, 2007	3.32%-4.35%	1.45%-1.64%
<u>September 30, 2005</u>			
\$ 700,000	May 31, 2004 - March 24, 2009	1.70%	1.19%-1.42%
700,000	May 31, 2004 - March 24, 2009	1.45%-2.88%	1.19%-1.42%
700,000	June 1, 2004 - March 24, 2009	1.85%	1.19%-1.42%
700,000	June 3, 2004 - March 24, 2009	1.60%	1.19%-1.42%
700,000	June 4, 2004 - March 24, 2009	0%-0.82%	1.19%-1.42%
700,000	June 8, 2004 - March 24, 2009	1.28%-2.71%	1.19%-1.42%
700,000	June 16, 2004 - March 24, 2009	1.33%-2.76%	1.19%-1.42%
175,000	June 17, 2004 - March 24, 2009	0%-0.46%	1.19%-1.42%
400,000	July 2, 2004 - May 20, 2007	1.50%	1.19%-1.35%
400,000	July 2, 2004 - May 20, 2007	1.29%-2.77%	1.19%-1.35%
400,000	July 2, 2004 - May 20, 2007	1.29%-2.77%	1.19%-1.35%

Net gains arising from financial assets held for trading were \$658,785 thousand and \$358,375 thousand for the nine months ended September 30, 2006 and 2005, respectively. Net losses arising from financial liabilities held for trading were \$517,041 thousand and \$16,548 thousand for the nine months ended September 30, 2006 and 2005, respectively.

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

	<u>September 30</u>	
	2006	2005
Financial assets		
Credit-linked note (CLN)	\$ 49,091	\$ 39,696

Other CLN information is as follows:

CLN Issuer	Principal Amount (in Thousands)	Interest Rate	Maturity
<u>September 30, 2006</u>			
Credit Suisse First Boston International	US\$ 1,500	6.37%-7.42%	February 2007
<u>September 30, 2005</u>			
Yuanta Assets Management Limited	US\$ 1,200	7.17%-7.38%	December 2006

Under the CLN 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 CLN, which are financial assets designated at fair value through profit or loss, was \$4,217 thousand for the nine months ended September 30, 2006.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	<u>September 30</u>	
	2006	2005
Domestic listed stocks	\$ 113,080	\$ 121,073
Foreign listed stocks- HK\$238 thousand	1,011	-
Mutual funds	<u>350,571</u>	<u>-</u>
	<u>\$ 464,662</u>	<u>\$ 121,073</u>

7. ACCOUNTS RECEIVABLE

	<u>September 30</u>	
	2006	2005
<u>Related parties</u>		
Accounts receivable	\$ 7,164,538	\$ 2,055,256
Allowance for doubtful accounts	(67,270)	(20,475)
Allowance for sales discounts	<u>(119,000)</u>	<u>(35,000)</u>
	<u>6,978,268</u>	<u>1,999,781</u>

(Continued)

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
<u>Third parties</u>		
Accounts receivable	\$ 4,639,813	\$ 2,832,695
Allowance for doubtful accounts	(58,902)	(38,689)
Allowance for sales discounts	<u>(221,000)</u>	<u>(65,000)</u>
	<u>4,359,911</u>	<u>2,729,006</u>
	<u>\$ 11,338,179</u>	<u>\$ 4,728,787</u>
		(Concluded)

8. INVENTORIES

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Finished goods	\$ 770,439	\$ 436,693
Work in process	6,711,792	4,922,103
Materials and supplies	<u>2,495,803</u>	<u>1,410,882</u>
	9,978,034	6,769,678
Allowance for losses	<u>(243,620)</u>	<u>(127,475)</u>
	<u>\$ 9,734,414</u>	<u>\$ 6,642,203</u>

9. HELD-TO-MATURITY FINANCIAL ASSETS

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Veutron Corp. (Veutron) - issued in 2005 (I)	\$ 80,000	\$ 80,000
MaxEdge Electronics Corp. (MaxEdge) - issued in 2005 (I)	30,000	30,000
MaxEdge - issued in 2005 (II)	30,000	-
Veutron - issued in 2006 (I)	25,000	-
Veutron - issued in 2002 (II)	20,000	20,000
MaxEdge - issued in 2005 (III)	20,000	-
MaxEdge - issued in 2002 (II)	-	80,000
MaxEdge - issued in 2002 (I)	-	60,000
Veutron - issued in 2003 (I)	<u>-</u>	<u>25,000</u>
	205,000	295,000
Current portion	<u>(6,000)</u>	<u>(165,000)</u>
	<u>\$ 199,000</u>	<u>\$ 130,000</u>

Bond investments were as follows:

	Principal Amount	Interest Rate	Maturity
<u>Held as of September 30, 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
Veutron - issued in 2002 (II)	20,000	3.50%	30% of principal repayment in November 2006, and the remaining 70% in November 2007
MaxEdge - issued in 2005 (III)	20,000	3.25%	December 2008
<u>Matured as of September 30, 2006</u>			
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>September 30</u>	
	<u>2006</u>	<u>2005</u>
Domestic unlisted common stocks	\$ 436,843	\$ 550,091
Domestic unlisted preferred stocks	10	-
Foreign unlisted common stocks - US\$880 thousand and JPY153,670 thousand in 2006 and US\$880 thousand and JPY21,670 thousand in 2005	71,193	34,007
Foreign unlisted preferred stocks - US\$1,333 thousand in 2006 and 2005	<u>42,980</u>	<u>42,583</u>
	<u>\$ 551,026</u>	<u>\$ 626,681</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.

For the nine months ended September 30, 2006 and 2005, the Corporation revalued the recoverable amount of the investment of domestic unlisted common stocks and recognized impairment loss of financial assets amounting to \$88,521 thousand and \$4,026 thousand, respectively, which were presented under nonoperating expenses and losses.

11. EQUITY-METHOD INVESTMENTS

	September 30			
	2006		2005	
	Amount	% of Owner- ship	Amount	% of Owner- ship
Quantum Vision Corp. (“Quantum”)	\$ 2,437,116	99.99	\$ 1,498,877	99.99
Li-Hsin Investment Corp. (“Li-Hsin”)	1,286,242	99.92	764,898	99.87
Paramax Corp. (“Paramax”)	1,156,499	99.99	549,114	99.99
Lu-Chu Development Corp. (“Lu-Chu”)	582,344	27.18	568,454	24.40
Global Powertec Co., Ltd. (“BVI”)	522,023	100.00	-	-
Zhi-Li Investment Inc. (“Zhi-Li”)	392,434	33.27	66,585	33.25
Novax Technologies, Inc. (“Novax”)	317,008	24.66	289,531	24.66
Smart Art Corp. (“Smart Art”)	310,826	44.48	119,921	48.00
Artrix International Inc. (“Artrix”)	190,858	25.52	87,167	23.36
Deutron Electronics Corp. (“Deutron”)	165,545	9.44	137,942	9.78
Optimicro Corp. (“Optimicro”)	136,149	29.40	119,581	30.00
Luxxon Technology Corp. (“Luxxon”)	123,194	20.73	149,996	20.73
Smartic Technologies Inc. (“Smartic”)	120,957	51.00	25,670	25.00
Neo Solar Power Corp. (“Neo-Solar”)	95,912	16.00	-	-
Signia Technologies Co., Ltd. (“Signia”)	93,549	28.01	-	-
Syntronix Corp. (“Syntronix”)	82,001	20.25	147,817	47.04
Deutron Japan Corp. (“Deutron-Japan”)	80,495	38.98	81,786	38.98
Zentel Electronics Corp. (“Zentel”)	79,152	36.80	82,243	36.80
Tekmax Development Corp. (“Tekmax”)	73,081	15.65	63,602	15.77
Synage Technology Corp. (“Synage”)	72,345	20.17	88,400	20.17
Astel Electronics Corp. (“Astel”)	63,629	40.00	80,000	40.00
Retronix Technology Corp. (“Retronix”)	50,485	25.00	-	-
Vivichip Electronics Corp. (“Vivichip”)	39,961	40.00	-	-
Luxchip Technology Corp. (“Luxchip”)	38,360	19.00	-	-
AVAC Systems, Inc. (“AVAC”)	37,981	23.31	-	-
PowerFlash Semiconductor Corp. (“PowerFlash”)	33,191	32.00	33,997	32.00
MicroMedia Technology Corp. (“MicorMedia”)	30,000	30.00	-	-
Silicon Optronics, Inc. (“Silicon”)	29,291	11.53	20,922	12.14
PowerGate Optical, Inc. (“PowerGate”)	9,323	5.42	13,173	9.35
MaxEdge Electronics Corp. (“MaxEdge”)	<u>2,751</u>	13.39	<u>30,494</u>	13.55
	<u>\$ 8,652,702</u>		<u>\$ 5,020,170</u>	

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.

In the second quarter of 2006, the Corporation invested in Vivichip and BVI, which were accounted for by the equity method.

In the third quarter of 2006, the Corporation invested in MicroMedia, which was accounted for by the equity method.

As of September 30 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:

	September 30	
	2006	2005
Deutron	20%	21%
Neo-Soler	22%	-
Tekmax	38%	32%
Luxchip	39%	-
Silicon	21%	22%
PowerGate	21%	27%
MaxEdge	48%	49%

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

	Nine Months Ended	
	September 30	
	2006	2005
Quantum	\$ 113,373	\$ 95,229
Li-Hsin	(28,839)	(35,254)
Paramax	3,274	(40,269)
Lu-Chu	(1,693)	(1,551)
BVI	(12,810)	-
Zhi-Li	(2,604)	89
Novax	21,154	7,578
Smart Art	(551)	(80)
Artrix	14,212	(441)
Deutron	38,106	45,412
Optimicro	(5,130)	(474)
Luxxon	(10,895)	(23,957)
Smartic	(3,964)	(3,740)
Neo-Solar	665	-
Signia	(3,560)	-
Syntronix	6,110	19,970
Deutron -Japan	120	(6)

(Continued)

	Nine Months Ended	
	September 30	
	2006	2005
Zentel	\$ 6,925	\$ (3,927)
Tekmax	4,806	(30)
Synage	(4,878)	(12,560)
Astel	(14,523)	-
Retronix	(473)	-
Vivichip	(1)	-
Luxchip	394	-
AVAC	(3,147)	-
PowerFlash	2,220	(6,153)
Silicon	2,021	6,011
PowerGate	(3,504)	(3,948)
MaxEdge	(14,321)	(18,101)
Maxium	-	6,364
Terax	-	(962)
	<u>\$ 102,487</u>	<u>\$ 29,200</u>
		(Concluded)

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:

	Nine Months Ended
	September 30, 2006
Quantum	\$ 275,385
Li-Hsin	40
Paramax	9,307
Zhi-Li	30,218
Novax	17,809
Deutron	3,648
Smartic	2,125
Zentel	218
Synage	676
Retronix	977
PowerFlash	<u>405</u>
	<u>\$ 340,808</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 nine months ended September 30, 2006 was as follow:

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

12. PROPERTIES

Accumulated depreciation on properties consisted of the following:

	September 30	
	2006	2005
Buildings	\$ 2,175,906	\$ 1,779,311
Machinery and equipment	60,976,099	43,825,098
Research and development equipment	454,521	209,924
Facility equipment	9,845,510	7,846,036
Transportation equipment	9,348	8,318
Office equipment	271,326	202,850
Equipment under capital lease	-	364,631
Miscellaneous equipment	<u>487,298</u>	<u>345,814</u>
	<u>\$ 74,220,008</u>	<u>\$ 54,581,982</u>

Total depreciation expenses for the nine months ended September 30, 2006 and 2005 were \$15,631,076 thousand and \$11,390,873 thousand, respectively.

Information on interest capitalization is summarized as follows:

	Nine Months Ended	
	September 30	
	2006	2005
Total interest expenses	\$ 862,935	\$ 565,064
Capitalized amount	190,019	129,609
Rates used in capitalizing interests	3.12%-3.46%	3.41%-3.77%

The Corporation is currently expanding its third, fourth and fifth factories ("FAB 12B, FAB 12M and FAB 12C"). The related total estimated and recognized costs as of September 30, 2006 are summarized as follows:

FAB	Total Estimated Cost	Total Recognized Cost
12B	\$ 65,000,000	\$ 53,359,239
12M	51,000,000	25,123,567
12C	44,073,199	1,078,726

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 December 2002 to December 2005.

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

13. DEFERRED CHARGES, NET

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Technical know-how	\$ 2,028,371	\$ 2,932,504
Computer software system	232,398	146,369
Test-run costs	71,241	137,002
Issuance costs of the convertible bonds	14,731	60,207
Patent	16,250	21,250
Others	<u>343,288</u>	<u>176,404</u>
	<u>\$ 2,706,279</u>	<u>\$ 3,473,736</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

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Overseas unsecured bonds		
Issued in 2001 (1) US\$3,547 thousand	\$ -	\$ 117,718
Issued in 2003 (4) US\$382 thousand	-	12,678
Issued in 2004 (5) US\$157,850 thousand in 2006 and US\$158,050 thousand in 2005	5,224,519	5,245,363
Issued in 2005 (6) US\$142,250 thousand	4,708,191	4,720,993
Issued in 2006 (7) US\$113,855 thousand	<u>3,769,107</u>	-
	<u>13,701,817</u>	<u>10,096,752</u>
Domestic unsecured bonds		
Issued in 2005 (1) NT\$4,000,000 thousand	4,000,000	4,000,000
Issued in 2005 (2) NT\$6,000,000 thousand	<u>6,000,000</u>	<u>6,000,000</u>
	<u>10,000,000</u>	<u>10,000,000</u>
	23,701,817	20,096,752
Current portion	<u>(8,708,190)</u>	<u>(5,375,759)</u>
	<u>\$ 14,993,627</u>	<u>\$ 14,720,993</u>

In the second quarter of 2001, the Corporation issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2001”), with an aggregate principal of US\$200,000 thousand. Bonds 2001 are listed on the Luxembourg Stock Exchange. They are convertible into the Corporation’s common shares or Global Depository Shares (GDS) of the Corporation at NT\$30.00 per share (at an exchange rate of US\$1.00 to NT\$32.933) between June 23, 2001 and April 24, 2006 and will mature on May 24, 2006. At the holders’ option, Bonds 2001 may also be repurchased on May 24 of each year (from 2002) before maturity at 100% of their principal. Under certain conditions, either the holders of Bonds 2001 or the Corporation may opt for early bond redemption. As of September 30, 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 redeemed and cancelled Bonds 2001 from the open market with principal of US\$14,150 thousand, and holders of Bonds 2001 with principal of US\$54,075 thousand had requested to convert these bonds into 82,979 thousand common shares, which had all been issued.

In the third quarter of 2003, the Corporation issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2003”), with an aggregate principal of US\$110,000 thousand. Bonds 2003 are listed on the Luxembourg Stock Exchange. They are convertible into the Corporation’s common shares or GDS at NT\$17.94 per share (at an exchange rate of US\$1.00 to NT\$34.129) between October 15, 2003 and August 15, 2008 and will mature on September 15, 2008. At the holders’ option, Bonds 2003 may also be repurchased on September 15 of each year from 2004 to 2006 at 100% of their principal. Under certain conditions, either the holders of the Bonds 2003 or the Corporation may opt for early bond redemption. As of September 30, 2006, holders of Bonds 2003 with principal 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 2004, the Corporation issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2004”), with an aggregate principal 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 is NT\$22.63 per share as of September 30, 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 principal. Under certain conditions, either the holders of Bonds 2004 or the Corporation may opt for early bond redemption. As of September 30, 2006, some of the holders of Bonds 2004 exercised their put option, requiring the Corporation to spend US\$200 thousand for the repurchase of the outstanding bonds.

On February 2, 2005, the Corporation issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2005A”), with an aggregate principal 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 is NT\$19.09 per share as of September 30, 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 principal. Under certain conditions, either the holders of Bonds 2005A or the Corporation may opt for early bond redemption. As of September 30, 2006, holders of Bonds 2005A with principle amount of US\$17,750 thousand had requested to convert these bonds into 27,151 thousand common shares, which had all been issued.

In June 2006, the Corporation issued five-year unsecured, zero-coupon (with 8.66% effective rate) convertible bond (“Bonds 2006”), with aggregate principal of US\$160,000 thousand. Bonds 2006 are listed on the Luxembourg Stock Exchange. They are convertible into the Corporation’s common shares or GDS at NT\$21.95 per share (at an exchange rate of US\$1.00 to NT\$32.729; conversion price is adjustable and the conversion price is NT\$20.26 per share as of September 30, 2006) between July 30, 2006 and May 31, 2011 and will mature on June 30, 2011 at 106.43% of their principle amount. At the holders’ option, Bonds 2006 may also be repurchased on June 30, 2008 at 102.52% of their principle amount. Under certain conditions, either the holders of Bonds 2006 or the Corporation may opt for early bond redemption. Under Statement of Financial Accounting Standards No. 36 - “Financial Instruments: Disclosure and Presentation”, the Corporation separated conversion option and put option from Bonds 2006 and recognized these options as financial liabilities at fair value through profit or loss. The recognized amounts are summarized as follows:

	September 30 2006
Face value of Bonds 2006	US\$ 160,000
Debt Components	
- Conversion option	(40,758)
- Put option	<u>(5,757)</u>
Bond payable	113,485
Issuance cost (Note)	<u>(2,043)</u>
Amortized costs on initial recognition of bond payable	111,442
Interest expense	<u>2,413</u>
 Amortized costs of bond payable, end of period	 <u>US\$ 113,855</u>

Note: The total issuance cost of Bonds 2006 was US\$2,880 thousand. Of this cost, US\$837 thousand was allocated to the conversion option and put option and presented under nonoperating expenses and losses. The remainder, which was allocated to bonds payable, was amortized using the effective interest rate method and presented under interest expenses.

In June 2005, the Corporation issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2005B”), with an aggregate principal 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 current conversion price is NT\$19.29 per share as of September 30, 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 principal. Under certain conditions, either the holders of Bonds 2005B or the Corporation may opt for early bond redemption.

In June 2005, the Corporation issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2005C”), with an aggregate principal 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 current conversion price is NT\$18.89 per share as of September 30, 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 principal. Under certain conditions, either the holders of Bonds 2005C or the Corporation may opt for early bond redemption.

15. LONG-TERM BANK LOANS

	<u>September 30</u>	
	2006	2005
Long-term secured syndicated loans (1)	\$ -	\$ 3,500,000
Long-term secured syndicated loans (2)	3,625,000	5,075,000
Long-term secured syndicated loans (3)	13,125,000	13,000,000
Long-term secured syndicated loans (4)	15,000,000	-
Medium to long-term loans (including commercial paper issued)	<u>661,667</u>	<u>1,705,833</u>
	32,411,667	23,280,833
Current portion	(7,606,667)	(5,831,667)
Unamortized discount of commercial paper issued	<u>-</u>	<u>(374)</u>
	<u>\$ 24,805,000</u>	<u>\$ 17,448,792</u>

The loans are payable quarterly or semiannually at varying amounts. They will be fully repaid by December 2010. The bear interest rates ranging from 2.57% to 5.02% and from 2.62% to 5.57% for the nine months ended September 30, 2006 and 2005, respectively.

The long-term secured loans were obtained from bank syndicate. The loan agreements require, among others, the maintenance of certain financial ratios based on annual financial statements.

The details of assets pledged as collateral are shown in Note 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 nine months ended September 30, 2006 and 2005 were \$117,983 thousand and \$31,934 thousand, respectively.

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 nine months ended September 30, 2006 and 2005 were \$35,494 thousand and \$50,039 thousand, respectively.

Fund balances were \$253,235 thousand and \$208,597 thousand as of September 30, 2006 and 2005, respectively.

17. SHAREHOLDERS’ EQUITY

Under the ROC Company Law, capital surplus (excluding amounts arising from long-term investments which can not be used in any way) may only be used to offset a deficit or be transferred to capital as a stock dividend. Such transfer as stock dividend is limited to the issue price in excess of the par value of stock issued, and distribution is based on respective equities of shareholders.

The Corporation’s Articles of Incorporation provide that the annual net income, less any deficit, should be appropriated as follows:

- a. 10% as legal reserve;
- b. Special reserve;
- c. Preferred cash dividends and bonus based on the terms of their issuance;
- d. Of the remainder after deducting items a, b and c, 3% as remuneration of directors and supervisors and 10% as bonus to employees;
- e. The remainder as bonus to shareholders.

These appropriations and the disposition of the 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. Also, if the market price of the Corporation's shares held by subsidiaries is lower than their carrying value, the Corporation should appropriate a special reserve equal to the difference between market price and carrying value. The Corporation may release a portion of this special reserve when debit balances are partially or fully reversed.

The Corporation's policy is to declare at least 50% of its available earnings as dividends, of which at most 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 resolved by the Board of Director on April 25, 2006 and February 23, 2005, respectively, and approved in the shareholders' meeting on June 9, 2006 and 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</u> <u>Year 2005</u>	<u>For Fiscal</u> <u>Year 2004</u>	<u>For Fiscal</u> <u>Year 2005</u>	<u>For Fiscal</u> <u>Year 2004</u>
Legal reserve	\$ 641,736	\$ 2,131,508	\$ -	\$ -
Special reserve	31,314	252	-	-
Cash dividend	3,042,429	4,167,245	0.52	0.99
Stock dividend	3,042,429	8,334,490	0.52	1.97
Employees' profit sharing - cash	287,215	639,837	-	-
Employees' profit sharing - 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>		

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 June 30, 2006, the Corporation offered 300,000 thousand shares of capital stock, with certain portion for GDS offering, at the price of NT\$18.816 and US\$0.575 per share, respectively. As the result of such issuance of shares, appropriation of earnings and exercise of employee stock option the aggregate issued capital stock has increased to 6,279,281 thousand shares with par value of \$10 per share, amounted to \$62,792,808 thousand as of September 30, 2006.

On October 3, 2006, the Board of Directors approved the issuance of capital stock in the form of GDS between 480,000 thousand shares and 600,000 thousand shares. Such planned issuance will be implemented after getting SFB's approval.

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 September 30, 2006, there were 253,179 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>	
	Number of	Weighted-	Number of	Weighted-	Number of	Weighted-
	Outstanding	average	Outstanding	average	Outstanding	average
	Stock	Exercise	Stock	Exercise	Stock	Exercise
	Option	Prices	Option	Price	Option	Prices
	Rights	(NT\$/	Rights	(NT\$/	Rights	(NT\$/
		Per Share)		Per Share)		Per Share)
Nine months ended						
<u>September 30, 2006</u>						
Beginning balance	80,048	\$ 6.84	81,081	\$ 8.70	32,178	\$ 13.98
Additional Options granted	2,755	6.47	2,630	8.10	-	-
Options exercised	(17,521)	6.68	(23,508)	8.48	(15,143)	13.74
Options canceled	<u>(1,566)</u>	8.14	<u>(1,011)</u>	8.57	<u>-</u>	-
Ending balance	<u>63,716</u>	6.39	<u>59,192</u>	8.10	<u>17,035</u>	13.03
Nine months ended						
<u>September 30, 2005</u>						
Beginning Balance	111,090	\$ 8.27	87,527	\$ 10.75	55,132	\$ 17.48
Additional Options granted	14,050	6.86	14,315	8.70	-	-
Options exercised	(42,745)	7.75	(14,367)	9.95	(20,632)	15.06
Options canceled	<u>(1,317)</u>	7.84	<u>(1,151)</u>	9.75	<u>(350)</u>	17.73
Ending balance	<u>81,078</u>	6.85	<u>86,324</u>	8.70	<u>34,150</u>	13.97

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. For the nine months ended September 30, 2006 and 2005, additional 5,385 options and 28,365 options have been granted to reflect the appropriation of dividends and stock bonuses, respectively.

As of September 30, 2006, the outstanding stock options are as follows:

Options Outstanding						Options Exercisable	
Exercise Price (NT\$/Per Share)	Number Outstanding (Per Option)	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price (Per Share)	Number Exercisable (Per Option)	Weighted Average Exercise Price (Per Share)		
\$ 12.90	16,194	0.83	\$ 12.90	16,194	\$ 12.90		
16.30	565	1.49	16.30	565	16.30		
13.70	276	1.62	13.70	276	13.70		
8.10	59,192	1.99	8.10	59,051	8.10		
6.10	61,158	2.57	6.10	31,002	6.10		
11.20	655	2.75	11.20	333	11.20		
13.10	125	2.83	13.10	67	13.10		
10.70	848	3.03	10.70	369	10.70		
10.80	158	3.15	10.80	3	10.80		
13.20	346	3.27	13.20	7	13.20		
20.40	175	3.48	20.40	56	20.40		
25.30	<u>251</u>	3.55	25.30	<u>125</u>	25.30		
	<u>139,943</u>			<u>108,048</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 nine months ended September 30, 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 nine months ended September 30, 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) \$13,535 - \$26,369

	Nine Months Ended September 30	
	2006	2005
Net income:		
Net income as reported	<u>\$ 11,993,564</u>	<u>\$ 5,293,715</u>
Pro forma net income	<u>\$ 11,991,099</u>	<u>\$ 5,288,525</u>
Earnings per share(EPS, NT\$):		
Basic EPS as reported	<u>\$ 2.01</u>	<u>\$ 0.95</u>
Pro forma basic EPS	<u>\$ 2.01</u>	<u>\$ 0.95</u>
Diluted EPS as reported	<u>\$ 1.70</u>	<u>\$ 0.83</u>
Pro forma diluted EPS	<u>\$ 1.70</u>	<u>\$ 0.83</u>

The average number of shares outstanding for EPS calculation was adjusted retroactively for issuance of stock dividends and stock bonuses. The retroactive adjustment caused the pro forma basic and diluted EPS after income tax for the nine months ended September 30, 2005 to decrease from \$1.00 to \$0.95 and from \$0.88 to \$0.83, respectively.

19. TREASURY STOCK

Purpose of Purchase	(Shares in Thousands)			
	Beginning Shares	Increase	Decrease	Ending Shares
<u>Nine months ended September 30, 2006</u>				
For subsequent transfer to employees	84,100	-	446	83,654
Parent's issued shares held by subsidiaries	<u>3,992</u>	<u>1,872</u>	<u>-</u>	<u>5,864</u>
	<u>88,092</u>	<u>1,872</u>	<u>446</u>	<u>89,518</u>
<u>Nine months ended September 30, 2005</u>				
For subsequent transfer to employees	45,069	-	33,069	12,000
Parent's issued shares held by subsidiaries	<u>3,334</u>	<u>658</u>	<u>-</u>	<u>3,992</u>
	<u>48,403</u>	<u>658</u>	<u>33,069</u>	<u>15,992</u>

As of September 30, 2006 and 2005, the Corporation's issued shares held by the subsidiaries were as follows:

Company	Shares (Thousands)	Original Carrying Value (in Thousands)	Market Value (in Thousands)	Shares Transferred to Treasury Stock (Thousands)
<u>September 30, 2006</u>				
Li-Hsin	4,200	\$ 95,561	\$ 88,826	4,200
Smartic	2,451	<u>46,600</u>	<u>51,844</u>	1,664
		<u>\$ 142,161</u>	<u>\$ 140,670</u>	
<u>September 30, 2005</u>				
Li-Hsin	3,992	<u>\$ 95,561</u>	<u>\$ 87,665</u>	3,992

On January 1, 2002, the Corporation accounted for its issued shares amounting to \$53,820 thousand and held by Li-Hsin as treasury stock. Started from 2006, Smartic became one of the Corporation's subsidiaries. Thus, the Corporation accounted for its shares held by Smartic amounting to \$33,141 thousand as treasury stock in accordance with its stock ownership percentage of Smartic.

For the nine months ended September 30, 2006 and 2005, the Corporation transferred 446 thousand and 7,321 thousand treasury shares to employees at a price of \$17.0 and \$24.9 per share, respectively. 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 subsidiaries holding the Corporation's shares no longer have the right to vote.

20. INCOME TAX

- a. A reconciliation of income tax currently payable for the nine months ended September 30, 2006 and 2005 are as follow:

	Nine Months Ended September 30	
	2006	2005
Tax on pretax income at statutory rate (25%)	\$ 3,435,169	\$ 1,178,235
Tax-exempt income	(606,668)	(114,900)
Temporary and permanent differences	<u>(812,047)</u>	<u>(923,195)</u>
Income tax currently payable	<u>\$ 2,016,454</u>	<u>\$ 140,140</u>

- b. Income tax (expense) benefit for the nine months ended September 30, 2006 and 2005 consisted of:

	Nine Months Ended September 30	
	2006	2005
Income tax currently payable	\$ (2,016,454)	\$ (140,140)
Additional tax at 10% on unappropriated earnings	-	(201,215)
Tax credits	1,207,098	341,355
Net change in deferred income tax assets and liabilities		
Loss carryforwards	-	(199,632)
Investment tax credits	1,324,248	2,871,568
Temporary differences	(738,198)	(781,650)
Valuation allowance	(1,556,123)	(1,300,143)
Tax on interest income on short-term bills	<u>(605)</u>	<u>(9,369)</u>
	<u>\$ (1,780,034)</u>	<u>\$ 580,774</u>
Cumulative effect of changes in accounting principles	<u>\$ 16,388</u>	<u>\$ -</u>

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

	<u>September 30</u>	
	2006	2005
Current		
Deferred income tax assets		
Investment tax credits	\$ -	\$ 741,984
Loss carryforwards	-	412,661
Temporary differences	369,105	194,565
Deferred income tax liabilities		
Temporary differences	<u>(1,283)</u>	<u>(1,296)</u>
	<u>\$ 367,822</u>	<u>\$ 1,347,914</u>
Noncurrent		
Deferred income tax assets		
Investment tax credits	\$ 12,789,580	\$ 9,726,223
Loss carryforwards	412,661	-
Temporary differences	180,269	148,757
Deferred income tax liabilities		
Temporary differences	<u>(4,254,111)</u>	<u>(2,996,338)</u>
	9,128,399	6,878,642
Valuation allowance	<u>(8,208,469)</u>	<u>(6,203,944)</u>
Deferred income tax assets - noncurrent	<u>\$ 919,930</u>	<u>\$ 674,698</u>

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

	<u>September 30</u>	
	2006	2005
Shareholders' imputed tax credits	<u>\$ 67,190</u>	<u>\$ 35,500</u>

The expected and actual tax creditable ratio for 2005 and 2004 were 0.63% 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 September 30, 2006 and 2005 had no unappropriated earnings generated on and before 1997.
- f. As of September 30, 2006, the tax credits and loss carryforwards were as follows:

Regulation	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Income Tax Law	Loss carryforwards	<u>\$ 412,661</u>	<u>\$ 412,661</u>	2008
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 576,469	\$ -	2006
		3,283,792	2,934,493	2007
		2,762,061	2,762,061	2008

(Continued)

Regulation	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
		\$ 4,248,544	\$ 4,248,544	2009
		<u>1,631,260</u>	<u>1,631,260</u>	2010
		<u>\$ 12,502,126</u>	<u>\$ 11,576,358</u>	
Statute for Upgrading Industries	Research and development expenditures	\$ 278,527	\$ -	2006
		53,111	53,111	2007
		261,993	261,993	2008
		511,778	511,778	2009
		<u>368,455</u>	<u>368,455</u>	2010
		<u>\$ 1,473,864</u>	<u>\$ 1,195,337</u>	
Statute for Upgrading Industries	Personnel training expenditures	\$ 2,803	\$ -	2006
		3,058	3,058	2007
		2,727	2,727	2008
		4,031	4,031	2009
		<u>3,013</u>	<u>3,013</u>	2010
		<u>\$ 15,632</u>	<u>\$ 12,829</u>	
Statute for Upgrading Industries	Investments in important technology - based enterprise	<u>\$ 5,056</u>	<u>\$ 5,056</u>	2008

(Concluded)

- g. 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
2002 construction of the second manufacturing plant	2006-2010

- h. 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.
- i. The Income Basic Tax Act took effect on January 1, 2006. Under this act, the Corporation should pay at least the minimum income tax calculated in accordance with this act 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

	Nine Months Ended September 30					
	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	\$ 2,399,546	\$ 830,896	\$ 3,230,442	\$ 1,708,701	\$ 522,349	\$ 2,231,050
Labor/health insurance	144,729	43,929	188,658	113,578	30,221	143,799
Pension	111,660	41,817	153,477	63,030	18,943	81,973
Others	140,566	33,902	174,468	109,125	22,805	131,930
	<u>\$ 2,796,501</u>	<u>\$ 950,544</u>	<u>\$ 3,747,045</u>	<u>\$ 1,994,434</u>	<u>\$ 594,318</u>	<u>\$ 2,588,752</u>
Depreciation	<u>\$15,392,253</u>	<u>\$ 238,823</u>	<u>\$15,631,076</u>	<u>\$11,211,441</u>	<u>\$ 179,432</u>	<u>\$11,390,873</u>
Amortization	<u>\$ 101,296</u>	<u>\$ 1,094,104</u>	<u>\$ 1,195,400</u>	<u>\$ 109,560</u>	<u>\$ 931,123</u>	<u>\$ 1,040,683</u>

22. EARNINGS PER SHARE (EPS)

	Nine Months Ended September 30			
	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	\$ 2.30	\$ 2.00	\$ 0.84	\$ 0.95
Cumulative effect of changes in accounting principles	-	0.01	-	-
Income for the period	<u>\$ 2.30</u>	<u>\$ 2.01</u>	<u>\$ 0.84</u>	<u>\$ 0.95</u>
Diluted EPS (NT\$)				
Income before cumulative effect of change in accounting principles	\$ 1.94	\$ 1.69	\$ 0.74	\$ 0.83
Cumulative effect of changes in accounting principles	-	0.01	-	-
Income for the period	<u>\$ 1.94</u>	<u>\$ 1.70</u>	<u>\$ 0.74</u>	<u>\$ 0.83</u>

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

	Amounts (Numerator)		Weighed-average Number of Shares (Denominator) (Thousand)	EPS (Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	<u>For the nine months ended September 30, 2006</u>				
Net income	<u>\$13,740,678</u>	<u>\$11,993,564</u>			

(Continued)

	<u>Amounts (Numerator)</u>		<u>Weighted-average Number of Shares (Denominator) (Thousand)</u>	<u>EPS (Dollars)</u>	
	<u>Before</u>	<u>After</u>		<u>Before</u>	<u>After</u>
	<u>Income Tax</u>	<u>Income Tax</u>		<u>Income Tax</u>	<u>Income Tax</u>
Basic EPS					
Income of common shareholders	\$13,740,678	\$11,993,564	5,968,204	<u>\$ 2.30</u>	<u>\$ 2.01</u>
Effect of dilutive securities					
- Convertible bonds	-	-	996,299		
- Stock options	-	-	<u>100,845</u>		
Diluted EPS					
Income of common and potential common shareholders	<u>\$13,740,678</u>	<u>\$11,993,564</u>	<u>7,065,348</u>	<u>\$ 1.94</u>	<u>\$ 1.70</u>
<u>For the nine months ended September 30, 2005</u>					
Net income	<u>\$ 4,712,941</u>	<u>\$ 5,293,715</u>			
Basic EPS					
Income of common shareholders	\$ 4,712,941	\$ 5,293,715	5,592,370	<u>\$ 0.84</u>	<u>\$ 0.95</u>
Effect of dilutive securities					
- Convertible bonds	-	-	615,003		
- Stock options	-	-	<u>146,508</u>		
Diluted EPS					
Income of common and potential common shareholders	<u>\$ 4,712,941</u>	<u>\$ 5,293,715</u>	<u>6,353,881</u>	<u>\$ 0.74</u>	<u>\$ 0.83</u>

(Concluded)

The average number of shares outstanding for EPS calculation was adjusted retroactively for issuance of stock dividends and stock bonuses. The retroactive adjustment caused the basic and diluted EPS after income tax for the nine months ended September 30, 2005 to decrease from \$1.00 to \$0.95 and from \$0.88 to \$0.83, respectively.

23. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	<u>September 30</u>			
	<u>2006</u>		<u>2005</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
<u>Nonderivative instruments</u>				
Assets				
Financial assets at fair value				
through profit or loss - current	\$ 5,119,760	\$ 5,119,760	\$ 2,706,660	\$ 2,706,660
Available-for-sale financial assets				
- current	464,662	464,662	121,073	535,958
Held-to-maturity financial assets (including current portion)	205,000	205,000	295,000	295,000
Financial assets carried at cost - noncurrent	551,026	-	626,681	-

(Continued)

	September 30			
	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities				
Convertible bonds payable (including current portion)	\$ 23,701,817	\$ 25,991,144	\$ 20,096,752	\$ 20,007,979
Obligation under capital lease (including current portion)	-	-	41,278	41,278
Long-term bank loans (including current portion)	32,411,667	32,411,667	23,280,459	23,280,459
<u>Derivative instruments</u>				
Assets				
Forward exchange contracts	2,914	2,914	47,284	43,277
Liabilities				
Interest rate swap contracts	59,284	59,284	1,815	111,030
Forward exchange contracts	45,503	45,503	-	-
Debt components of convertible bonds				
Conversion option	1,851,317	1,851,317	-	-
Put option	111,156	111,156	-	-
				(Concluded)

Effective January 1, 2006, the Corporation adopted Statement of Financial Accounting Standards No. 34 - "Financial Instruments: Recognition and Measurement." 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) 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 3.25% to 4.48% for the nine months ended September 30, 2006 and 2005, respectively.

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

- 2) Fair value of financial assets carried at cost is based on their original cost. For those assets not traded in active markets, their fair value should take unreasonable cost to verified, thus the fair value can not be measured reliably.

- 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, issued before January 1, 2006, is based on quoted market prices, others are determined using the present value of forecasted cash flows. 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.

The aforementioned financial instruments do not include cash and cash equivalent, accounts receivable, other receivable, restricted deposits, accounts payable and payable on equipment for the carrying amounts of these financial instruments approximate their fair value.

- 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>September 30</u>		<u>September 30</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 - current	\$ 5,070,669	\$ 2,666,964	\$ 49,091	\$ 39,696
Available-for-sale financial assets				
- current	464,662	535,958	-	-
Held-to-maturity financial assets				
(including current portion)	-	-	205,000	295,000
Liabilities				
Convertible bonds payable				
(including current portion)	22,032,359	20,007,979	3,958,785	-
Obligation under capital lease				
(including current portion)	-	-	-	41,278
Long-term bank loans (including				
current portion)	-	-	32,411,667	23,280,459
<u>Derivative instruments</u>				
Assets				
Forward exchange contracts	-	-	2,914	43,277
Liabilities				
Interest rate swap contracts	-	-	59,284	111,030
Forward exchange contracts	-	-	45,503	-
Debt components of convertible				
bonds				
Conversion option	-	-	1,851,317	-
Put option	-	-	111,156	-

- d. Loss recognized for the changes in fair value of financial instruments using valuation techniques was \$477,067 thousand for the nine months ended September 30, 2006.

- e. As of September 30, 2006 and 2005, financial assets (liabilities) exposed to fair value interest rate risk and cash flow interest rate risk were as follows:

	<u>September 30</u>	
	2006	2005
Fair value interest rate risk		
Financial assets	\$ 27,122,906	\$ 36,144,549
Financial liabilities	(23,761,101)	(20,389,471)
Cash flow interest rate risk		
Financial assets	1,003,557	1,376,490
Financial liabilities	(32,411,667)	(23,030,833)

- f. As of September 30, 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>Nine Months Ended September 30</u>	
	2006	2005
Total interest income	\$ 423,240	\$ 302,330
Total interest expenses (including capitalized amount)	(825,286)	(548,482)

The Corporation recognized an unrealized gain of \$25,211 thousand in shareholders' equity for the changes in fair value of available-for-sale financial assets for the nine months ended September 30, 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 note (CLN) 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 September 30, 2006 and 2005, credit risks of the financial assets, except those approximate to their carrying values, were as follows:

	<u>September 30</u>			
	2006		2005	
	Carrying Amount	Credit Risk	Carrying Amount	Credit Risk
<u>Held-for-trading financial assets</u>				
Forward exchange contracts	\$ 2,914	\$ 2,914	\$ 47,284	\$ 83,196

(Continued)

	September 30			
	2006		2005	
	Carrying Amount	Credit Risk	Carrying Amount	Credit Risk
<u>Financial assets designated at fair value through profit or loss</u>				
CLN	\$ 49,091	\$ 49,091	\$ 39,696	\$ 39,696
<u>Held-to-maturity financial assets</u>				
Corporate bond	<u>205,000</u>	<u>205,000</u>	<u>295,000</u>	<u>295,000</u>
	<u>\$ 257,005</u>	<u>\$ 257,005</u>	<u>\$ 381,980</u>	<u>\$ 417,892</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 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") CHIPSHIP Technology Co., Ltd. ("CHIPSHIP")	Quantum, a subsidiary of the Corporation, is its director The Corporation is its director
eMemory Technology Inc. ("eMemory")	Same chairman
PowerWorld Capital Management Corp. ("PowerWorld Management")	Same chairman
Veutron	Same chairman
Elpida Memory (Taiwan) Co., Ltd. ("Elpida-Taiwan")	Director (since June 9, 2006)
Elpida (Note 1)	Parent company of Elpida-Taiwan, also the it once to be the director of the Corporation (until June 9, 2006)
Renesas (Note 2)	Director (until January 7, 2005)
Renesas Technology (Taiwan) Co., Ltd. ("Renesas-Taiwan") (Note 2)	Subsidiary of Renesas
Zentel	Subsidiary

(Continued)

<u>Related Party</u>	<u>Relationship with the Corporation</u>
PowerFlash	Subsidiary
Smartic	Subsidiary
Tekmax	Equity-method investee
Novax	Equity-method investee
Deutron	Equity-method investee
Syntronix	Equity-method investee
Silicon	Equity-method investee
MaxEdge	Equity-method investee
Others	Related parties with which the Corporation had no material transactions. Please see Note 27.

Note 1: The Company was selected to be the director from April 12, 2005 to June 9, 2006; the transaction made as of and for the nine months ended September 30, 2006 are disclosed only for reference.

Note 2: The Company ceased to be the Corporation's related parties before September 30, 2006; the transactions made as of and for the nine months ended September 30, 2006 are disclosed only for reference.

b. Related party transactions:

<u>For the period</u>	<u>Nine Months Ended September 30</u>			
	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
1) Net sales				
Elpida	\$ 15,073,090	26	\$ 4,457,562	12
Deutron	9,203,915	16	8,525,725	23
Novax	3,316,082	6	2,142,226	6
Renesas-Taiwan	2,089,305	4	333,272	1
Elpida-Taiwan	2,066,611	3	50,470	-
Zentel	776,012	1	20,799	-
Syntronix	536,426	1	123,773	-
Silicon	123,840	-	145,324	-
Veutron	64,206	-	-	-
eMemory	41,373	-	17,458	-
CHIPSHIP	41,346	-	283	-
PowerFlash	7,708	-	14,769	-
Others	104	-	2	-
	<u>\$ 33,340,018</u>	<u>57</u>	<u>\$ 15,831,663</u>	<u>42</u>
2) Purchase				
Renesas-Taiwan	<u>\$ 194,269</u>	<u>2</u>	<u>\$ 252,358</u>	<u>3</u>

(Continued)

		Nine Months Ended September 30			
		2006		2005	
		Amount	%	Amount	%
3)	Technical know-how and royalty				
	Elpida	\$ 104,858	11	\$ 592	-
	Renesas	84,885	9	88,137	6
	Zentel	12,887	1	25,490	2
	eMemory	<u>9,683</u>	<u>1</u>	<u>13,288</u>	<u>1</u>
		<u>\$ 212,313</u>	<u>22</u>	<u>\$ 127,507</u>	<u>9</u>
4)	Manufacturing expenses - subcontract costs, indirect materials, expensed properties, repairs and maintenance, etc.				
	Powertech	\$ 3,645,466	10	\$ 1,702,450	6
	Elpida	7,597	-	10,631	-
	Others	<u>-</u>	<u>-</u>	<u>8,309</u>	<u>-</u>
		<u>\$ 3,653,063</u>	<u>10</u>	<u>\$ 1,721,390</u>	<u>6</u>
5)	Selling expenses				
	Deutron	\$ 26,766	7	\$ 4,968	3
	Others	<u>91</u>	<u>-</u>	<u>17</u>	<u>-</u>
		<u>\$ 26,857</u>	<u>7</u>	<u>\$ 4,985</u>	<u>3</u>
6)	General and administrative expenses				
	Tekmax	\$ 28,938	2	\$ 24,131	2
	PowerWorld Management	25,022	2	-	-
	Others	<u>2,516</u>	<u>-</u>	<u>18,467</u>	<u>2</u>
		<u>\$ 56,476</u>	<u>4</u>	<u>\$ 42,598</u>	<u>4</u>
7)	Research and development expenses				
	Elpida	\$ 284,001	15	\$ 21	-
	Reneses	75,836	4	76	-
	Syntronix	29,328	2	45,011	4
	Smartic	19,773	1	-	-
	eMemery	14,239	1	2,032	-
	Zentel	9,644	1	13,204	1
	Others	<u>3,642</u>	<u>-</u>	<u>9,468</u>	<u>1</u>
		<u>\$ 436,463</u>	<u>24</u>	<u>\$ 69,812</u>	<u>6</u>

(Continued)

	Nine Months Ended September 30			
	2006		2005	
	Amount	%	Amount	%
8) Other income				
Powertech	\$ 6,007	10	\$ 768	1
eMemory	5,780	10	5,808	9
Syntronix	5,332	9	4,562	7
Zentel	1,542	3	1,541	2
Silicon	1,291	2	1,233	2
PowerFlash	934	1	1,002	2
Others	438	-	1,631	3
	<u>\$ 21,324</u>	<u>35</u>	<u>\$ 16,545</u>	<u>26</u>

At end of period

1) Accounts receivable, net

Elpida	\$ 3,154,190	28	\$ 605,577	13
Deutron	2,203,580	20	786,418	17
Novax	667,178	6	306,677	6
Zentel	396,406	4	20,129	-
Elpida-Taiwan	257,134	2	-	-
Renesas-Taiwan	241,288	2	231,140	5
Syntronix	44,026	-	16,664	-
Silicon	12,922	-	25,396	1
Others	1,544	-	7,780	-
	<u>\$ 6,978,268</u>	<u>62</u>	<u>\$ 1,999,781</u>	<u>42</u>

2) Accounts payable

Powertech	\$ 1,061,195	13	\$ 559,914	11
Renesas-Taiwan	-	-	14,935	-
	<u>\$ 1,061,195</u>	<u>13</u>	<u>\$ 574,849</u>	<u>11</u>

3) Accrued expenses

Elpida	\$ 666,058	20	\$ 882,883	38
PowerWorld Management	16,857	1	5,366	-
Tekmax	7,868	-	15,716	1
eMemory	-	-	13,275	-
Others	4,059	-	13,579	1
	<u>\$ 694,842</u>	<u>21</u>	<u>\$ 930,819</u>	<u>40</u>

(Concluded)

The Corporation also purchased (sold) the following long-term investments of stocks and bonds from (to) related parties for the nine months ended September 30, 2006 and 2005:

1) Stock

Related Parties	Investee	Shares Purchased (Sold) (in Thousands)	Costs (Proceeds)	Profit (Loss)
<u>2006</u>				
Deutron	Syntronix	(600)	\$ (16,800)	\$ 9,430
<u>2005</u>				
Veutron	Lu-Chu	4,800	\$ 48,000	

2) Bonds

Related Parties	Investee	Units Purchased (Matured)	Amount	Rate
<u>2006</u>				
Veutron	Veutron Bonds	5	\$ 25,000	3.50%
Veutron	Veutron Bonds	(5)	\$ (25,000)	3.50%
<u>2005</u>				
Veutron	Veutron Bonds	16	\$ 80,000	3.50%
Veutron	Veutron Bonds	(18)	\$ (90,000)	3.95%
MaxEdge	MaxEdge Bonds	30	\$ 30,000	3.25%

The stocks purchased (sold) to related parties were based on specifically negotiated price.

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

The payment terms of the sales made to Elpida-Taiwan and Zentel were to be paid on the 45th day (30th day before January and July, 2006, respectively) after the month of shipment. Also, the payment term 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, eMemory, Syntronix, and Smartic 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 collateral for long-term bank loans, letters of credit and bonded inventories:

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Properties, net	\$ 50,610,215	\$ 38,642,371
Restricted deposits	836,007	1,502,878
Accounts receivable	<u>-</u>	<u>393,127</u>
	<u>\$ 51,446,222</u>	<u>\$ 40,538,376</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. Under a non-recurring engineering agreement with Company L made in January 2006, the Corporation should pay development fee over 3 years.
- m. Under a non-recurring engineering agreement with Company M made in April 2006, the Corporation should pay development fee over 1 year.
- n. The Corporation signed an agreement with Micronix (MXIC) for purchasing its 12 inches fab (“FAB 12M”), cleaning room and other related facilities, which has been consummated in the third 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 been developed, in return, a certain amount of royalty should be paid by MXIC.
- o. In February and May 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.
- p. Unused letters of credit amounted to approximately US\$65,555 thousand and JPY1,645,958 thousand as of September 30, 2006.
- q. 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 September 30, 2006, future lease payments were as follows:

Year	Amount
2006 (4 th quarter)	\$ 17,780
2007	71,122
2008	71,122
2009	71,122
2010	71,122
2011	71,122
2012 and thereafter	<u>442,424</u>
	<u>\$ 815,814</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. Acquisition of individual real estates at costs of at least \$100 million or 20% of the paid-in capital: Table 3 (attached)
- d. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 4 (attached)
- e. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 5 (attached)
- f. Names, locations, and related information of investees on which the Corporation exercises significant influence: Table 6 (attached)
- g. Derivative financial transactions: Please see Notes 5 and 23.

TABLE 1

POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

MARKETABLE SECURITIES HELD

SEPTEMBER 30, 2006

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

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	September 30, 2006				Note
				Shares (Thousands/ Units) (Note 6)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Powerchip Semiconductor Corporation	<u>Stock</u> Quantum Vision Corp.	Subsidiary	Equity-method investments	209,890	\$ 2,437,116	99.99	\$ 2,442,653	Note 1
	Li-Hsin Investment Corp.	Subsidiary	Equity-method investments	181,850	1,286,242	99.92	1,376,434	Note 1
	Paramax Corp.	Subsidiary	Equity-method investments	132,894	1,156,499	99.99	1,159,609	Note 1
	Lu-Chu Development Corp.	Investee	Equity-method investments	63,499	582,344	27.18	582,344	Note 2
	Global Powertec Co., Ltd.	Subsidiary	Equity-method investments	1,620	522,023	100.00	522,023	Note 1
	Zhi-Li Investment Corp.	Investee	Equity-method investments	36,601	392,434	33.27	392,434	Note 2
	Novax Technologies, Inc.	Investee	Equity-method investments	24,658	317,008	24.66	317,008	Note 2
	Smart Art Corp.	Subsidiary	Equity-method investments	31,134	310,826	44.48	310,826	Note 1
	Artrix International Inc.	Investee	Equity-method investments	17,864	190,858	25.52	190,858	Note 2
	Deutron Electronics Corp.	Investee	Equity-method investments	6,997	165,545	9.44	165,545	Note 2
	Optimicro Corp.	Investee	Equity-method investments	14,700	136,149	29.40	136,149	Note 2
	Luxxon Technology Corp.	Investee	Equity-method investments	20,733	123,194	20.73	123,194	Note 2
	Smartic Technology Inc.	Subsidiary	Equity-method investments	15,300	120,957	51.00	147,398	Note 2
	Neo Solar Power Corp.	Investee	Equity-method investments	9,600	95,912	16.00	95,912	Note 1
	Signia Technologies Co., Ltd.	Investee	Equity-method investments	5,187	93,549	28.01	93,549	Note 2
	Syntronix Corp.	Investee	Equity-method investments	6,548	82,001	20.25	82,001	Note 2
	Deutron Japan Corp.	Investee	Equity-method investments	2,891	80,495	38.98	80,495	Note 2
	Zentel Electronics Corp.	Subsidiary	Equity-method investments	9,200	79,152	36.80	92,574	Note 1
	Tekmax Development Corp.	Investee	Equity-method investments	5,851	73,081	15.65	73,081	Note 2
	Synage Technology Corp.	Investee	Equity-method investments	10,084	72,345	20.17	72,345	Note 2
	Astel Electronics Corp.	Investee	Equity-method investments	8,000	63,629	40.00	63,629	Note 2
	Retronix Technology Corp.	Investee	Equity-method investments	5,000	50,485	25.00	50,485	Note 2
	Vivichip Electronics Corp.	Investee	Equity-method investments	4,000	39,961	40.00	39,961	Note 2
	Luxchip Technology Corp.	Investee	Equity-method investments	3,800	38,360	19.00	38,360	Note 2
	AVAC Systems, Inc.	Investee	Equity-method investments	4,000	37,981	23.31	37,981	Note 2
	PowerFlash Semiconductor Corp.	Subsidiary	Equity-method investments	4,160	33,191	32.00	33,253	Note 1
	MicroMedia Technology Corp.	Investee	Equity-method investments	3,000	30,000	30.00	30,000	Note 2
	Silicon Optronics, Inc.	Investee	Equity-method investments	2,076	29,291	11.53	29,291	Note 2
	PowerGate Optical, Inc.	Investee	Equity-method investments	1,287	9,323	5.42	9,323	Note 2
	MaxEdge Electronics Corp.	Investee	Equity-method investments	1,714	2,751	13.39	2,751	Note 2
	Optimax Technology Corp.	Corporation is its director	Available-for-sale financial assets	5,105	113,080	-	113,080	
	China Merchants Bank Co., Ltd.	-	Available-for-sale financial assets	9	396	-	396	
	China Blue Chemical Ltd.	-	Available-for-sale financial assets	64	615	-	615	
	Jade Pacific Corp.	-	Financial assets carried at cost	8	83	1.35	83	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	109,200	0.18	109,200	Note 2
	eMemory Technology Inc.	Same chairman	Financial assets carried at cost	2,972	28,961	7.75	28,961	Note 2

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	September 30, 2006				Note
				Shares (Thousands/Units) (Note 6)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Advanced Chip Engineering Technology Inc.	-	Financial assets carried at cost	1,891	\$ 13,237	2.94	\$ 13,237	Note 2
	Universal Venture Fund, Inc.	Same chairman	Financial assets carried at cost	2,191	21,902	4.76	21,902	Note 2
	Lightsonic Optoelectronics Inc.	Same chairman	Financial assets carried at cost	1,700	11,678	1.83	11,678	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	13,800	1.67	13,800	Note 2
	Area East Technology Corp.	Corporation is its director	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	2.38	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	2,882	42,564	9.09	42,564	Note 2
	CHIPSHIP Technology Co., Ltd.	Corporation is its director	Financial assets carried at cost	934	4,819	10.61	4,819	Note 2
	Terax Communication Technologies Inc.	Same chairman	Financial assets carried at cost	3,065	12,168	6.26	12,168	Note 2
	A-Optronics Technology Inc.	Same chairman	Financial assets carried at cost	2,232	25,184	6.98	25,184	Note 2
	uPI Semiconductor Corp.	Same chairman	Financial assets carried at cost	2,000	30,000	16.00	30,000	Note 2
	Ta Shee Golf & Country Club	-	Financial assets carried at cost	1	10	-	10	Note 2
	Magellan Systems Japan Inc.	-	Financial assets carried at cost	1	31,517	16.90	31,517	Note 2
	Venglobal Capital Fund L.P.	-	Financial assets carried at cost	-	16,589	5.18	16,589	Note 2
	Powerchip Japan Corporation	-	Financial assets carried at cost	1	11,870	6.18	11,870	Note 2
	Venglobal International Fund	-	Financial assets carried at cost	1	11,217	2.83	11,217	Note 2
	e-Phocus, Inc.	-	Financial assets carried at cost	700	-	8.52	-	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
	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
	Globalgate.com, Inc., Series A - preferred shares	-	Financial assets carried at cost	500	-	0.93	-	Note 2
	NewSoft Technology Corp.	Same chairman	Financial assets at fair value through profit and loss	180	1,278	-	1,278	-
	Shinkong Financial Holding Co., Ltd.	-	Financial assets at fair value through profit and loss	22,773	693,432	-	693,432	-
	ProMos Technologies Inc.	-	Financial assets at fair value through profit and loss	18,001	234,008	-	234,008	-
	Veutron Corp.	Same chairman	Financial assets at fair value through profit and loss	809	4,134	-	4,134	-
	Hua Nan Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit and loss	14,291	310,835	-	310,835	-
	Nanya Technology Corporation	-	Financial assets at fair value through profit and loss	2	50	-	50	-
	Depo Auto Parts Ind. Co., Ltd.	-	Financial assets at fair value through profit and loss	675	63,322	-	63,322	-
	First Financial Holding Co., Ltd.	-	Financial assets at fair value through profit and loss	2,050	46,125	-	46,125	-
	Yang Ming Marine Transport Corp.	-	Financial assets at fair value through profit and loss	1,000	17,000	-	17,000	-
	Silicon Integrated System Corp.	-	Financial assets at fair value through profit and loss	3,135	46,242	-	46,242	-
	Fullerton Technology Co., Ltd.	-	Financial assets at fair value through profit and loss	3,000	46,050	-	46,050	-
	Macronix International Co., Ltd	-	Financial assets at fair value through profit and loss	145,833	1,480,209	-	1,480,209	-
	BENQ Corporation	-	Financial assets at fair value through profit and loss	1,500	29,175	-	29,175	-
	Yaego Corporation	-	Financial assets at fair value through profit and loss	1,500	17,400	-	17,400	-
	Wafer Works Corp.	Corporation is its director	Financial assets at fair value through profit and loss	9,001	459,059	-	459,059	-
	Advanced Semiconductor Engineering, Inc.	-	Financial assets at fair value through profit and loss	5,485	168,664	-	168,664	-
	Chang Hwa Commercial Bank, Ltd.	-	Financial assets at fair value through profit and loss	5,400	107,730	-	107,730	-
	Fuhwa Financial Holding Co., Ltd.	-	Financial assets at fair value through profit and loss	4,100	59,450	-	59,450	-
	Taiwan Semiconductor Manufacturing Company Limited	-	Financial assets at fair value through profit and loss	2,575	153,726	-	153,726	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	September 30, 2006				Note
				Shares (Thousands/Units) (Note 6)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Wintek Corporation	-	Financial assets at fair value through profit and loss	3,576	\$ 107,268	-	\$ 107,268	-
	Etron Technology, Inc.	-	Financial assets at fair value through profit and loss	250	7,750	-	7,750	-
	Elpida Memory Inc.	-	Financial assets at fair value through profit and loss	429	644,471	-	644,471	-
	Silicon Storage Technology Inc.	-	Financial assets at fair value through profit and loss	68	9,223	-	9,223	-
	Sony Corporation	-	Financial assets at fair value through profit and loss	5	6,706	-	6,706	-
	<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
	Veutron Corp. - issued in 2002 (II)	Same chairman	Held-to-maturity financial assets	4	20,000	-	20,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (III)	Investee	Held-to-maturity financial assets	20	20,000	-	20,000	Note 2
	Credit Link Note issued by Credit Suisse First Boston	-	Financial assets at fair value through profit and loss	-	49,091	-	49,091	-
	<u>Equity</u>							
	UPAMC Select Guaranteed No. 1 Fund	-	Financial assets at fair value through profit and loss	1,000	9,980	-	9,980	-
	Fuh-Hwa Omni Fund	-	Financial assets at fair value through profit and loss	5,000	51,500	-	51,500	-
	Fuh-Hwa Heirloom No. 2 Balance Fund	-	Financial assets at fair value through profit and loss	639	9,215	-	9,215	-
	Polaris Global ABS Fund - A	-	Financial assets at fair value through profit and loss	8,002	80,667	-	80,667	-
	Shinkong Number One Real Estate Investment	-	Financial assets at fair value through profit and loss	20,000	206,000	-	206,000	-
	Fubon No.2 REITs	-	Available-for-sale financial assets	18,000	190,440	-	190,440	-
	Fuh Hwa Asia Pacific Balance Fund	-	Available-for-sale financial assets	5,000	50,700	-	50,700	-
	Cathay Wealthy One Fund	-	Available-for-sale financial assets	3,000	30,247	-	30,247	-
	UPAMC Fully Weath Fund 1	-	Available-for-sale financial assets	2,998	30,423	-	30,423	-
	Champion Real Estate Investment Trust	-	Available-for-sale financial assets	2,957	48,761	-	48,761	-
Li-Hsin	<u>Stock</u>							
Investment Corp.	MaxEdge Electronics Corp.	Investee	Equity-method investments	2,045	2,807	15.97	2,807	Note 2
	Synage Technology Corp.	Investee	Equity-method investments	10,967	78,673	21.93	78,673	Note 2
	Novax Technologies, Inc.	Investee	Equity-method investments	5,246	66,965	5.25	66,965	Note 2
	Luxxon Technology Corp.	Investee	Equity-method investments	1,363	8,082	1.36	8,082	Note 2
	Tekmax Development Corp.	Investee	Equity-method investments	2,846	38,498	7.61	38,498	Note 2
	Smartic Technology Inc.	Investee	Equity-method investments	1,430	13,786	4.77	13,786	Note 2
	Artrix International Inc.	Investee	Equity-method investments	3,713	39,328	5.30	39,328	Note 2
	Optimicro Corp.	Investee	Equity-method investments	2,118	19,635	4.24	19,635	Note 2
	Lu-Chu Development Corp.	Investee	Equity-method investments	24,337	223,253	10.42	223,253	Note 2
	Smart Art Corp.	Investee	Equity-method investments	9,850	98,321	14.07	98,321	Note 2
	LoanSky.Net Corp.	Investee	Equity-method investments	400	3,488	8.00	3,488	Note 2
	Luxchip Technology Corp.	Investee	Equity-method investments	1,800	18,171	9.00	18,171	Note 2
	Neo Solar Power Corp.	Investee	Equity-method investments	1,500	14,986	2.50	14,986	Note 2
	Deutron Japan Corp.	Investee	Equity-method investments	289	7,973	3.89	7,973	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	2,964	0.31	2,964	Note 2
	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	630	4,387	0.75	4,387	Note 2
	PowerWorld Fund Inc.	Same chairman	Financial assets carried at cost	443	6,544	1.40	6,544	Note 2

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	September 30, 2006				Note
				Shares (Thousands/Units) (Note 6)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	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
	Chipking Electronic Co., Ltd.	-	Financial assets carried at cost	600	6,600	12.00	6,600	Note 2
	Getsilicon net, Inc.	-	Financial assets carried at cost	400	-	2.20	-	Note 2
	Powerchip Japan Corp.	-	Financial assets carried at cost	1	1,732	0.90	1,732	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	7,996	-	7,996	-
	Fullerton Technology Co., Ltd.	-	Financial assets at fair value through profit and loss	1,045	16,042	-	16,042	-
	Yang Ming Marine Transport Corp.	-	Financial assets at fair value through profit and loss	100	1,700	-	1,700	-
	Macronix International Co., Ltd.	-	Financial assets at fair value through profit and loss	7,005	71,096	-	71,096	-
	ProMos Technologies Inc.	-	Financial assets at fair value through profit and loss	5,070	65,910	-	65,910	-
	Optimax Technology Corp.	Parent company is its director	Available-for-sale financial assets	60	1,329	-	1,329	-
	Powerchip Semiconductor Corp.	Parent company	Available-for-sale financial assets	4,200	88,826	-	88,826	-
	AIPTEK International Inc.	-	Available-for-sale financial assets	1,000	8,500	-	8,500	-
	Tianjin Port Development Holding Limited	-	Available-for-sale financial assets	10	100	-	100	-
	<u>Equity</u>							
	Polaris De-Li Fund	-	Financial assets at fair value through profit and loss	3,347	50,278	-	50,278	-
	Jih Sun Bond Fund	-	Financial assets at fair value through profit and loss	7,363	100,124	-	100,124	-
	PCA Bond Fund	-	Financial assets at fair value through profit and loss	171	2,645	-	2,645	-
	Sheng Hua 5599 Bond Fund	-	Financial assets at fair value through profit and loss	6,731	75,185	-	75,185	-
	Champion Real Estate Investment Trust	-	Available-for-sale financial assets	396	6,482	-	6,482	-
Quantum Vision Corp.	<u>Stock</u>							
	MaxEdge Electronics Corp.	Investee	Equity-method investments	1,425	1,956	11.13	1,956	Note 2
	Deutron Electronics Corp.	Investee	Equity-method investments	7,330	174,699	9.89	174,699	Note 2
	Syntronix Corp.	Investee	Equity-method investments	665	8,184	2.06	8,184	Note 2
	Zentel Electronics Corp.	Investee	Equity-method investments	2,100	21,131	8.40	21,131	Note 2
	Synage Technology Corp.	Investee	Equity-method investments	1,836	13,163	3.67	13,163	Note 2
	Novax Technologies, Inc.	Investee	Equity-method investments	12,735	162,373	12.73	162,373	Note 2
	Luxxon Technology Corp.	Investee	Equity-method investments	9,670	57,467	9.67	57,467	Note 2
	AVAC Systems Inc.	Investee	Equity-method investments	2,501	23,876	14.58	23,876	Note 2
	PowerGate Optical, Inc.	Investee	Equity-method investments	2,610	18,886	10.98	18,886	Note 2
	Tekmax Development Corp.	Investee	Equity-method investments	4,267	53,456	11.41	53,456	Note 2
	Silicon Optronics, Inc.	Investee	Equity-method investments	1,099	14,518	6.11	14,518	Note 2
	PowerFlash Semiconductor Corp.	Investee	Equity-method investments	650	5,196	5.00	5,196	Note 2
	Smartic Technology Inc.	Investee	Equity-method investments	1,800	17,341	6.00	17,341	Note 2
	Artrix International Inc.	Investee	Equity-method investments	7,279	77,563	10.40	77,563	Note 2

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	September 30, 2006				Note
				Shares (Thousands/Units) (Note 6)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Optimicro Corp.	Investee	Equity-method investments	3,987	\$ 36,908	7.97	\$ 36,908	Note 2
	Lu-Chu Development Corp.	Investee	Equity-method investments	7,327	67,276	3.14	67,276	Note 2
	Astel Electronics Corp.	Investee	Equity-method investments	1,000	7,954	5.00	7,954	Note 2
	Smart Art Corp.	Investee	Equity-method investments	13,164	131,444	18.81	131,444	Note 2
	LoanSky.Net Corp.	Investee	Equity-method investments	1,000	8,720	20.00	8,720	Note 2
	Luxchip Technology Corp.	Investee	Equity-method investments	2,200	22,208	11.00	22,208	Note 2
	Neo Solar Power Corp.	Investee	Equity-method investments	1,800	17,983	3.00	17,983	Note 2
	Retronix Technology Corp.	Investee	Equity-method investments	1,000	10,097	5.00	10,097	Note 2
	Network Holdings Limited	Investee	Equity-method investments	1,090	33,706	20.57	33,706	Note 2
	Signia Technologies Co., Ltd.	Investee	Equity-method investments	795	6,751	4.29	6,751	Note 2
	Vivichip Electronics Corp.	Investee	Equity-method investments	100	999	1.00	999	Note 2
	Zhi-Li Investment Corp.	Investee	Equity-method investments	4,000	40,000	3.64	40,000	Note 2
	MicroMedia Technology Corp.	Investee	Equity-method investments	1,000	10,000	10.00	10,000	Note 2
	Terax Communication Technologies Inc.	Same chairman	Financial assets carried at cost	3,715	14,749	7.58	14,749	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	988	-	2.58	-	Note 2
	Great Taipei Broadband Co., Ltd.	Parent company is its director	Financial assets carried at cost	1,500	8,280	1.00	8,280	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	1,793	11,728	3.90	11,728	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	10,301	1.62	10,301	Note 2
	Ili Technology Corp.	-	Financial assets carried at cost	1,000	15,000	4.26	15,000	Note 2
	Cetronix Technology Corp.	Same chairman	Financial assets carried at cost	80	800	8.00	800	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	7.00	10,912	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	792	11,704	2.50	11,704	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	1.60	4,500	Note 2
	A-Optronics Technology Inc.	Same chairmen	Financial assets carried at cost	2,595	28,740	8.11	28,740	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
	Bonds							
	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

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	September 30, 2006				Note
				Shares (Thousands/Units) (Note 6)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Paramax Corp.	<u>Stocks</u>							
	NewSoft Technology Corp.	Same chairman	Financial assets at fair value through profit and loss	473	\$ 3,360	-	\$ 3,360	-
	Veutron Corp.	Same chairman	Financial assets at fair value through profit and loss	500	2,555	-	2,555	-
	Silicon Storage Technology Inc.	-	Financial assets at fair value through profit and loss	40	5,448	-	5,448	-
	Fullerton Technology Co., Ltd.	-	Financial assets at fair value through profit and loss	3,060	46,973	-	46,973	-
	Yang Ming Marine Transport Corp.	-	Financial assets at fair value through profit and loss	100	1,700	-	1,700	-
	Macronix International Co., Ltd.	-	Financial assets at fair value through profit and loss	13,161	133,580	-	133,580	-
	Hua Nan Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit and loss	1,000	21,750	-	21,750	-
	Wafer Works Corp.	Parent company is its director	Financial assets at fair value through profit and loss	3,177	162,021	-	162,021	-
	ProMos Technologies Inc.	-	Financial assets at fair value through profit and loss	5,180	67,340	-	67,340	-
	Optimax Technology Corp.	Parent company is its director	Available-for-sale financial assets	150	3,318	-	3,318	-
	Powertech Technology Inc.	Quantum Vision is its director	Available-for-sale financial assets	3,193	297,550	-	297,550	-
	Tianjin Port Development Holding Limited	-	Available-for-sale financial assets	8	80	-	80	-
	<u>Equity</u>							
	Cathay Bond Fund	-	Financial assets at fair value through profit and loss	6,111	70,229	-	70,229	-
	Taishin Lucky Investment Trust Fund	-	Financial assets at fair value through profit and loss	5,901	60,308	-	60,308	-
	Champion Real Estate Investment Trust	-	Available-for-sale financial assets	450	7,366	-	7,366	-
	<u>Stock</u>							
	MaxEdge Electronics Corp.	Investee	Equity-method investments	910	1,250	7.11	1,250	Note 2
	Synage Technology Corp.	Investee	Equity-method investments	2,081	14,921	4.16	14,921	Note 2
	Novax Technologies, Inc.	Investee	Equity-method investments	4,042	51,531	4.04	51,531	Note 2
	Luxxon Technology Corp.	Investee	Equity-method investments	7,728	47,595	7.73	47,595	Note 2
	AVAC Systems Inc.	Investee	Equity-method investments	1,093	10,601	6.37	10,601	Note 2
	PowerGate Optical, Inc.	Investee	Equity-method investments	1,064	7,706	4.48	7,706	Note 2
	Tekmax Development Corp.	Investee	Equity-method investments	1,060	13,306	2.84	13,306	Note 2
	Silicon Optronics, Inc.	Investee	Equity-method investments	611	8,060	3.39	8,060	Note 2
	PowerFlash Semiconductor Corp.	Investee	Equity-method investments	500	4,001	3.85	4,001	Note 2
	Smartic Technology Inc.	Investee	Equity-method investments	1,800	17,341	6.00	17,341	Note 2
	Artrix International Inc.	Investee	Equity-method investments	3,155	33,345	4.51	33,345	Note 2
	Optimicro Corp.	Investee	Equity-method investments	1,824	20,717	3.65	20,717	Note 2
Lu-Chu Development Corp.	Investee	Equity-method investments	5,294	48,636	2.27	48,636	Note 2	
Smart Art Corp.	Investee	Equity-method investments	15,852	158,278	22.65	158,278	Note 2	
LoanSky.Net Corp.	Investee	Equity-method investments	400	3,488	8.00	3,488	Note 2	
Deutron Japan Corp.	Investee	Equity-method investments	351	9,695	4.73	9,695	Note 2	
Zhi-Li Investment Corp.	Investee	Equity-method investments	8,699	92,032	7.91	92,032	Note 2	
Retronix Technology Corp.	Investee	Equity-method investments	1,000	10,097	5.00	10,097	Note 2	
Terax Communication Technologies Inc.	Parent company and investee have same chairman	Financial assets carried at cost	770	3,057	1.57	3,057	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.	Parent company and investee have same chairman	Financial assets carried at cost	1,290	8,978	2.39	8,978	Note 2	
Universal Venture Fund, Inc.	Parent company and investee have same chairman	Financial assets carried at cost	808	5,282	1.76	5,282	Note 2	
SAMHOP Electronics Corp.	-	Financial assets carried at cost	440	7,040	1.83	7,040	Note 2	

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	September 30, 2006				Note
				Shares (Thousands/Units) (Note 6)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Lightsonic Optoelectronics Inc.	Parent company and investee have same chairman	Financial assets carried at cost	1,000	\$ 6,867	1.08	\$ 6,867	Note 2
	PowerWorld Fund Inc.	Parent company and investee have same chairman	Financial assets carried at cost	540	5,555	1.70	5,555	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	1	1,728	0.90	1,728	Note 2
	Cetronix Technology Corp.	Parent company and investee have same chairman	Financial assets carried at cost	100	1,000	10.00	1,000	Note 2
	Tvbean Co., Ltd.	-	Financial assets carried at cost	200	3,500	1.06	3,500	Note 2
	Softronix Corporation	Parent company and investee have same chairman	Financial assets carried at cost	900	9,000	15.00	9,000	Note 2
	<u>Bonds</u>							
	Veutron Corp. - issued in 2002 (II)	Parent company and investee have same chairman	Held-to-maturity financial assets	2	10,000	-	10,000	Note 2
	Veutron Corp. - issued in 2003 (II)	Parent company and investee have same chairman	Held-to-maturity financial assets	7	14,000	-	14,000	Note 2
	Veutron Corp. - issued in 2005 (I)	Parent company and investee have same chairman	Held-to-maturity financial assets	4	20,000	-	20,000	Note 2
	Veutron Corp. - issued in 2006 (I)	Parent company 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
	<u>Stock</u>							
	Veutron Corp.	Parent company and investee have same chairman	Financial assets at fair value through profit and loss	10,687	54,611	-	54,611	-
	Macronix International Co., Ltd.	-	Financial assets at fair value through profit and loss	7,005	71,096	-	71,096	-
	ProMos Technologies Inc.	-	Financial assets at fair value through profit and loss	5,000	65,000	-	65,000	-
	Optimax Technology Corp.	Parent company is its director	Available-for-sale financial assets	40	886	-	886	-
	<u>Equity</u>							
	President James Bond Fund	-	Financial assets at fair value through profit and loss	3,925	60,343	-	60,343	-
	Dresdner Bond Dam Fund	-	Financial assets at fair value through profit and loss	6,951	80,251	-	80,251	-
	Fuhwa Bond Fund	-	Financial assets at fair value through profit and loss	5,291	70,279	-	70,279	-
Smartic Technology Corp.	<u>Stock</u>							
	Optimax Technology Corp.	Investee	Equity-method investments	702	6,506	1.40	6,506	Note 2
	Retronix Technology Corp.	Investee	Equity-method investments	2,000	20,194	10.00	20,194	Note 2
	Zhi-Li Investment Corp.	Investee	Equity-method investments	2,217	23,519	2.02	23,519	Note 2
	Artrix International Inc.	Investee	Equity-method investments	440	4,592	0.63	4,592	Note 2
	PowerFlash Semiconductor Corp.	Investee	Equity-method investments	500	4,001	3.85	4,001	
	Powerchip Semiconductor Corp.	Parent Company	Available-for-sale financial assets	2,451	51,844	-	51,844	-
	Macronix International Co., Ltd.	-	Financial assets at fair value through profit and loss	800	8,120	-	8,120	
	ProMos Technologies Inc.	-	Financial assets at fair value through profit and loss	3,000	39,000	-	39,000	

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	September 30, 2006				Note
				Shares (Thousands/Units) (Note 6)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	<u>Equity</u>							
	President Homerun Fund	-	Financial assets at fair value through profit and loss	2,891	\$ 40,413	-	\$ 40,413	-
	PCA Bond Fund	-	Financial assets at fair value through profit and loss	3,257	50,427	-	50,427	-
Smart Art Corp.	Capital Income Fund	-	Financial assets at fair value through profit and loss	457	6,773	-	6,773	-
	<u>Equity</u>							
	Fuhwa Bond Fund	-	Financial assets at fair value through profit and loss	9,806	130,243	-	130,243	-
Zentel Electronics Corp.	Jih Sun Bond Fund	-	Financial assets at fair value through profit and loss	9,217	125,337	-	125,337	-
	<u>Stock</u>							
	Zentel Japan Corp.	Subsidiary	Equity-method investments	4	11,217	99.96	11,217	Note 2
	PowerFlash Semiconductor Corp.	Investee	Equity-method investments	650	5,196	5.00	5,196	Note 2
	Novax Technologies, Inc.	Investee	Equity-method investments	734	9,435	0.73	9,435	Note 2
PowerFlash	<u>Equity</u>							
	PCA Wellpool Fund	-	Financial assets at fair value through profit and loss	295	3,680	-	3,680	-
	<u>Stock</u>							
	Artrix International Inc.	Investee	Equity-method investments	840	8,975	1.20	8,975	Note 2
	Zhi-Li Investment Inc.	Investee	Equity-method investments	2,142	22,529	1.95	22,529	Note 2
	Zentel Electronics Corp.	Investee	Equity-method investments	320	3,220	1.28	3,220	Note 2
	Smartic Technologies Inc.	Investee	Equity-method investments	120	1,144	0.40	1,144	Note 2
	Vivichip Electronics Corp.	Investee	Equity-method investments	500	4,995	5.00	4,995	Note 2
	Network Holdings Limited	Investee	Equity-method investments	1,000	32,845	18.87	32,845	Note 2
	Macronix International Co., Ltd.	-	Financial assets at fair value through profit and loss	800	8,120	-	8,120	-
BVI	<u>Bond</u>							
	Veutron Corp. - issued in 2005 (I)	Parent company and investee have same chairman	Held-to-maturity financial assets	1	5,000	-	5,000	Note 2
	<u>Stock</u>							
	Vantel Corp.	Investee	Equity-method investments	5	51,920	99.96	51,920	Note 2
	Powerase Tech. Holding Ltd.	Investee	Equity-method investments	1,400	463,372	29.47	463,372	Note 2

Note 1: The net asset value is based on unreviewed financial data as of September 30, 2006.

Note 2: The market value is based on carrying value as of September 30, 2006.

Note 3: As of September 30, 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 Credit Suisse First Boston could not be transferred before the maturity date, except the early redemption required by the issuer.

Note 6: In thousands, except for bond investments which are units.

(Concluded)

TABLE 2

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
 NINE MONTHS ENDED SEPTEMBER 30, 2006
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Marketable Securities Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Shares (Thousands)	Amount	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
Powerchip Semiconductor Corporation	<u>Stock</u> Li-Hsin Investment Corp.	Equity-method investments	-	-	133,850	\$ 834,820	48,000	\$ 480,000	-	\$ -	\$ -	\$ -	181,850	\$ 1,286,242
	Paramax Corp.	Equity-method investments	-	-	83,994	659,455	48,900	489,000	-	-	-	-	132,894	1,156,499
	Quantum Vision Corp.	Equity-method investments	-	-	160,990	1,567,813	48,900	489,000	-	-	-	-	209,890	2,437,116
	Smart Art Corp.	Equity-method investments	-	-	12,000	119,989	19,134	191,337	-	-	-	-	31,134	310,826
	Smartic Technologies Inc.	Equity-method investments	-	-	3,000	19,671	13,050	130,500	750	-	-	-	15,300	120,957
	Zhi-Li Investment Corp.	Equity-method investments	-	-	18,650	185,305	17,951	179,512	(Note 2)	-	-	-	36,601	392,434
	Global Powertec Co., Ltd.	Equity-method investments	-	-	-	-	1,620	531,236	-	-	-	-	1,620	522,023
	Shinkong Financial Holding Co., Ltd.	Financial assets at fair value through profit and loss	-	-	30,231	772,411	1,355	-	8,813	291,358	261,215	30,143	22,773	693,432
	Formosa Petrochemical Corp.	Financial assets at fair value through profit and loss	-	-	-	10	2,060	124,793	2,060	118,528	124,803	(6,275)	-	-
	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	310,835
	Taiwan Cooperative Bank	Financial assets at fair value through profit and loss	-	-	6,950	139,348	1,695	21,858	8,645	200,844	190,508	10,336	-	-
	ProMos Technologies Inc.	Financial assets at fair value through profit and loss	-	-	3,001	37,808	15,000	197,300	-	-	-	-	18,001	234,008
	Macronix International Co., Ltd	Financial assets at fair value through profit and loss	-	-	58,032	305,248	113,000	1,061,290	25,199	-	-	-	145,833	1,480,209
	Mega Financial Holding Co., Ltd.	Financial assets at fair value through profit and loss	-	-	-	-	6,950	168,206	6,950	169,307	168,206	1,101	-	-
	Wafer Works Corp.	Financial assets at fair value through profit and loss	-	-	-	-	9,001	291,065	-	-	-	-	9,001	459,059
	Advanced Semiconductor Engineering, Inc.	Financial assets at fair value through profit and loss	-	-	-	-	6,485	233,134	1,000	36,229	33,925	2,304	5,485	168,664
	Chang Hwa Commercial Bank, Ltd.	Financial assets at fair value through profit and loss	-	-	-	-	5,400	117,653	-	-	-	-	5,400	107,730
	Taiwan Semiconductor Manufacturing Company Limited	Financial assets at fair value through profit and loss	-	-	-	-	2,575	158,449	-	-	-	-	2,575	153,726
	Wintek Corporation	Financial assets at fair value through profit and loss	-	-	-	-	3,576	121,488	-	-	-	-	3,576	107,268
	Formosa Chemical & Fiber Corporation	Financial assets at fair value through profit and loss	-	-	-	-	2,060	100,398	2,060	93,894	100,398	(6,504)	-	-
Elpida Memory Inc.	Financial assets at fair value through profit and loss	-	-	438	431,539	170	214,216	179	248,317	196,594	51,723	429	644,471	
<u>Equity</u> Fuhwa Commercial Bank Common Trust Fund	Financial assets at fair value through profit and loss	-	-	10,000	101,131	-	-	10,000	101,590	100,000	1,590	-	-	
Fubon Chi-Hsiang Fund	Financial assets at fair value through profit and loss	-	-	6,421	100,648	581	-	7,002	101,408	100,000	1,408	-	-	
Fubon Chi-Hsiang Fund	Financial assets at fair value through profit and loss	-	-	7,003	100,662	-	-	7,003	101,427	100,000	1,427	-	-	
Fubon No. 2 REITs	Available-for-sale financial assets	-	-	-	-	18,000	180,360	-	-	-	-	18,000	190,440	

(Continued)

Company Name	Marketable Securities Type and Issuer	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
Li-Hsin	<u>Equity</u> New Light Taiwan Bond Fund	Financial assets at fair value through profit and loss	-	-	11,279	\$ 114,014	-	\$ -	11,279	\$ 114,255	\$ 114,014	\$ 241	-	\$ -
	Jih Sun Bond Fund	Financial assets at fair value through profit and loss	-	-	-	-	7,363	100,000	-	-	-	-	7,363	100,124 (Note 4)
Paramax	<u>Stock</u> Smart Art Corp.	Equity-method investments	-	-	5,000	49,996	10,852	108,517	-	-	-	-	15,852	158,278 (Note 1)
	<u>Equity</u> Fuhwa Advantage Bond Fund	Financial assets at fair value through profit and loss	-	-	9,721	100,000	-	-	9,721	100,201	100,000	201	-	-
	Jih Sun Bond Fund	Financial assets at fair value through profit and loss	-	-	-	-	11,813	160,000	11,813	160,340	160,000	340	-	-
Quantum	Fuhwa Bond Fund	Financial assets at fair value through profit and loss	-	-	-	-	7,552	100,000	2,261	30,000	29,934	66	5,291	70,279 (Note 4)
	<u>Stock</u> Wafer Works Corp.	Financial assets at fair value through profit and loss	-	-	-	-	4,177	158,569	1,000	52,414	41,411	11,003	3,177	162,021 (Note 4)
	<u>Equity</u> Taishin Lucky Investment Trust Fund	Financial assets at fair value through profit and loss	-	-	-	-	9,817	100,000	3,916	40,000	39,897	103	5,901	60,308 (Note 4)
Smart Art	Dresdner Bond Dam Fund	Financial assets at fair value through profit and loss	-	-	-	-	14,794	170,000	14,794	170,363	170,000	363	-	-
	<u>Equity</u> Jih Sun Bond Fund	Financial assets at fair value through profit and loss	-	-	-	-	14,744	200,000	5,527	75,000	74,894	106	9,217	125,337 (Note 4)
	Fuhwa Bond Fund	Financial assets at fair value through profit and loss	-	-	-	-	13,586	180,000	3,780	50,030	50,000	30	9,806	130,243 (Note 4)
	Polaris De-Li Fund	Financial assets at fair value through profit and loss	-	-	4,049	60,031	4,011	60,000	8,060	120,552	120,031	521	-	-

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.

Note 5: Stock dividend received.

Note 6: Additional units from the combination of the investments.

(Concluded)

POWERCHIP SEMICONDUCTOR CORPORATION

**ACQUISITION OF INDIVIDUAL REAL ESTATES AT COSTS OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
NINE MONTHS ENDED SEPTEMBER 30, 2006
(In Thousands of New Taiwan Dollars)**

Company Name	Property	Transaction Date	Transaction Amount	Payment Status	Counter-party	Nature of Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date	Amount			
Powerchip Semiconductor Corporation	Buildings	June 6, 2006 - September 19, 2006	\$ 1,078,726	\$ 423,163	Toko Steel Structure Corp.	-	-	-	-	\$ -	-	Fab. 12C	-
	Buildings	June 30, 2006 - August 3, 2006	2,183,798	1,965,418	Macronix International Co., Ltd.	-	-	-	-	-	According to the Contracts	Fab. 12M	Please see Note 26
Li-Hsin	Land	August 31, 2006	147,970	35,513	Yen Huei-Chong, etc.	-	-	-	-	-	According to the Contracts	Investment	-
Paramax	Land	August 31, 2006	147,970	35,513	Yen Huei-Chong, etc.	-	-	-	-	-	According to the Contracts	Investment	-

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
 NINE MONTHS ENDED SEPTEMBER 30, 2006
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/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. (Note 5)	Parent of Elpida-Taiwan	Sales	\$ 15,073,090	26	Note 2	\$ -	-	\$ 3,154,190	28	
	Deutron Electronics Corp.	Investee	Sales	9,203,915	16	Note 3	-	-	2,203,580	20	
	Novax Technologies, Inc.	Investee	Sales	3,316,082	6	Note 3	-	-	667,178	6	
	Renesas Technology (Taiwan) Co., Ltd. (Note 5)	Subsidiary of Renesas	Sales	2,089,305	4	Note 2	-	-	241,288	2	
	Elpida Memory (Taiwan) Co., Ltd.	Director of the Corporation	Sales	2,066,611	3	Note 3	-	-	257,134	2	
	Zentel Electronics Corp.	Subsidiary	Sales	776,012	1	Note 3	-	-	396,406	4	
	Syntronix Corp.	Investee	Sales	536,426	1	Note 2	-	-	44,026	-	
	Silicon Optronics, Inc.	Investee	Sales	123,840	-	Note 2	-	-	12,922	-	
	Renesas Technology (Taiwan) Co., Ltd. (Note 5)	Subsidiary of Renesas	Purchase	194,269	2	Note 2	-	-	-	-	
	Powertech Technology Inc.	Quantum Vision is its director	Note 1	3,645,466	10	Note 4	-	-	(1,061,195)	(13)	
Zentel Electronics Corp.	Deutron Electronics Corp.	Same chairman	Sales	343,292	42	Note 2	-	-	166,816	55	
	Powerchip Semiconductor Corp.	Parent	Purchase	776,012	100	Note 3	-	-	(396,406)	(100)	

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 September 30, 2006; the transaction made as of and for the nine months ended September 30, 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
SEPTEMBER 30, 2006

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

Company Name	Related Party	Nature of Relationship	Ending Balance (Note 1)	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Doubtful Accounts and Sales Discount
					Amount	Action Taken		
Powerchip Semiconductor Corporation	Elpida Memory Inc. (Note 2)	Parent of Elpida-Taiwan	\$ 3,154,190	10.27	\$ -	-	\$ -	\$ 91,651
	Deutron Electronics Corp.	Investee	2,203,580	7.73	-	-	361,848	64,540
	Novax Technologies, Inc.	Investee	667,178	9.05	-	-	189,470	19,550
	Zentel Electronics Corp.	Subsidiary	396,406	4.72	-	-	-	-
	Elpida Memory (Taiwan) Co., Ltd.	Director of the Corporation	257,134	21.43	-	-	-	7,524
	Renesas Technology (Taiwan) Co., Ltd. (Note 2)	Subsidiary of Renesas	241,288	13.05	-	-	-	2,420
Zentel Electronics Corp.	Deutron Electronics Corp.	Same chairman	166,816	5.13	-	-	-	-

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 September 30, 2006; the transaction made as of and for the nine months ended September 30, 2006 are disclosed only for reference.

TABLE 6

POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
 NINE MONTHS ENDED SEPTEMBER 30, 2006
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of September 30, 2006			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note	
				September 30, 2006	Dec. 31, 2005	Shares (Thousands)	% of Ownership	Carrying Value				
Powerchip Semiconductor Corporation	Quantum Vision Corp.	Taipei, Taiwan	Investment	\$ 2,071,900	\$ 1,582,900	209,890	99.99	\$ 2,437,116	\$ 113,457	\$ 113,373		
	Li-Hsin Investment Corp.	Taipei, Taiwan	Investment	1,818,500	1,338,500	181,850	99.92	1,286,242	(26,730)	(28,839)		
	Paramax Corp.	Taipei, Taiwan	Investment	1,328,940	839,940	132,894	99.99	1,156,499	3,347	3,274		
	Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	634,990	634,990	63,499	27.18	582,344	(6,230)	(1,693)	Note	
	Global Powertec Co., Ltd.	British Virgin Islands	Investment	531,236	-	1,620	100.00	522,023	(12,810)	(12,810)		
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	366,012	186,500	36,601	33.27	392,434	(7,011)	(2,604)	Note	
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic component manufacturing	287,476	287,476	24,658	24.66	317,008	87,282	21,154	Note	
	Smart Art Corp.	Taipei, Taiwan	Transaction of artistry	311,337	120,000	31,134	44.48	310,826	(1,178)	(551)		
	Artrix International Inc.	Taipei, Taiwan	Investment	178,640	87,600	17,864	25.52	190,858	57,813	14,212	Note	
	Deutron Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	21,300	21,300	6,997	9.44	165,545	386,248	38,106	Note	
	Optimicro Corp.	Taipei, Taiwan	Optical component manufacturing	147,000	147,000	14,700	29.40	136,149	(17,449)	(5,130)	Note	
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic component manufacturing	207,331	207,331	20,733	20.73	123,194	(52,556)	(10,895)	Note	
	Smartic Technology Inc.	Taipei, Taiwan	Design of electronic products	160,500	30,000	15,300	51.00	120,957	(6,869)	(3,964)		
	Neo Solar Power Corp.	Taipei, Taiwan	Solar cells manufacturing	96,000	96,000	9,600	16.00	95,912	4,156	665	Note	
	Signia Technologies Co., Ltd.	Taipei, Taiwan	Design of electronic products	98,626	-	5,187	28.01	93,549	(27,406)	(3,560)	Note	
	Syntronix Corp.	Hsin-Chu, Taiwan	Design of electronic products	71,664	81,516	6,548	20.25	82,001	33,880	6,110	Note	
	Deutron Japan Corp.	Japan	Electronic component manufacturing	90,020	90,020	2,891	38.98	80,495	308	120	Note	
	Zentel Electronics Corp.	Hsin-Chu, Taiwan	Design of electronic products	92,000	92,000	9,200	36.80	79,152	16,307	6,925		
	Tekmax Development Corp.	Taipei, Taiwan	Investment	58,640	58,640	5,851	15.65	73,081	35,168	4,806	Note	
	Synage Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	101,212	101,212	10,084	20.17	72,345	(24,181)	(4,878)	Note	
	Astel Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	80,000	80,000	8,000	40.00	63,629	(36,307)	(14,523)	Note	
	Retronix Technology Corp.	Taipei, Taiwan	Design and transaction of software	50,000	-	5,000	25.00	50,485	(1,968)	(473)	Note	
	Vivichip Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	40,000	-	4,000	40.00	39,961	(96)	(1)	Note	
	Luxchip Technology Corp.	Taoyuan, Taiwan	Lighting manufacturing	38,000	38,000	3,800	19.00	38,360	2,071	394	Note	
	AVAC Systems, Inc.	Hsin-Chu, Taiwan	Digital camera manufacturing	44,000	44,000	4,000	23.31	37,981	(13,502)	(3,147)	Note	
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic products	41,600	41,600	4,160	32.00	33,191	6,940	2,220		
	MicroMedia Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	30,000	-	3,000	30.00	30,000	-	-	Note	
	Silicon Optronics, Inc.	Hsin-Chu, Taiwan	Electronic component manufacturing	17,000	17,000	2,076	11.53	29,291	21,152	2,021	Note	
	PowerGate Optical, Inc.	Taipei, Taiwan	Optical component manufacturing	18,700	18,700	1,287	5.42	9,323	(38,191)	(3,504)	Note	
	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	449,874	436,874	1,714	13.39	2,751	(106,896)	(14,321)	Note	
	Li-Hsin Investment Corp.	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	516,369	500,369	2,045	15.97	2,807	(106,896)	(17,071)	Note
		Synage Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	125,966	124,409	10,967	21.93	78,673	(24,181)	(5,199)	Note
		Novax Technologies, Inc.	Taipei, Taiwan	Electronic component manufacturing	57,987	58,512	5,246	5.25	66,965	87,282	3,979	Note
		Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic component manufacturing	13,079	13,079	1,363	1.36	8,082	(52,556)	(715)	Note
Tekmax Development Corp.		Taipei, Taiwan	Investment	34,208	17,120	2,846	7.61	38,498	35,168	1,412	Note	
Smartic Technologies Inc.		Taipei, Taiwan	Design of electronic products	15,500	4,800	1,430	4.77	13,786	(6,869)	(323)		
Artrix International Inc.		Taipei, Taiwan	Investment	37,130	16,950	3,713	5.30	39,328	57,813	2,636	Note	
Optimicro Corp.		Taipei, Taiwan	Optical component manufacturing	21,177	21,177	2,118	4.24	19,635	(17,449)	(740)	Note	
Lu-Chu Development Corp.		Taipei, Taiwan	Transaction of real estate	243,371	243,371	24,337	10.42	223,253	(6,230)	(649)	Note	
Smart Art Corp.		Taipei, Taiwan	Transaction of artistry	98,502	30,000	9,850	14.07	98,321	(1,178)	(144)		
LoanSky.Net Corp.		Taipei, Taiwan	Design of electronic products	4,000	4,000	400	8.00	3,488	(4,763)	(381)	Note	
Luxchip Technology Corp.		Taoyuan, Taiwan	Lighting manufacturing	18,000	18,000	1,800	9.00	18,171	2,071	186	Note	
Neo Solar Power Corp.		Taipei, Taiwan	Solar cells manufacturing	15,000	15,000	1,500	2.50	14,986	4,156	104	Note	
Deutron Japan Corp.		Japan	Electronic component manufacturing	9,067	9,067	289	3.89	7,973	308	12	Note	
Quantum Vision Corp.	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	250,170	240,170	1,425	11.13	1,956	(106,896)	(11,921)	Note	
	Deutron Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	22,800	22,800	7,330	9.89	174,699	386,248	34,152	Note	
	Syntronix Corp.	Hsin-Chu, Taiwan	Design of electronic products	7,380	7,380	665	2.06	8,184	33,880	446	Note	
	Zentel Electronics Corp.	Hsin-Chu, Taiwan	Design of electronic products	21,000	21,000	2,100	8.40	21,131	16,307	1,370		
	Synage Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	17,250	17,250	1,836	3.67	13,163	(24,181)	(887)	Note	
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic component manufacturing	132,206	133,479	12,735	12.73	162,373	87,282	9,647	Note	

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of September 30, 2006			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				September 30, 2006	Dec. 31, 2005	Shares (Thousands)	% of Ownership	Carrying Value			
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic component manufacturing	\$ 96,699	\$ 96,699	9,670	9.67	\$ 57,467	\$ (52,556)	\$ (5,082)	Note
	AVAC Systems, Inc.	Hsin-Chu, Taiwan	Digital camera manufacturing	26,966	24,321	2,501	14.58	23,876	(13,502)	(1,759)	Note
	PowerGate Optical, Inc.	Taipei, Taiwan	Optical component manufacturing	33,402	23,440	2,610	10.98	18,886	(38,191)	(4,465)	Note
	Tekmax Development Corp.	Taipei, Taiwan	Investment	42,800	42,800	4,267	11.41	53,456	35,168	3,530	Note
	Silicon Optronics, Inc.	Hsin-Chu, Taiwan	Electronic component manufacturing	9,000	9,000	1,099	6.11	14,518	21,152	74	Note
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic products	7,027	8,500	650	5.00	5,196	6,940	346	
	Smartic Technologies Inc.	Taipei, Taiwan	Design of electronic products	19,800	7,200	1,800	6.00	17,341	(6,869)	(412)	
	Artrix International Inc.	Taipei, Taiwan	Investment	72,790	37,850	7,279	10.40	77,563	57,813	5,794	Note
	Optimicro Corp.	Taipei, Taiwan	Optical component manufacturing	39,873	39,873	3,987	7.97	36,908	(17,449)	(1,391)	Note
	Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	73,268	73,268	7,327	3.14	67,276	(6,230)	(196)	Note
	Astel Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	10,000	10,000	1,000	5.00	7,954	(36,307)	(1,815)	Note
	Smart Art Corp.	Taipei, Taiwan	Transaction of artistry	131,643	50,000	13,164	18.81	131,444	(1,178)	(231)	
	LoanSky.Net Corp.	Taipei, Taiwan	Design of electronic products	10,000	10,000	1,000	20.00	8,720	(4,763)	(952)	Note
	Luxchip Technology Corp.	Taoyuan, Taiwan	Lighting manufacturing	22,000	22,000	2,200	11.00	22,208	2,071	228	Note
	Neo Solar Power Corp.	Taipei, Taiwan	Solar cells manufacturing	18,000	18,000	1,800	3.00	17,983	4,156	125	Note
	Retronix Technology Corp.	Taipei, Taiwan	Design and transaction of software	10,000	-	1,000	5.00	10,097	(1,968)	(95)	Note
	Network Holdings Limited	Samoa	Investment	35,664	2,825	1,090	20.57	33,706	(3,960)	(1,188)	Note
	Signia Technologies Co., Ltd.	Taipei, Taiwan	Design of electronic products	7,949	-	795	4.29	6,751	(27,406)	(299)	Note
	Vivichip Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	1,000	-	100	1.00	999	(96)	(31)	Note
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	40,000	-	4,000	3.64	40,000	(7,011)	-	Note
	MicroMedia Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	10,000	-	1,000	10.00	10,000	-	-	Note
Paramax Corp.	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	103,894	123,474	910	7.11	1,250	(106,896)	(7,851)	Note
	Synage Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	21,641	21,641	2,081	4.16	14,921	(24,181)	(1,006)	Note
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic component manufacturing	44,101	44,505	4,042	4.04	51,531	87,282	3,062	Note
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic component manufacturing	72,788	57,428	7,728	7.73	47,595	(52,556)	(3,383)	Note
	AVAC Systems, Inc.	Hsin-Chu, Taiwan	Digital camera manufacturing	11,593	-	1,093	6.37	10,601	(13,502)	(181)	Note
	PowerGate Optical, Inc.	Taipei, Taiwan	Optical component manufacturing	14,632	12,820	1,064	4.48	7,706	(38,191)	(2,420)	Note
	Tekmax Development Corp.	Taipei, Taiwan	Investment	14,000	14,000	1,060	2.84	13,306	35,168	878	Note
	Silicon Optronics, Inc.	Hsin-Chu, Taiwan	Electronic component manufacturing	5,000	5,000	611	3.39	8,060	21,152	41	Note
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic products	5,000	5,000	500	3.85	4,001	6,940	267	
	Smartic Technologies Inc.	Taipei, Taiwan	Design of electronic products	19,800	7,200	1,800	6.00	17,341	(6,869)	(412)	
	Artrix International Inc.	Taipei, Taiwan	Investment	31,553	11,973	3,155	4.51	33,345	57,813	2,040	Note
	Optimicro Corp.	Taipei, Taiwan	Optical component manufacturing	21,308	8,000	1,824	3.65	20,717	(17,449)	(279)	Note
	Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	52,936	52,936	5,294	2.27	48,636	(6,230)	(141)	Note
	Smart Art Corp.	Taipei, Taiwan	Transaction of artistry	158,517	50,000	15,852	22.65	158,278	(1,178)	(252)	
	LoanSky.Net Corp.	Taipei, Taiwan	Design of electronic products	4,000	4,000	400	8.00	3,488	(4,763)	(381)	Note
	Deutron Japan Corp.	Japan	Electronic component manufacturing	11,031	11,031	351	4.73	9,695	308	14	Note
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	86,988	-	8,699	7.91	92,032	(7,011)	(323)	Note
	Retronix Technology Corp.	Taipei, Taiwan	Design and transaction of software	10,000	-	1,000	5.00	10,097	(1,968)	(118)	Note
Smartic Technology Corp.	Optimicro Corp.	Taipei, Taiwan	Optical component manufacturing	7,023	-	702	1.40	6,506	(17,449)	(517)	Note
	Retronix Technology Corp.	Taipei, Taiwan	Design and transaction of software	20,000	-	2,000	10.00	20,194	(1,968)	(197)	Note
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	22,168	-	2,217	2.02	23,519	(7,011)	(163)	Note
	Artrix International Inc.	Taipei, Taiwan	Investment	4,400	-	440	0.63	4,592	57,813	192	Note
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic products	5,750	-	500	3.85	4,001	6,940	(1,798)	
Zentel Electronics Corp.	Zentel Japan Corp.	Japan	Design of electronic products	66,322	38,322	4	99.96	11,217	(25,555)	(25,545)	
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic products	6,500	6,500	650	5.00	5,196	6,940	347	
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic component manufacturing	8,400	8,400	734	0.73	9,435	87,282	609	Note
PowerFlash Semiconductor Corp.	Artrix International Inc.	Taipei, Taiwan	Investment	8,400	4,000	840	1.20	8,975	57,813	681	Note
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	21,420	6,000	2,142	1.95	22,529	(7,011)	(112)	Note
	Zentel Electronics Corp.	Hsin-Chu, Taiwan	Design of electronic products	2,880	2,880	320	1.28	3,220	16,307	209	
	Smartic Technology Inc.	Taipei, Taiwan	Design of electronic products	1,200	-	120	0.40	1,144	(6,869)	(73)	
	Vivichip Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	5,000	-	500	5.00	4,995	(96)	(5)	Note
	Network Holdings Limited	Samoa	Investment	32,845	-	1,000	18.87	32,845	(3,960)	-	Note
BVI	Vantel Corp.	Japan	Design of electronic products	21,925	-	5	99.96	51,920	(12,700)	(12,695)	
	Powerase Tech. Holding Ltd.	The Cayman Island	Investment	463,372	-	1,400	29.47	463,372	-	-	

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)