

Powerchip Semiconductor Corporation

**Financial Statements for the
Years Ended December 31, 2006 and 2005 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Powerchip Semiconductor Corporation

We have audited the accompanying balance sheets of Powerchip Semiconductor Corporation as of December 31, 2006 and 2005, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. As mentioned in Note 11 to the financial statements, we did not audit the financial statements of certain equity-method investees. These investments were 4.91% (NT\$10,926,612 thousand) and 3.28 % (NT\$5,026,263 thousand), respectively, of total assets as of December 31, 2006 and 2005, respectively, and investment incomes and losses were 1.27% (NT\$369,982 thousand) and 3.38 % (NT\$190,353 thousand), respectively, of income before income tax for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Powerchip Semiconductor Corporation as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, 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.

We have also audited the consolidated financial statements of Powerchip Semiconductor Corporation as of and for the years ended December 31, 2006 and 2005 and have expressed an unqualified opinion with an explanatory paragraph thereon in our report dated January 25, 2007 (not presented herewith).

January 25, 2007

Notice to Readers

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

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

POWERCHIP SEMICONDUCTOR CORPORATION

BALANCE SHEETS
DECEMBER 31, 2006 AND 2005

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

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)	\$ 40,091,273	18	\$ 35,684,656	23	Short-term bank loans (Note 14)	\$ -	-	\$ 773,534	1
Financial assets at fair value through profit or loss - current (Notes 2, 3, 5 and 24)	6,210,049	3	3,018,942	2	Financial liabilities at fair value through profit or loss - current (Notes 2, 3, 5, 15 and 24)	2,092,642	1	1,594	-
Available-for-sale financial assets - current (Notes 2, 3, 6, and 24)	511,643	-	84,910	-	Accounts payable (Note 25)				
Held-to-maturity financial assets - current (Notes 2, 3, 9, 24 and 25)	14,000	-	31,000	-	Related parties	1,260,933	-	1,051,709	1
Accounts receivable, net (Notes 2, 7, 25 and 26)					Third parties	6,627,093	3	4,989,900	3
Related parties	7,936,521	4	2,308,206	1	Income tax payable (Notes 2 and 21)	1,634,186	1	-	-
Third parties	4,982,062	2	2,355,617	2	Accrued expenses (Notes 2, 3 and 25)	4,597,403	2	2,208,349	1
Other receivables	675,764	-	494,215	-	Payables for equipment	21,452,049	10	13,731,127	9
Inventories, net (Notes 2 and 8)	11,189,303	5	7,191,492	5	Convertible bonds payable (Notes 2, 15 and 24)	8,620,483	4	5,191,942	3
Prepaid expenses	277,483	-	250,294	-	Current portion of long-term bank loans (Notes 16, 24 and 26)	8,606,667	4	7,606,667	5
Deferred income tax assets - current (Notes 2 and 21)	2,782,462	1	924,513	1	Other current liabilities	199,183	-	149,071	-
Restricted deposits (Note 26)	791,499	1	1,212,376	1					
Other current assets	4,743	-	11,284	-	Total current liabilities	55,090,639	25	35,703,893	23
Total current assets	75,466,802	34	53,567,505	35	LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
LONG-TERM INVESTMENTS					Convertible bonds payable (Notes 2, 15 and 24)	14,872,696	7	14,672,913	9
Held-to-maturity financial assets - noncurrent (Notes 2, 3, 9, 24 and 25)	185,000	-	174,000	-	Long-term bank loans (Notes 16, 24 and 26)	25,878,333	11	19,359,640	13
Financial assets carried at cost - noncurrent (Notes 2, 3, 10 and 24)	555,021	-	594,531	-	Total long-term liabilities	40,751,029	18	34,032,553	22
Equity-method investments (Notes 2, 11 and 25)	11,909,486	6	5,480,107	4	OTHER LIABILITIES				
Total long-term investments	12,649,507	6	6,248,638	4	Accrued pension costs (Notes 2 and 17)	32,135	-	33,396	-
PROPERTIES (Notes 2, 12, 22, 25 and 26)					Guarantee deposits	5,016	-	4,653	-
Cost					Deferred income tax liabilities - noncurrent (Notes 2 and 21)	733,156	-	-	-
Buildings	10,048,454	4	7,789,030	5	Total other liabilities	770,307	-	38,049	-
Machinery and equipment	168,046,584	76	116,442,752	76	Total liabilities	96,611,975	43	69,774,495	45
Research and development equipment	784,780	-	572,606	-	SHAREHOLDERS' EQUITY (Notes 2, 18 and 19)				
Facility equipment	20,889,861	9	16,097,801	11	Capital stock, \$10 par value				
Transportation equipment	18,509	-	15,762	-	Authorized - 9,000,000 thousand shares in 2006 and 7,500,000 thousand shares in 2005				
Office equipment	492,052	-	373,176	-	Issued and outstanding - 6,909,088 thousand shares in 2006 and 5,590,144 thousand shares in 2005	69,090,882	31	55,901,444	37
Miscellaneous equipment	1,366,915	1	909,777	1	Capital surplus				
	201,647,155	90	142,200,904	93	Additional paid-in capital in excess of par value	20,506,052	9	12,727,828	8
Accumulated depreciation	(80,775,018)	(36)	(59,102,441)	(39)	Arising from conversion of bonds	4,068,632	2	4,031,771	3
	120,872,137	54	83,098,463	54	Arising from treasury stock	3,629	-	3,290	-
Construction in progress and advance payments	9,472,219	4	5,099,346	3	Arising from long-term investments	19,307	-	31,525	-
Net properties	130,344,356	58	88,197,809	57	Retained earnings				
OTHER ASSETS					Appropriation for legal reserve	2,774,552	1	2,132,816	1
Assets leased to others, net (Note 2)	142,610	-	160,910	-	Appropriation for special reserve	31,566	-	252	-
Refundable deposits	30,724	-	25,107	-	Unappropriated earnings	30,312,562	14	10,489,647	7
Deferred charges, net (Notes 2, 13, 22 and 25)	3,309,915	2	3,507,426	3	Others				
Deferred income tax assets - noncurrent (Notes 2 and 21)	-	-	1,316,924	1	Unrealized gain (loss) on financial assets (Notes 3, 11 and 24)	705,332	1	(1,078)	-
Spare parts, net	470,235	-	402,572	-	Cumulative translation adjustments	(30,652)	-	(15,822)	-
Others	42,624	-	18,630	-	Treasury stock (at cost) - 88,539 thousand shares in 2006 and 88,092 thousand shares in 2005 (Note 20)	(1,637,064)	(1)	(1,630,647)	(1)
Total other assets	3,996,108	2	5,431,569	4	Total shareholders' equity	125,844,798	57	83,671,026	55
TOTAL	\$ 222,456,773	100	\$ 153,445,521	100	TOTAL	\$ 222,456,773	100	\$ 153,445,521	100

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

(With Deloitte & Touche audit report dated January 25, 2007)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	2006		2005	
	Amount	%	Amount	%
GROSS SALES	\$95,730,408		\$53,921,243	
SALES RETURNS AND ALLOWANCES	<u>3,615,305</u>		<u>2,309,590</u>	
NET SALES (Notes 2, 25 and 29)	92,115,103	100	51,611,653	100
COST OF SALES (Notes 22 and 25)	<u>59,189,208</u>	<u>64</u>	<u>42,588,396</u>	<u>82</u>
GROSS PROFIT BEFORE UNREALIZED INTERCOMPANY GROSS PROFIT	32,925,895	36	9,023,257	18
UNREALIZED INTERCOMPANY PROFIT (Note 2)	<u>22,320</u>	<u>-</u>	<u>1,228</u>	<u>-</u>
GROSS PROFIT	<u>32,903,575</u>	<u>36</u>	<u>9,022,029</u>	<u>18</u>
OPERATING EXPENSES (Notes 22 and 25)				
Selling	494,513	1	257,093	1
General and administrative	2,045,721	2	1,534,503	3
Research and development	<u>2,534,251</u>	<u>3</u>	<u>1,720,785</u>	<u>3</u>
Total operating expenses	<u>5,074,485</u>	<u>6</u>	<u>3,512,381</u>	<u>7</u>
OPERATING INCOME	<u>27,829,090</u>	<u>30</u>	<u>5,509,648</u>	<u>11</u>
NONOPERATING INCOME AND GAINS				
Valuation gain on financial assets, net (Notes 2, 3, 5 and 24)	1,764,771	2	-	-
Interest (Notes 2, 24 and 25)	626,985	1	431,157	1
Equity in earnings of equity-method investees, net (Notes 2 and 11)	393,855	1	-	-
Dividend income (Note 2)	113,150	-	49,795	-
Gain on disposal of properties and deferred charges (Note 2)	94,768	-	19,611	-
Foreign exchange gain, net (Notes 2 and 3)	83,409	-	21,937	-
Indemnity income	24,506	-	27,514	-
Rebate of ECB/GDR management fee	4,300	-	24,593	-
Gain on disposal of financial instruments, net (Notes 2, 3 and 25)	-	-	726,348	2
Others (Note 25)	<u>135,835</u>	<u>-</u>	<u>85,146</u>	<u>-</u>
Total nonoperating income and gains	<u>3,241,579</u>	<u>4</u>	<u>1,386,101</u>	<u>3</u>

(Continued)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	2006		2005	
	Amount	%	Amount	%
NONOPERATING EXPENSES AND LOSSES				
Interest (Notes 2, 3, 12, 14, 15 and 24)	\$ 939,047	1	\$ 624,410	1
Valuation loss on financial liabilities, net (Notes 2, 5 and 24)	504,807	1	-	-
Impairment loss on financial assets (Notes 2 and 10)	211,548	-	43,928	-
Provision for loss on inventories and spare parts (Note 2)	167,602	-	169,257	1
Issuance cost of convertible bond allocated to financial liabilities at fair value through profit or loss (Notes 2 and 15)	27,403	-	-	-
Loss on disposal of properties (Note 2)	9,532	-	53,341	-
Loss on disposal of financial instruments, net (Notes 2 and 25)	8,683	-	-	-
Equity in losses of equity-method investees, net (Notes 2 and 11)	-	-	253,889	1
Valuation loss on financial assets, net (Notes 2 and 3)	-	-	19,641	-
Others	<u>64,075</u>	<u>-</u>	<u>97,474</u>	<u>-</u>
Total nonoperating expenses and losses	<u>1,932,697</u>	<u>2</u>	<u>1,261,940</u>	<u>3</u>
INCOME BEFORE INCOME TAX	29,137,972	32	5,633,809	11
INCOME TAX (EXPENSE) BENEFIT (Notes 2 and 21)	<u>(1,843,310)</u>	<u>(2)</u>	<u>798,189</u>	<u>1</u>
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	27,294,662	30	6,431,998	12
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (NET OF TAX BENEFIT OF \$16,388 THOUSAND) (Notes 3 and 21)	<u>32,920</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCOME	<u>\$27,327,582</u>	<u>30</u>	<u>\$ 6,431,998</u>	<u>12</u>

(Continued)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	<u>2006</u>		<u>2005</u>	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 23)				
Basic	\$ 4.78	\$ 4.48	\$ 1.00	\$ 1.14
Diluted	\$ 4.07	\$ 3.80	\$ 0.87	\$ 0.99

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

	<u>2006</u>		<u>2005</u>	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
NET INCOME	\$ 27,330,482		\$ 6,429,597	
EARNINGS PER SHARE				
Basic	\$ 4.78	\$ 4.48	\$ 1.00	\$ 1.14
Diluted	\$ 4.07	\$ 3.80	\$ 0.87	\$ 0.99

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

(With Deloitte & Touche audit report dated January 25, 2007)

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POWERCHIP SEMICONDUCTOR CORPORATION

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Per Share Data)**

	Capital Stock		Capital Surplus (Notes 2 and 18)					Retained Earnings				Others (Note 2, 3, 11 and 24)		Total Shareholders' Equity	
	Shares (Thousands)	Amount	Additional Paid-in Capital in Excess of Par Value	From Conversion of Bonds	From Treasury Stock	From Long-term Investments	Total	Legal Reserve	Special Reserve	Unappropriated Retained Earnings		Unrealized Gain (loss) on Financial Assets	Cumulative Translation Adjustments		Treasury Stock (Notes 2 and 20)
											Total				
BALANCE, JANUARY 1, 2005	4,190,617	\$41,906,174	\$ 9,791,333	\$ 3,357,777	\$ 39,866	\$ 8,187	\$13,197,163	\$ 1,308	\$ -	\$21,326,859	\$21,328,167	\$ -	\$ (252)	\$ (988,576)	\$ 75,442,676
Appropriation of prior year's earnings															
Legal reserve	-	-	-	-	-	-	-	2,131,508	-	(2,131,508)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	252	(252)	-	-	-	-	-
Employees' profit sharing - cash	-	-	-	-	-	-	-	-	-	(639,837)	(639,837)	-	-	-	(639,837)
Employees' profit sharing - stock	127,967	1,279,673	-	-	-	-	-	-	-	(1,279,673)	(1,279,673)	-	-	-	(4,167,245)
Cash dividends - 10%	-	-	-	-	-	-	-	-	-	(4,167,245)	(4,167,245)	-	-	-	(4,167,245)
Stock dividends - 20%	833,449	8,334,490	-	-	-	-	-	-	-	(8,334,490)	(8,334,490)	-	-	-	(575,853)
Remunerations to directors and supervisors	-	-	-	-	-	-	-	-	-	(575,853)	(575,853)	-	-	-	(575,853)
Issuance of capital stock, June 24, 2005 - NT\$20 per share	300,000	3,000,000	2,989,200	-	-	-	2,989,200	-	-	-	-	-	-	-	5,989,200
Conversion of bonds into capital stock	78,606	786,057	-	694,915	-	-	694,915	-	-	-	-	-	-	-	1,480,972
Issuance of shares upon exercise of employee stock options	85,253	852,530	7,423	-	-	-	7,423	-	-	-	-	-	-	-	859,953
Sales of treasury stock - 7,321 thousand shares at NT\$24.9 per share	-	-	-	-	29,909	-	29,909	-	-	-	-	-	-	151,837	181,746
Retirement of treasury stock - 25,748 thousand shares	(25,748)	(257,480)	(60,128)	(20,921)	(69,775)	-	(150,824)	-	-	(125,710)	(125,710)	-	-	534,014	-
Acquisition of treasury stock - 72,100 thousand shares at average of NT\$18.42 per share	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,327,922)	(1,327,922)
Adjustment for changes in shareholders' equities of equity-method investees	-	-	-	-	-	23,338	23,338	-	-	(14,642)	(14,642)	(1,078)	(15,570)	-	(7,952)
Cash dividends received by subsidiaries from parent company	-	-	-	-	3,290	-	3,290	-	-	-	-	-	-	-	3,290
Net income in 2005	-	-	-	-	-	-	-	-	-	6,431,998	6,431,998	-	-	-	6,431,998
BALANCE, DECEMBER 31, 2005	5,590,144	\$55,901,444	12,727,828	4,031,771	3,290	31,525	16,794,414	2,132,816	252	10,489,647	12,622,715	(1,078)	(15,822)	(1,630,647)	83,671,026
Effect of accounting changes	-	-	-	-	-	-	-	-	-	-	-	201,492	2,350	-	203,842
Appropriation of prior year's earnings															
Legal reserve	-	-	-	-	-	-	-	641,736	-	(641,736)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	31,314	(31,314)	-	-	-	-	-
Employees' profit sharing - cash	-	-	-	-	-	-	-	-	-	(287,215)	(287,215)	-	-	-	(287,215)
Employees' profit sharing - stock	28,721	287,215	-	-	-	-	-	-	-	(287,215)	(287,215)	-	-	-	(3,042,429)
Cash dividends - 5.2%	-	-	-	-	-	-	-	-	-	(3,042,429)	(3,042,429)	-	-	-	(3,042,429)
Stock dividends - 5.2%	304,243	3,042,429	-	-	-	-	-	-	-	(3,042,429)	(3,042,429)	-	-	-	(172,329)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	-	(172,329)	(172,329)	-	-	-	(172,329)
Issuance of capital stock, June 30, 2006 - NT\$18.82 per share (certain portion issued as Global Depository Shares)	300,000	3,000,000	2,527,420	-	-	-	2,527,420	-	-	-	-	-	-	-	5,527,420
Issuance of capital stock, November 13, 2006 - NT\$19.97 per share (certain portion issued as Global Depository Shares)	600,000	6,000,000	5,313,164	-	-	-	5,313,164	-	-	-	-	-	-	-	11,313,164
Conversion of bonds into capital stock	4,173	41,724	-	36,861	-	-	36,861	-	-	-	-	-	-	-	78,585
Issuance of shares upon exercise of employee stock options	81,807	818,070	(62,360)	-	-	-	(62,360)	-	-	-	-	-	-	-	755,710
Sales of treasury stock - 1,422 thousand shares at average of NT\$17.0 per share	-	-	-	-	(2,561)	-	(2,561)	-	-	-	-	-	-	26,662	24,101
Adjustment for changes in shareholders' equities of equity-method investees	-	-	-	-	-	(12,218)	(12,218)	-	-	-	-	638,738	(17,180)	(33,079)	576,261
Valuation loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	(133,820)	-	-	(133,820)
Cash dividends received by subsidiaries from parent company	-	-	-	-	2,900	-	2,900	-	-	-	-	-	-	-	2,900
Net income in 2006	-	-	-	-	-	-	-	-	-	27,327,582	27,327,582	-	-	-	27,327,582
BALANCE, DECEMBER 31, 2006	<u>6,909,088</u>	<u>\$69,090,882</u>	<u>\$20,506,052</u>	<u>\$ 4,068,632</u>	<u>\$ 3,629</u>	<u>\$ 19,307</u>	<u>\$24,597,620</u>	<u>\$ 2,774,552</u>	<u>\$ 31,566</u>	<u>\$30,312,562</u>	<u>\$33,118,680</u>	<u>\$ 705,332</u>	<u>\$ (30,652)</u>	<u>\$ (1,637,064)</u>	<u>\$ 125,844,798</u>

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

(With Deloitte & Touche audit report dated January 25, 2007)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$27,327,582	\$ 6,431,998
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	22,364,167	15,957,928
Amortization	1,622,850	1,477,344
Unrealized intercompany profit	22,320	1,228
Valuation (gain) loss on financial assets	(1,764,771)	19,641
Valuation loss on financial liabilities	504,807	-
Foreign exchange gain on financial assets	(290)	-
Amortization of discount on held-to-maturity financial assets	-	(100)
Provision for doubtful accounts	87,409	3,353
Provision for sales discounts	350,000	60,000
Provision for losses on inventories and spare parts	167,602	169,257
Equity in (earnings) losses of equity-method investees, net	(393,855)	253,889
Impairment losses on financial assets	211,548	43,928
Cash dividends from equity-method investees	34,233	23,102
Gain on disposal of investments, net	(129,185)	(550,333)
Loss (gain) on disposal of properties and deterred charges, net	(85,236)	33,730
Deferred income tax expense (benefit)	192,131	(808,968)
Amortization of discount on commercial paper issued	1,377	3,418
Foreign exchange (gain) loss on convertible bonds payable	(92,449)	289,022
Amortization of discount on convertible bonds payable	158,553	-
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	(1,314,672)	(1,835,768)
Accounts receivable	(8,692,169)	(823,898)
Other receivables	(181,549)	(235,056)
Inventories	(4,146,050)	(2,219,436)
Prepaid expenses	(27,189)	(60,511)
Other current assets	6,541	(184)
Held-for-trading financial liabilities	63,845	(2,350)
Accounts payable	1,846,417	1,044,039
Income tax payable	1,634,186	-
Accrued expenses	2,389,054	(388,595)
Other current liabilities	27,792	120,287
Accrued pension costs	(1,261)	(18,123)
Net cash provided by operating activities	<u>42,211,142</u>	<u>19,036,362</u>

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POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
Available-for-sale financial assets	\$ (60,000)	\$ -
Held-to-maturity financial assets	(25,000)	(160,000)
Equity-method investments	(5,468,645)	(2,089,930)
Financial assets carried at cost	(602,583)	(8,038)
Properties	(56,791,654)	(41,532,454)
Deferred charges	(1,437,377)	(1,290,360)
Proceeds of disposal of:		
Available-for-sale financial assets	39,864	656,696
Held-to-maturity financial assets	31,000	230,000
Equity-method investments	80,857	90,288
Financial assets carried at cost	8,973	-
Properties and deferred charges	117,375	235,261
Decrease in restricted deposits	420,877	910,841
Increase in spare parts	(87,026)	(14,271)
Increase in other assets	(23,994)	(9,770)
Increase in refundable deposits	(5,617)	(1,680)
	<u>(63,802,950)</u>	<u>(42,983,417)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in short-term bank loans	(773,534)	773,534
Proceeds of:		
Issuance of convertible bonds	5,142,380	15,098,080
Long-term bank loans	16,250,000	13,000,000
Issuance of capital stock	16,840,584	5,989,200
Exercise of employee stock options	755,710	859,953
Sales of treasury stock	24,101	181,746
Repayments of long-term bank loans	(8,732,684)	(4,419,385)
Redemption of convertible bonds	(6,522)	-
Decrease in capital lease obligation	-	(165,110)
Increase (decrease) in guarantee deposits	363	(919)
Cash bonus paid to employees	(287,215)	(639,837)
Cash dividends paid for common stock	(3,042,429)	(4,167,245)
Remunerations to directors and supervisors	(172,329)	(575,853)
Reacquisition of issued stock	-	(1,327,922)
	<u>25,998,425</u>	<u>24,606,242</u>
Net cash provided by financing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,406,617	659,187
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>35,684,656</u>	<u>35,025,469</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$40,091,273</u>	<u>\$35,684,656</u>

(Continued)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

	2006	2005
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income tax paid	<u>\$ 56,468</u>	<u>\$ 47,108</u>
Interest paid (excluding amounts capitalized of \$241,862 thousand in 2006 and \$131,208 thousand in 2005)	<u>\$ 770,427</u>	<u>\$ 609,420</u>
Noncash investing and financing activities		
Transfer of financial assets carried at cost to equity-method investments	<u>\$ 83,845</u>	<u>\$ -</u>
Transfer of financial assets carried at cost to available-for-sale financial assets	<u>\$ 338,344</u>	<u>\$ -</u>
Transfer of held-for-trading financial assets to equity-method investments	<u>\$ 3,640</u>	<u>\$ -</u>
Reclassification of properties into deferred charges	<u>\$ 851</u>	<u>\$ 935</u>
Reclassification of deferred charges into properties	<u>\$ 2,486</u>	<u>\$ -</u>
Current portion of long-term liabilities	<u>\$ 8,606,667</u>	<u>\$ 7,606,667</u>
Treasury stock - Corporation's stock held by its subsidiaries	<u>\$ 33,079</u>	<u>\$ -</u>
Conversion of bonds	<u>\$ 78,585</u>	<u>\$ 1,480,972</u>
Cash paid for acquisition of properties		
Total acquisition	\$ 64,512,576	\$ 40,547,315
Payable, beginning of year	13,731,127	14,716,266
Payable, end of year	<u>(21,452,049)</u>	<u>(13,731,127)</u>
	<u>\$ 56,791,654</u>	<u>\$ 41,532,454</u>

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

(With Deloitte & Touche audit report dated January 25, 2007)

(Concluded)

POWERCHIP SEMICONDUCTOR CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

1. ORGANIZATION AND OPERATION

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

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

As of December 31, 2006 and 2005, the Corporation had 6,314 and 4,648 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, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, 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.

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 Equity-method 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. The carrying amount may also be adjusted at the Corporation's interest in the investee if there are changes in the investee's equity, other than capital stocks and retained earnings.

If the Corporation's equity in the investee's net income or net loss of an equity-method investee equals to or exceeds the investment carrying value, plus advances to the investee the recognized investment losses, except the Corporation committee to provide further financial support for the investee or the losses of the investee are temporary, should be limited to the extent that makes the investment carrying value and advances equal to zero.

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 year-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; miscellaneous equipment, 2 to 5 years; assets leased to others, 10 to 20 years; and equipment under capital lease, 5 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, under 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 losses 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. The carrying value of bonds is accounted for by the interest method until the day before the conversion date, and that of embedded derivatives 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, when the investees stating 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 that will benefit periods in the future are capitalized. Other expenditures are recorded as expenses or losses.

Pension Costs

For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees' individual pension accounts during service periods. For employees under defined benefit pension plans, pension costs are recorded based on 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.

The spot rates use the middle price of mainly correspondent bank.

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 year ended December 31, 2006.

b. Reclassifications

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

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

1) Short-term investments

Short-term investments are mainly listed stocks 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 year-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 year ended December 31, 2005 have been reclassified to be consistent with the classifications prescribed under SFAS Nos. 34 and 36. The reclassifications of the entire balances or a part of the balances of certain accounts are summarized as follows:

	Before Reclassification	After Reclassification
<u>Balance Sheet</u>		
Short-term investment, net	\$ 2,913,822	\$ -
Long-term investment accounted for by the cost method	679,441	-
Long-term bonds investments	310,120	-
Accrued expenses	(1,594)	-
Financial assets at fair value through profit or loss - current	-	3,018,942
Available-for-sale financial assets - current	-	84,910

(Continued)

	Before Reclassification	After Reclassification
Held-to-maturity financial assets (including current and noncurrent portion)	\$ -	\$ 205,000
Financial assets carried at cost - noncurrent	-	594,531
Financial liabilities at fair value through profit or loss - current	<u>-</u>	<u>(1,594)</u>
	<u>\$ 3,901,789</u>	<u>\$ 3,901,789</u>

Statement of Income

Gain on disposal of investments	\$ 550,333	\$ -
Reversal of allowance for decline in value of short-term investments	167,573	-
Foreign exchange gain, net	77,929	-
Interest expenses	(23,993)	-
Financial expenses	(65,135)	-
Valuation gains on financial assets	-	(19,641)
Gain on disposal of financial instruments	<u>-</u>	<u>726,348</u>
	<u>\$ 706,707</u>	<u>\$ 706,707</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 year ended December 31, 2006.

4. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Time deposits	\$ 27,949,539	\$ 31,839,926
Bonds purchased under resell agreements	10,635,549	-
Demand deposits	1,430,826	1,192,065
Checking accounts	75,259	21,175
Cash on hand	100	100
Commercial paper purchased	<u>-</u>	<u>2,631,390</u>
	<u>\$ 40,091,273</u>	<u>\$ 35,684,656</u>

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

	<u>December 31</u>	
	2006	2005
Japan - JPY627,314 thousand in 2006 and JPY248,994 thousand in 2005	\$ 171,947	\$ 69,693
Hong Kong - US\$8 thousand and HK\$22,935 thousand in 2006 and US\$1 thousand in 2005	96,356	8
Luxembourg - US\$2,774 thousand in 2006 and US\$2,652 thousand in 2005	90,435	87,109
Singapore - US\$102 thousand, JPY54,698 thousand and HK\$3,299 thousand in 2006 and US\$5 thousand in 2005	<u>32,139</u>	<u>178</u>
	<u>\$ 390,877</u>	<u>\$ 156,988</u>

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2006	2005
Financial assets held-for-trading	\$ 6,161,742	\$ 2,913,822
Financial assets designated at fair value through profit or loss	<u>48,307</u>	<u>105,120</u>
	<u>\$ 6,210,049</u>	<u>\$ 3,018,942</u>
Financial liabilities held-for-trading	<u>\$ 2,092,642</u>	<u>\$ 1,594</u>

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

	<u>December 31</u>	
	2006	2005
Financial assets		
Domestic listed stocks	\$ 4,984,401	\$ 1,837,062
Foreign listed stocks - US\$305 thousand and JPY2,827,890 thousand in 2006; US\$131 thousand and JPY1,513,376 thousand in 2005	785,068	427,908
Mutual funds	378,583	648,852
Cross-currency swap contracts	<u>13,690</u>	<u>-</u>
	<u>\$ 6,161,742</u>	<u>\$ 2,913,822</u>
Financial liabilities		
Interest rate swap contracts	\$ 45,068	\$ 1,594
Debt components of convertible bonds (Note 15)		
Conversion option	1,959,124	-
Put option	<u>88,450</u>	<u>-</u>
	<u>\$ 2,092,642</u>	<u>\$ 1,594</u>

The domestic listed stocks above with carrying amount of \$7,931 thousand as of December 31, 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 foreign-currency option contracts, forward exchange contracts, cross-currency swap contracts and interest rate swap contracts during the year ended December 31, 2006 and 2005 to manage exposures related to fluctuations of foreign exchange rate and interest rate. The purpose of such transactions, which did not meet the criteria for hedge accounting prescribed in SFAS No. 34, is to hedge market risks and cash flow risks.

During the year ended December 31, 2006, the Corporation had no currency option contracts. As of December 31, 2005, all currency option contracts had expired and the Corporation had no cross-currency swap contracts during the year.

As of December 31, 2006 and 2005, all forward exchange contracts had expired.

Outstanding cross-currency swap contracts as of December 31, 2006 were as follows:

Contract Amount (in Thousands)	Period	Range of Interest Rates Paid	Range of Interest Rates Received
US\$145,000	January 17, 2007 - February 26, 2007	5.31%-5.38%	1.34%-2.23%

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

Contract Amount (in Thousands)	Period	Range of Interest Rates Paid	Range of Interest Rates Received
---	---------------	---	---

December 31, 2006

\$ 500,000	May 31, 2004 - March 24, 2009	1.70%-5.46%	1.46%-1.71%
500,000	June 1, 2004 - March 24, 2009	1.85%	1.46%-1.71%
500,000	June 3, 2004 - March 24, 2009	1.60%-5.46%	1.46%-1.71%
500,000	June 16, 2004 - March 24, 2009	3.32%-4.26%	1.46%-1.71%
100,000	July 2, 2004 - May 20, 2007	1.50%-5.40%	1.45%-1.71%
100,000	July 2, 2004 - May 20, 2007	3.32%-4.35%	1.45%-1.71%
100,000	July 2, 2004 - May 20, 2007	3.32%-4.35%	1.45%-1.71%

December 31, 2005

\$ 700,000	May 31, 2004 - March 24, 2009	1.70%	1.19%-1.46%
700,000	June 1, 2004 - March 24, 2009	1.85%	1.19%-1.46%
700,000	June 3, 2004 - March 24, 2009	1.60%	1.19%-1.46%
700,000	June 16, 2004 - March 24, 2009	1.33%-3.32%	1.19%-1.46%
300,000	July 2, 2004 - May 20, 2007	1.50%	1.19%-1.45%
300,000	July 2, 2004 - May 20, 2007	1.29%-3.32%	1.19%-1.45%
300,000	July 2, 2004 - May 20, 2007	1.29%-3.32%	1.19%-1.45%

Net gains arising from financial assets held for trading were \$1,795,710 thousand and \$201,937 thousand for the year ended December 31, 2006 and 2005, respectively. Net losses arising from financial liabilities held for trading were \$559,720 thousand and \$89,128 thousand for the years ended December 31, 2006 and 2005, respectively.

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

	<u>December 31</u>	
	2006	2005
Financial assets		
Credit-linked notes (CLNs)	\$ 48,307	\$ 105,120

Other CLNs information is as follows:

CLNs Issuer	Principal Amount (in Thousands)	Interest Rate	Maturity
<u>December 31, 2006</u>			
Credit Suisse First Boston International	US\$ 1,500	6.37%-7.42%	February 2007
<u>December 31, 2005</u>			
Yuanta Assets Management Limited	US\$ 1,700	7.75%-7.90%	December 2006
Credit Suisse First Boston International	US\$ 1,500	6.37%	February 2007

Under the CLNs transaction terms, the investment can be transferred before the maturity date only through the exercise of the early redemption right by Yuanta Assets Management limited and Credit Suisse First Boston International. The issuers will settle CLNs at a price equal to the market value of the related obligation as the specific credit event occurred. On the other hand, CLNs will be settled at face value on maturity or at a certain price if the issuers exercise early redemption rights. Net gains on the CLNs, which are financial assets designated at fair value through profit or loss, was \$4,370 thousand and \$1,259 thousand for the years ended December 31, 2006 and 2005, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	<u>December 31</u>	
	2006	2005
Domestic listed stocks	\$ 117,420	\$ 84,910
Foreign listed stocks- HK\$218 thousand	914	-
Mutual funds		
Open-end	127,785	-
Close-end - NT\$226,800 thousand and HK\$9,242 thousand	<u>265,524</u>	<u>-</u>
	<u>\$ 511,643</u>	<u>\$ 84,910</u>

7. ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	2006	2005
<u>Related parties</u>		
Accounts receivable	\$ 8,177,080	\$ 2,367,416
Allowance for doubtful accounts	(81,559)	(23,436)
Allowance for sales discounts	<u>(159,000)</u>	<u>(35,774)</u>
	<u>7,936,521</u>	<u>2,308,206</u>

(Continued)

	December 31	
	2006	2005
<u>Third parties</u>		
Accounts receivable	5,320,100	2,437,595
Allowance for doubtful accounts	(57,038)	(27,752)
Allowance for sales discounts	(281,000)	(54,226)
	<u>4,982,062</u>	<u>2,355,617</u>
	<u>\$ 12,918,583</u>	<u>\$ 4,663,823</u>
		(Concluded)

8. INVENTORIES

	December 31	
	2006	2005
Finished goods	\$ 1,170,256	\$ 821,884
Work in process	7,769,106	5,217,060
Materials and supplies	<u>2,562,541</u>	<u>1,328,511</u>
	11,501,903	7,367,455
Allowance for losses	<u>(312,600)</u>	<u>(175,963)</u>
	<u>\$ 11,189,303</u>	<u>\$ 7,191,492</u>

9. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2006	2005
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	30,000
Veutron - issued in 2006 (I)	25,000	-
MaxEdge - issued in 2005 (III)	20,000	20,000
Veutron - issued in 2002 (II)	14,000	20,000
Veutron - issued in 2003 (I)	<u>-</u>	<u>25,000</u>
	199,000	205,000
Current portion	<u>(14,000)</u>	<u>(31,000)</u>
	<u>\$ 185,000</u>	<u>\$ 174,000</u>

Bond investments were as follows:

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

(Continued)

	Principal Amount	Interest Rate	Maturity
MaxEdge - issued in 2005 (III)	\$ 20,000	3.25%	December 2008
Veutron - issued in 2002 (II)	14,000	3.50%	30% of principal repayment in November 2006, and the remaining 70% in November 2007

Matured as of December 31, 2006

Veutron - issued in 2003 (I)	25,000	3.50%	February 2006
Veutron - issued in 2002 (II)	6,000	3.50%	30% of principal repayment in November 2006, and the remaining 70% in November 2007

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 Act.

10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31	
	2006	2005
Domestic unlisted common stocks	\$ 306,155	\$ 518,189
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	71,194	33,872
Foreign unlisted preferred stocks - US\$4,252 thousand in 2006 and US\$1,333 thousand in 2005	137,662	42,470
Prepayment	<u>40,000</u>	<u>-</u>
	<u>\$ 555,021</u>	<u>\$ 594,531</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 year ended December 31, 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 \$211,548 thousand and \$43,928 thousand, respectively, which were presented under nonoperating expenses and losses.

11. EQUITY-METHOD INVESTMENTS

	December 31			
	2006		2005	
	Amount	% of Owner- ship	Amount	% of Owner- ship
Quantum Vision Corp. ("Quantum")	\$ 3,702,592	99.99	\$ 1,567,813	99.99
Li-Hsin Investment Corp. ("Li-Hsin")	2,018,288	99.94	834,820	99.89
Paramax Corp. ("Paramax")	1,225,940	99.99	659,455	99.99
Rui-Wang Investment Corp. ("Rui-Wang")	800,244	100.00	-	-
Lu-Chu Development Corp. ("Lu-Chu")	574,883	27.18	584,037	27.18
Zhi-Li Investment Inc. ("Zhi-Li")	569,965	32.53	185,305	37.30
Global Powertec Co., Ltd. ("Global Powertec")	482,128	100.00	-	-
Smart Art Corp. ("Smart Art")	352,784	43.92	119,989	48.00
Novax Technologies, Inc. ("Novax")	336,901	24.66	280,511	24.66
Deutron Electronics Corp. ("Deutron")	229,968	9.44	152,267	9.78
Artrix International Corp. ("Artrix")	254,870	24.92	85,279	23.36
Powerflash Technology Corporation ("Powerflash", named Smartic Technology Inc. before)	127,222	51.00	19,671	25.00
Veutron Corp. ("Veutron")	144,763	9.60	-	-
Optimicro Corp. ("Optimicro")	98,232	29.40	141,279	29.40
Neo Solar Power Corp. ("Neo-Solar")	96,710	15.64	95,247	16.00
Syntronix Corp. ("Syntronix")	86,366	20.20	88,658	26.96
Luxxon Technology Corp. ("Luxxon")	84,956	20.73	134,089	20.73
Deutron Japan Corp. ("Deutron - Japan")	78,140	38.98	79,635	38.98
Tekmax Development Corp. ("Tekmax")	77,040	15.65	72,107	15.77
Signia Technologies Co., Ltd. ("Signia")	73,479	28.01	-	-
Synage Technology Corp. ("Synage")	67,351	19.97	76,547	20.17
Zentel Electronics Corp. ("Zentel")	57,749	21.03	72,348	36.80
Astel Electronics Corp. ("Astel")	57,464	40.00	78,151	40.00
Retronix Technology Corp. ("Retronix")	48,758	25.00	-	-
Terax Communication Technologies Inc. ("Terax")	47,189	17.40	-	-
Luxchip Technology Corp. ("Luxchip")	39,132	19.00	37,966	19.00
Vivichip Electronics Corp. ("Vivichip")	37,491	40.00	-	-
Siptron Technology Corporation ("Siptron", named PowerFlash Semiconductor Corp. before)	35,697	32.00	30,631	32.00
Silicon Optronics, Inc. ("Silicon")	31,505	11.53	29,152	12.14
AVAC Systems, Inc. ("AVAC")	30,608	23.31	41,128	23.31
MicroMedia Technology Corp. ("MicorMedia")	28,743	30.00	-	-
PowerGate Optical, Inc. ("PowerGate")	11,561	5.26	10,303	9.35
Rexchip Electronics Corp. ("Rexchip")	767	100.00	-	-
MaxEdge Electronics Corp. ("MaxEdge")	-	13.39	3,719	13.55
	<u>\$ 11,909,486</u>		<u>\$ 5,480,107</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 Technologies, Inc. ("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 Global Powertec, 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.

In the fourth quarter of 2006, the Corporation invested in Rui-Wang and Rexchip, which were accounted for by the equity method.

In the fourth quarter of 2006, the Corporation acquired 10,000 thousand shares of Veutron through a private market transaction at NT\$9.09 per share. This transaction had certain restrictions on share transferability under the Securities and Exchange Act.

In the fourth quarter of 2006, the Corporation and its subsidiaries owned more than 20% of Veutron and Terax, which were recorded as financial assets at fair value through profit or loss - current (listed under short-term investments in 2005) and financial assets carried at cost - noncurrent (listed under cost method investment in 2005), respectively, when SFAS No. 36 was adopted. Thus the Corporation transferred both investments to equity-method investments at their carrying value as of January 1, 2006

As of December 31, 2006, the Corporation's equity in the loss of MaxEdge equaled the investment carrying value. The recognized equity in loss was limited since the Corporation did not guarantee the obligations of MaxEdge. However, the Corporation's investment in MaxEdge bonds has been guaranteed entirely, thus, the bond investment will not have a material effect on the Corporation's financial statements.

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

	December 31	
	2006	2005
Deutron	20%	20%
Veutron	27%	-
		(Note 2)
Neo-Solar	21%	22%
Tekmax	41%	35%
Synage	48%	-
		(Note 1)
Terax	30%	-
		(Note 2)
		(Continued)

	December 31	
	2006	2005
Luxchip	47%	39%
Silicon	21%	22%
PowerGate	20%	27%
MaxEdge	48%	48%

Note 1: As of December 31, 2006, the Corporation alone owned more than 20% of the investees' outstanding shares, thus, the combined holding percentages were not separately disclosed.

Note 2: As of December 31, 2005, Veutron was listed under financial assets at fair value through profit and loss - current; Terax was listed under financial assets carried at cost - noncurrent.

Except for the income (loss) of Rexchip in 2006; Maxium and Terax in 2005, all other investment income (loss) accounted for by the equity method was based on the audited financial statements of the investees. The Corporation management believed that unaudited financial statements of Rexchip, Maxium and Terax and the resulting income (loss) will not have material effect on the Corporation's financial statements. Also, except for the audits of Global Powertec, Veutron, Neo-Solar, Syntronix, Zentel, Siptron, Silicon, Terax in 2006 and Luxxon and MaxEdge in 2005 were performed by Deloitte & Touche, all others were audited by other auditors. Investment income (loss) is summarized as follows:

	2006	2005
Quantum	\$ 309,485	\$ 48,135
Li-Hsin	19,629	(137,153)
Paramax	(3,321)	(73,501)
Rui-Wang	244	-
Lu-Chu	(9,154)	(41,557)
Zhi-Li	75,101	(1,150)
Global Powertec	(35,651)	-
Smart Art	(2,112)	(11)
Novax	33,589	(933)
Deutron	96,055	60,815
Artrix	29,385	(2,459)
Powerflash	(3,066)	(9,739)
Veutron	38,036	-
Optimicro	(43,532)	(5,226)
Neo-Solar	1,489	(77)
Syntronix	10,992	26,142
Luxxon	(49,133)	(40,466)
Deutron - Japan	155	(217)
Tekmax	8,765	8,496
Signia	(23,095)	-
Synage	(8,516)	(24,303)
Zentel	36,163	(13,657)
Astel	(20,687)	(1,849)
Retronix	(3,016)	-
Terax	(36,656)	(962)
Luxchip	1,166	(34)
Vivichip	(2,509)	-
Siptron	4,156	(9,527)
Silicon	5,577	14,349

(Continued)

	2006	2005
AVAC	\$ (10,413)	\$ (2,872)
MicroMedia	(1,257)	-
PowerGate	(6,704)	(6,795)
Rexchip	(233)	-
MaxEdge	(17,077)	(45,702)
Maxium	<u>-</u>	<u>6,364</u>
	<u>\$ 393,855</u>	<u>\$ (253,889)</u>

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

	2006
Quantum	\$ 438,842
Li-Hsin	3,788
Paramax	83,077
Zhi-Li	46,778
Novax	25,416
Smart Art	3,445
Deutron	12,385
Artrix	3,796
Powerflash	6,081
Veutron	12,197
Syntronix	61
Zentel	133
Retronix	1,824
Siptron	939
AVAC	(107)
PowerGate	<u>83</u>
	<u>\$ 638,738</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 year ended December 31, 2006 was as follow:

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

The consolidated financial statements as of and for the years ended December 31, 2006 and 2005 had included all subsidiaries.

The market value of the Corporation's holdings of 432 thousand shares of Veutron, an investment which was registered with the Taiwan Securities Exchange Center (TSEC) was \$18,959 thousand as of December 31, 2006.

12. PROPERTIES

Accumulated depreciation on properties consisted of the following:

	December 31	
	2006	2005
Buildings	\$ 2,303,277	\$ 1,873,038
Machinery and equipment	66,654,998	48,003,451
Research and development equipment	478,685	310,049
Facility equipment	10,501,335	8,312,267
Transportation equipment	9,945	8,408
Office equipment	291,364	217,313
Miscellaneous equipment	<u>535,414</u>	<u>377,915</u>
	<u>\$ 80,775,018</u>	<u>\$ 59,102,441</u>

Total depreciation expense for the year ended December 31, 2006 and 2005 were \$22,345,867 thousand and \$15,940,466 thousand, respectively.

Interest capitalization is summarized as follows:

	Years Ended	
	December 31	
	2006	2005
Total interest expenses	\$ 1,180,909	\$ 755,618
Capitalized amount	241,862	131,208
Rates used in capitalizing interests	3.12%-3.46%	3.34%-3.77%

The Corporation is currently expanding its fourth and fifth factories ("FAB 12M and FAB 12C"). The related total estimated and recognized costs as of December 31, 2006 were summarized as follows:

FAB	Total Estimated Cost	Total Recognized Cost
12M	\$ 63,000,000	\$ 35,334,691
12C	44,073,199	3,058,453

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 26.

13. DEFERRED CHARGES, NET

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Technical know-how	\$ 2,563,238	\$ 2,932,661
Computer software system	255,446	171,903
Test-run costs	54,801	120,562
Patent	15,000	20,000
Issuance costs of the convertible bonds	7,812	46,965
Others	<u>413,618</u>	<u>215,335</u>
	<u>\$ 3,309,915</u>	<u>\$ 3,507,426</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. SHORT-TERM BANK LOANS

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

15. CONVERTIBLE BONDS PAYABLE

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Overseas unsecured bonds		
Issued in 2004 (5) US\$157,850 thousand in 2006 and US\$158,050 thousand in 2005	\$ 5,145,278	\$ 5,191,942
Issued in 2005 (6) US\$141,750 thousand in 2006 and US\$142,250 thousand in 2005	4,620,483	4,672,913
Issued in 2006 (7) US\$116,200 thousand	<u>3,787,418</u>	-
	<u>13,553,179</u>	<u>9,864,855</u>
Domestic unsecured bonds		
Issued in 2005 (1) NT\$4,000,000 thousand	4,000,000	4,000,000
Issued in 2005 (2) NT\$5,940,000 thousand in 2006 and NT\$6,000,000 thousand in 2005	<u>5,940,000</u>	<u>6,000,000</u>
	<u>9,940,000</u>	<u>10,000,000</u>
	23,493,179	19,864,855
Current portion	<u>(8,620,483)</u>	<u>(5,191,942)</u>
	<u>\$ 14,872,696</u>	<u>\$ 14,672,913</u>

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 December 31, 2006) between July 17, 2004 and May 18, 2009 and will mature

on June 17, 2009. At the holders' option, Bonds 2004 may also be repurchased on June 17, 2006 at 100% of their principal. Under certain conditions, either the holders of Bonds 2004 or the Corporation may opt for early bond redemption. As of December 31, 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 December 31, 2006) between March 3, 2005 and January 3, 2010 and will mature on February 2, 2010. At the holders' option, Bonds 2005A may also be repurchased on February 2, 2007 at 100% of their principal. Under certain conditions, either the holders of Bonds 2005A or the Corporation may opt for early bond redemption. As of December 31, 2006, holders of Bonds 2005A with principle amount of US\$18,250 thousand had requested to convert these bonds into 27,986 thousand common shares, which had all been issued. Between January 1, 2007 and January 25, 2007, the conversion of Bonds 2005A with principle amount of US\$5,900 thousand into 9,848 thousand common shares has been requested.

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 December 31, 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. As of December 31, 2006, holders of Bonds 2006 with principle amount of US\$100 thousand had requested to convert these bonds into 162 thousand common shares, which had all been issued. 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:

	December 31, 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
Conversion	
- Face value	(100)
- Elimination	27
Interest expense	<u>4,831</u>
Amortized costs of bond payable, end of year	<u><u>US\$ 116,200</u></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\$19.28 per share as of December 31, 2006) between July 28, 2005 and June 17, 2010 and will mature on June 27, 2010. At the holders’ option, Bonds 2005B may also be repurchased on June 28, 2007 at 100% of their principal. Under certain conditions, either the holders of Bonds 2005B or the Corporation may opt for early bond redemption. Between January 1, 2007 and January 25, 2007, the conversion of Bonds 2005B with principle amount of NT\$30,000 thousand into 1,556 thousand common shares has been requested.

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 December 31, 2006) between July 28, 2005 and June 17, 2010 and will mature on June 27, 2010. At the holders’ option, Bonds 2005C may also be repurchased on June 28, 2008 at 100% of their principal. Under certain conditions, either the holders of Bonds 2005C or the Corporation may opt for early bond redemption. As of December 31, 2006, holders of Bonds 2005C with principle amount of NT\$60,000 thousand had requested to convert these bonds into 3,176 thousand common shares, which had all been issued. Between January 1, 2007 and January 25, 2007, the conversion of Bonds 2005C with principle amount of NT\$1,100 thousand into 58 thousand common shares has been requested.

16. LONG-TERM BANK LOANS

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Long-term secured syndicated loans (1)	\$ -	\$ 2,625,000
Long-term secured syndicated loans (2)	3,625,000	5,075,000
Long-term secured syndicated loans (3)	11,250,000	15,000,000
Long-term secured syndicated loans (4)	15,000,000	3,000,000
Long-term secured syndicated loans (5)	4,000,000	-
Medium to long-term loans (including commercial paper issued)	<u>610,000</u>	<u>1,266,667</u>
	34,485,000	26,966,667
Current portion	(8,606,667)	(7,606,667)
Unamortized discount of commercial paper issued	<u>-</u>	<u>(360)</u>
	<u>\$ 25,878,333</u>	<u>\$ 19,359,640</u>

The loans are payable quarterly or semiannually at varying amounts. They will be fully repaid by October 2011. They bear interest rates ranging from 2.57% to 5.02% and from 2.57% to 4.89% for the years ended December 31, 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. As of December 31, 2006, the Corporation was in compliance with those financial covenants.

The details of assets pledged as collateral are shown in Note 26.

17. PENSION PLAN

The Labor Pension Act (the "Act") took effect on July 1, 2005. Employees subject to the Labor Standards Law on 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 years ended December 31, 2006 and 2005 were \$163,231 thousand and \$65,131 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 information on the defined benefit is summarized as follows:

	2006	2005
a. Pension cost		
Service cost	\$ 30,199	\$ 48,017
Interest cost	16,111	12,880
Projected return on plan assets	(6,094)	(5,105)
Amortization	<u>7,109</u>	<u>5,011</u>
	<u>\$ 47,325</u>	<u>\$ 60,803</u>
	December 31	
	2006	2005
b. Reconciliation of the fund status of the plan and accrued pension cost:		
Benefit obligations		
Vested benefit obligation	\$ 46,402	\$ 10,430
Unvested benefit obligation	<u>289,267</u>	<u>284,788</u>
Accumulated benefit obligation	335,669	295,218
Effect of salary increase	<u>218,476</u>	<u>167,080</u>
Projected benefit obligation	554,145	462,298
Fair value of plan assets (including projected interest)	<u>(261,199)</u>	<u>(223,002)</u>
Funded status	292,946	239,296
Unrecognized prior service cost	(40,687)	(44,078)
Unrecognized net transition obligation	(7,819)	(8,344)
Unrecognized net (loss) gain	(169,731)	(113,286)
Additional liability	<u>-</u>	<u>-</u>
Accrued pension cost	<u>\$ 74,709</u>	<u>\$ 73,588</u>
c. Vested benefit	<u>\$ 56,421</u>	<u>\$ 12,537</u>

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
d. Actuarial assumptions:		
Discount rate used in determining present values	3.50%	3.50%
Future salary increase rate	3.50%	3.00%
Expected rate of return on plan assets	2.50%	2.50%
	2006	2005
e. Contributions to pension fund	<u>\$ 46,205</u>	<u>\$ 42,329</u>
f. Payments of fund	<u>\$ 13,900</u>	<u>\$ -</u>

18. SHAREHOLDERS' EQUITY

Under the ROC Company Law, capital surplus (excluding amounts arising from equity-method 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 the appropriation for legal capital reserve shall be made until the reserve equals the Corporation's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends and bonuses for the portion in excess of 50% of the paid-in capital if the Corporation has no unappropriated earnings and the reserve balance has exceeded 50% of the Corporation's paid-in capital. Also, when the reserve has reached 50% of the Corporation's paid-in capital, up to 50% of the reserve may be transferred to capital.

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 held 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>	
	<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>		

Had the above bonus to employees and remuneration to directors and supervisors been charged to earnings of 2005 and 2004 (stock bonus recognized at par value), the basic earnings per share (after income tax) for the years ended December 31, 2005 and 2004, would have decreased from NT\$1.14 and NT\$4.56 to NT\$1.00 and NT\$4.03, adjusted retroactively for issuance of stock dividends and bonuses, respectively.

The shares distributed as a bonus to employees represented 0.51% (28,721 thousand shares) and 3.05% (127,967 thousand shares) of the Corporation's total outstanding common shares as of December 31, 2005 and 2004, respectively.

As of January 25, 2007, Corporation's Board of Directors has not resolved the appropriation of the 2006 earnings. Information on appropriations can be accessed online through the Market Observation Post System of the Taiwan Stock Exchange Corporation.

19. 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 December 31, 2006, there were 278,814 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)
For the year ended						
<u>December 31, 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	(21,655)	6.64	(38,767)	8.33	(21,385)	13.52
Options canceled	<u>(2,167)</u>	8.20	<u>(1,156)</u>	8.51	<u>-</u>	-
Ending balance	<u>58,981</u>	6.37	<u>43,788</u>	8.10	<u>10,793</u>	13.05
For the year ended						
<u>December 31, 2005</u>						
Beginning Balance	111,090	\$ 8.27	87,527	\$ 10.75	55,132	\$ 17.48
Additional options granted	14,050	6.86	14,315	8.70	-	-
Options exercised	(43,341)	7.75	(19,323)	9.63	(22,589)	14.96
Options canceled	<u>(1,751)</u>	7.51	<u>(1,438)</u>	9.54	<u>(365)</u>	17.57
Ending balance	<u>80,048</u>	6.84	<u>81,081</u>	8.70	<u>32,178</u>	13.98

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 years ended December 31, 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 December 31, 2006, the outstanding stock options are as follows:

Exercise Price (NT\$/Per Share)	Options Outstanding			Options Exercisable	
	Number Outstanding (Per Option)	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price (NT\$/ Per Share)	Number Exercisable (Per Option)	Weighted Average Exercise Price (NT\$/ Per Share)
\$ 12.90	10,315	0.58	\$ 12.90	10,315	\$ 12.90
16.30	465	1.24	16.30	465	16.30
13.70	13	1.37	13.70	13	13.70
8.10	43,788	1.74	8.10	43,788	8.10
6.10	56,880	2.32	6.10	26,834	6.10
11.20	559	2.50	11.20	237	11.20
13.10	125	2.58	13.10	67	13.10
10.70	676	2.78	10.70	437	10.70
10.80	32	2.90	10.80	-	10.80
\$ 13.20	346	3.02	13.20	7	13.20
20.30	112	3.23	20.30	24	20.30
24.80	<u>251</u>	3.30	24.80	<u>125</u>	24.80
	<u>113,562</u>			<u>82,312</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 years ended December 31, 2006 and 2005 was zero since the stock options were granted at an exercise price equal to the closing price of the Corporation's common shares on the measurement dates. Had the Corporation applied the fair value based method to evaluate the compensation cost, the assumptions and pro forma results of the Corporation for the years ended December 31, 2006 and 2005 would have been as follows:

Method: Black-Scholes model

Assumptions:

Risk-free interest rate	3.00%-3.86%
Expected life (in years)	6
Expected stock price volatility	86.61%-90.10%
Expected dividend yield	-

Fair value per option (NT\$/thousand shares) \$13,535 - \$26,369

	<u>Years Ended December 31</u>	
	<u>2006</u>	<u>2005</u>
Net income:		
Net income as reported	\$ 27,327,582	\$ 6,431,998
Pro forma net income	<u>\$ 27,324,296</u>	<u>\$ 6,425,078</u>
Earnings per share (EPS, NT\$):		
Basic EPS as reported	<u>\$ 4.48</u>	<u>\$ 1.14</u>
Pro forma basic EPS	<u>\$ 4.48</u>	<u>\$ 1.14</u>
Diluted EPS as reported	<u>\$ 3.80</u>	<u>\$ 0.99</u>
Pro forma diluted EPS	<u>\$ 3.80</u>	<u>\$ 0.99</u>

The average number of shares outstanding for EPS calculation was adjusted retroactively for issuance of stock dividends and stock bonuses. The retroactive adjustment caused the pro forma basic and diluted EPS after income tax for the year ended December 31, 2005 to decrease from NT\$1.20 and NT\$1.04 to NT\$1.14 and NT\$0.99, respectively.

20. TREASURY STOCK

(Shares in Thousands)

Purpose of Purchase	Beginning Shares	Increase	Decrease	Ending Shares
<u>Year ended December 31, 2006</u>				
For subsequent transfer to employees	84,100	-	1,422	82,678
Parent's issued shares held by subsidiaries	<u>3,992</u>	<u>1,869</u>	<u>-</u>	<u>5,861</u>
	<u>88,092</u>	<u>1,869</u>	<u>1,422</u>	<u>88,539</u>
<u>Year ended December 31, 2005</u>				
For subsequent transfer to employees	45,069	72,100	33,069	84,100
Parent's issued shares held by subsidiaries	<u>3,334</u>	<u>658</u>	<u>-</u>	<u>3,992</u>
	<u>48,403</u>	<u>72,758</u>	<u>33,069</u>	<u>88,092</u>

As of December 31, 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>December 31, 2006</u>				
Li-Hsin	4,200	\$ 95,561	\$ 92,396	4,200
Powerflash	2,451	<u>46,600</u>	<u>53,928</u>	<u>1,661</u>
		<u>\$ 142,161</u>	<u>\$ 146,324</u>	<u>5,861</u>
<u>December 31, 2005</u>				
Li-Hsin	3,992	<u>\$ 95,561</u>	<u>\$ 80,878</u>	<u>3,992</u>

On January 1, 2002, the Corporation accounted for its issued shares amounting to \$53,820 thousand and held by Li-Hsin as treasury stock. Started from 2006, Powerflash became one of the Corporation's subsidiaries. Thus, the Corporation accounted for its shares held by Powerflash amounting to \$33,079 thousand as treasury stock in accordance with its stock ownership percentage of Powerflash.

For the years ended December 31, 2006 and 2005, the Corporation transferred 1,422 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.

21. INCOME TAX

- a. A reconciliation of income tax currently payable for the years ended December 31, 2006 and 2005 are as follows:

	Years Ended December 31	
	2006	2005
Tax on pretax income at statutory rate (25%)	\$ 7,284,493	\$ 1,408,452
Tax-exempt income	(1,625,382)	(27,139)
Temporary and permanent differences	<u>(1,575,610)</u>	<u>(1,229,628)</u>
Income tax currently payable	<u>\$ 4,083,501</u>	<u>\$ 151,685</u>

- b. Income tax (expense) benefit for the years ended December 31, 2006 and 2005 consisted of:

	Years Ended December 31	
	2006	2005
Income tax currently payable	\$ (4,083,501)	\$ (151,685)
Additional 10% tax on unappropriated earnings	-	(201,215)
Tax credits	2,449,315	352,900
Net change in deferred income tax assets and liabilities		
Loss carryforwards	-	(199,632)
Investment tax credits	1,828,215	3,868,693
Temporary differences	(1,135,184)	(1,111,548)
Valuation allowance	(901,550)	(1,748,545)
Tax on interest income on short-term bills	<u>(605)</u>	<u>(10,779)</u>
	<u>\$ (1,843,310)</u>	<u>\$ 798,189</u>
Cumulative effect of changes in accounting principles	<u>\$ 16,388</u>	<u>\$ -</u>

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

	December 31	
	2006	2005
Current		
Deferred income tax assets		
Investment tax credits	\$ 2,388,882	\$ 700,480
Temporary differences	395,217	225,395
Deferred income tax liabilities		
Temporary differences	<u>(1,637)</u>	<u>(1,362)</u>
	<u>\$ 2,782,462</u>	<u>\$ 924,513</u>

(Continued)

	<u>December 31</u>	
	2006	2005
Noncurrent		
Deferred income tax assets		
Investment tax credits	\$ 10,904,665	\$ 10,764,852
Loss carryforwards	412,661	412,661
Temporary differences	242,130	161,455
Deferred income tax liabilities		
Temporary differences	<u>(4,738,716)</u>	<u>(3,369,698)</u>
	6,820,740	7,969,270
Valuation allowance	<u>(7,553,896)</u>	<u>(6,652,346)</u>
Deferred income tax (liabilities) assets - noncurrent	<u>\$ (733,156)</u>	<u>\$ 1,316,924</u>
		(Concluded)

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

	<u>December 31</u>	
	2006	2005
Shareholders' imputed tax credits	<u>\$ 23,852</u>	<u>\$ 40,177</u>

The expected and actual tax creditable ratio for 2006 and 2005 were 0.08% and 0.63%, 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 2006 may be adjusted depending on the ICA balance on the date of dividend distribution.

- e. The unappropriated retaining earnings as of December 31, 2006 and 2005 had no unappropriated earnings generated on and before 1997.
- f. As of December 31, 2006, the tax credits and loss carryforwards were as follows:

Regulatory Basis of Tax Credits	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Income Tax Law	Loss carryforwards	<u>\$ 412,661</u>	<u>\$ 412,661</u>	2008
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 576,469	\$ -	2006
		3,283,792	1,692,276	2007
		2,762,061	2,762,061	2008
		4,229,054	4,229,054	2009
		<u>3,279,331</u>	<u>3,279,331</u>	2010
		<u>\$ 14,130,707</u>	<u>\$ 11,962,722</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>484,931</u>	<u>484,931</u>	2010
		<u>\$ 1,590,340</u>	<u>\$ 1,311,813</u>	

(Continued)

Regulatory Basis of Tax Credits	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
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>4,140</u>	<u>4,140</u>	2010
		<u>\$ 16,759</u>	<u>\$ 13,956</u>	
Statute for Upgrading Industries	Investments in important technology-based enterprises	<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 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 (the Act) took effect on January 1, 2006. The alternative minimum tax (AMT) imposed under the Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Corporation has considered the impact of the Act in the determination of its tax liabilities.

22. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	Years Ended December 31					
	2006			2005		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost						
Salary	\$ 3,558,533	\$ 1,209,760	\$ 4,768,293	\$ 2,367,846	\$ 699,782	\$ 3,067,628
Labor/health insurance	202,244	58,180	260,424	157,687	39,889	197,576
Pension	155,129	55,427	210,556	97,421	28,513	125,934
Others	<u>208,250</u>	<u>46,579</u>	<u>254,829</u>	<u>150,606</u>	<u>29,826</u>	<u>180,432</u>
	<u>\$ 4,124,156</u>	<u>\$ 1,369,946</u>	<u>\$ 5,494,102</u>	<u>\$ 2,773,560</u>	<u>\$ 798,010</u>	<u>\$ 3,571,570</u>
Depreciation	<u>\$ 22,010,182</u>	<u>\$ 335,685</u>	<u>\$ 22,345,867</u>	<u>\$ 15,683,265</u>	<u>\$ 257,201</u>	<u>\$ 15,940,466</u>
Amortization	<u>\$ 139,399</u>	<u>\$ 1,444,359</u>	<u>\$ 1,583,758</u>	<u>\$ 143,475</u>	<u>\$ 1,275,942</u>	<u>\$ 1,419,417</u>

23. EARNINGS PER SHARE (EPS)

	Years Ended December 31			
	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Basic EPS (NT\$)				
Income before cumulative effect of changes in accounting principles	\$ 4.78	\$ 4.47	\$ 1.00	\$ 1.14
Cumulative effect of changes in accounting principles	-	0.01	-	-
Income for the year	<u>\$ 4.78</u>	<u>\$ 4.48</u>	<u>\$ 1.00</u>	<u>\$ 1.14</u>
Diluted EPS (NT\$)				
Income before cumulative effect of change in accounting principles	\$ 4.07	\$ 3.79	\$ 0.87	\$ 0.99
Cumulative effect of changes in accounting principles	-	0.01	-	-
Income for the year	<u>\$ 4.07</u>	<u>\$ 3.80</u>	<u>\$ 0.87</u>	<u>\$ 0.99</u>

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

	Amounts (Numerator)		Weighted Average Number of Shares (Denominator) (Thousands)	EPS (Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
For the year ended December 31, 2006					
Net income	<u>\$ 29,137,972</u>	<u>\$ 27,327,582</u>			
Basic EPS					
Income of common shareholders	29,137,972	27,327,582	6,101,901	<u>\$ 4.78</u>	<u>\$ 4.48</u>
Effect of dilutive securities					
- Convertible bonds	683,731	512,798	1,136,238		
- Stock options	-	-	95,374		
Diluted EPS					
Income of common and potential common shareholders	<u>\$ 29,821,703</u>	<u>\$ 27,840,380</u>	<u>7,333,513</u>	<u>\$ 4.07</u>	<u>\$ 3.80</u>
For the year ended December 31, 2005					
Net income	<u>\$ 5,633,809</u>	<u>\$ 6,431,998</u>			
Basic EPS					
Income of common shareholders	5,633,809	6,431,998	5,657,796	<u>\$ 1.00</u>	<u>\$ 1.14</u>
Effect of dilutive securities					
- Convertible bonds	-	-	710,981		
- Stock options	-	-	135,999		
Diluted EPS					
Income of common and potential common shareholders	<u>\$ 5,633,809</u>	<u>\$ 6,431,998</u>	<u>6,504,776</u>	<u>\$ 0.87</u>	<u>\$ 0.99</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 basic and diluted EPS after income tax for the year ended December 31, 2005 to decrease from NT\$1.20 and NT\$1.04 to NT\$1.14 and NT\$0.99, respectively.

24. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	December 31			
	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Nonderivative instruments</u>				
Assets				
Financial assets at fair value				
through profit or loss - current	\$ 6,196,359	\$ 6,196,359	\$ 3,018,942	\$ 3,018,942
Available-for-sale financial assets				
- current	511,643	511,643	84,910	292,324
Held-to-maturity financial assets				
(including current portion)	199,000	199,000	205,000	205,000
Financial assets carried at cost -				
noncurrent	555,021	-	594,531	-
Liabilities				
Convertible bonds payable				
(including current portion)	23,493,179	26,140,512	19,864,855	20,449,097
Long-term bank loans (including				
current portion)	34,485,000	34,485,000	26,966,307	26,966,307
<u>Derivative instruments</u>				
Assets				
Cross-currency swap contracts	13,690	13,690	-	-
Liabilities				
Interest rate swap contracts	45,068	45,068	1,594	65,439
Debt components of convertible				
bonds				
Conversion option	1,959,124	1,959,124	-	-
Put option	88,450	88,450	-	-

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 years ended December 31, 2006 and 2005, respectively.

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

Fair values of cross-currency swap contracts were accounted under the foreign exchange rate referred to the Reuter's quotation system according to the maturity dates of each cross currency swap contracts.

- 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, remainder is determined using the present value of forecasted cash flows.

The aforementioned financial instruments do not include cash and cash equivalent, accounts receivable, other receivable, restricted deposits, short-term bank loan, 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>December 31</u>		<u>December 31</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Nonderivative instruments</u>				
Assets				
Financial assets at fair value				
through profit or loss - current	\$ 6,148,052	\$ 2,913,822	\$ 48,307	\$ 105,120
Available-for-sale financial assets				
- current	511,643	292,324	-	-
Held-to-maturity financial assets				
(including current portion)	-	-	199,000	205,000
Liabilities				
Convertible bonds payable				
(including current portion)	22,174,572	20,449,097	3,965,940	-
Long-term bank loans (including				
current portion)	-	-	34,485,000	26,966,307

(Continued)

	<u>Quoted Market Prices</u>		<u>Valuation Techniques</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Derivative instruments</u>				
Assets				
Cross-currency swap contracts	\$ -	\$ -	\$ 13,690	\$ -
Liabilities				
Interest rate swap contracts	-	-	45,068	65,439
Debt components of convertible bonds				
Conversion option	-	-	1,959,124	-
Put option	-	-	88,450	-
				(Concluded)

- d. Loss recognized for the changes in fair value of financial instruments using valuation techniques was \$491,704 thousand for the year ended December 31, 2006.
- e. As of December 31, 2006 and 2005, financial assets (liabilities) exposed to fair value interest rate risk and cash flow interest rate risks were as follows:

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Fair value interest rate risk		
Financial assets	\$ 39,589,277	\$ 35,874,055
Financial liabilities	(23,538,247)	(20,116,089)
Cash flow interest rate risk		
Financial assets	1,479,133	1,311,822
Financial liabilities	(34,485,000)	(26,716,667)

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

	<u>Years Ended December 31</u>	
	<u>2006</u>	<u>2005</u>
Total interest income	\$ 621,113	\$ 429,879
Total interest expenses (including capitalized amount)	(1,180,865)	(755,575)

The Corporation recognized an unrealized gain of \$67,672 thousand in shareholders' equity for the changes in fair value of available-for-sale financial assets for the year ended December 31, 2006.

- g. Financial risks

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

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

Fair values of credit-linked notes (CLNs) denominated in foreign currency and cross-currency swap 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 December 31, 2006 and 2005, credit risks of the financial assets, except those approximate to their carrying values, were as follows:

	December 31			
	2006		2005	
	Carrying Amount	Credit Risk	Carrying Amount	Credit Risk
<u>Held-for-trading financial assets</u>				
Cross-currency swap contracts	\$ 13,690	\$ 13,690	\$ -	\$ -
<u>Financial assets designated at fair value through profit or loss</u>				
CLNs	48,307	48,307	105,120	105,120
<u>Held-to-maturity financial assets</u>				
Corporate bond	<u>199,000</u>	<u>199,000</u>	<u>205,000</u>	<u>205,000</u>
	<u>\$ 260,997</u>	<u>\$ 260,997</u>	<u>\$ 310,120</u>	<u>\$ 310,120</u>

- 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 cross-currency swap 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.

25. 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
Elpida Memory (Taiwan) Co., Ltd. (“Elpida-Taiwan”)	Director (since June 9, 2006)
Elpida (Note 1)	Parent company of Elpida-Taiwan, also 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
Siptron	Subsidiary
Powerflash	Subsidiary
Paramax	Subsidiary
Vantel Corp. (“Vantel”)	Indirect investee under Corporation’s substantial control
Zentel	Equity method investee
Tekmax	Equity method investee
Novax	Equity method investee
Deutron	Equity method investee
Syntronix	Equity method investee
Silicon	Equity method investee
MaxEdge	Equity method investee
Neo-Solar	Equity method investee
Artrix	Equity method investee
Zhi-Li	Equity method investee
Veutron	Equity method investee
Zentel Japan Corp. (“Zentel-Japan”)	Subsidiary of Zentel
Power ASE Technology Inc. (“Power ASE”)	Indirect equity-method investee
Others	Related parties with which the Corporation had no material transactions. Please see Note 28.

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 December 31, 2006 are disclosed only for reference.

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

b. Related-party transactions:

	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>For the year</u>				
1) Net sales				
Elpida	\$ 27,745,978	30	\$ 6,657,425	13
Deutron	15,226,002	17	10,951,617	21
Novax	4,719,545	5	2,963,294	6
Renesas-Taiwan	2,409,808	3	1,014,734	2
Elpida-Taiwan	2,066,611	2	50,470	-
Zentel	1,644,690	2	97,295	-
Syntronix	571,633	1	159,217	-
Silicon	210,618	-	198,198	-
Veutron	64,206	-	-	-
CHIPSHIP	47,052	-	869	-
eMemory	43,965	-	26,906	-
Siptron	11,830	-	26,794	-
Others	<u>1,513</u>	<u>-</u>	<u>1</u>	<u>-</u>
	<u>\$ 54,763,451</u>	<u>60</u>	<u>\$ 22,146,820</u>	<u>42</u>
2) Purchase				
Renesas-Taiwan	<u>\$ 194,269</u>	<u>1</u>	<u>\$ 358,422</u>	<u>3</u>
3) Sales of properties and deferred charges				
Vantel	\$ 11,575	10	\$ -	-
Others	<u>26</u>	<u>-</u>	<u>1,200</u>	<u>1</u>
	<u>\$ 11,601</u>	<u>10</u>	<u>\$ 1,200</u>	<u>1</u>
4) Technical know-how and royalty				
Renesas	\$ 948,310	30	\$ 88,163	4
Elpida	388,074	12	280,801	14
Zentel	13,405	-	53,537	3
eMemory	<u>10,329</u>	<u>-</u>	<u>33,466</u>	<u>2</u>
	<u>\$ 1,360,118</u>	<u>42</u>	<u>\$ 455,967</u>	<u>23</u>
5) Manufacturing expenses - subcontract costs, indirect materials, expensed properties, repairs and maintenance, etc.				
Powertech	\$ 5,124,574	10	\$ 2,376,239	6
Power ASE	47,577	-	-	-
Renesas	32,533	-	10,436	-
Elpida	12,337	-	12,545	-
Others	<u>-</u>	<u>-</u>	<u>33</u>	<u>-</u>
	<u>\$ 5,217,021</u>	<u>10</u>	<u>\$ 2,399,253</u>	<u>6</u>

	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
6) Selling expenses				
Deutron	\$ 26,967	5	\$ 4,968	2
Others	<u>91</u>	<u>-</u>	<u>19</u>	<u>-</u>
	<u>\$ 27,058</u>	<u>5</u>	<u>\$ 4,987</u>	<u>2</u>
7) General and administrative expenses				
Tekmax	\$ 41,198	2	\$ 34,561	2
PowerWorld Management	36,020	2	20,489	1
Others	<u>3,282</u>	<u>-</u>	<u>10,233</u>	<u>1</u>
	<u>\$ 80,500</u>	<u>4</u>	<u>\$ 65,283</u>	<u>4</u>
8) Research and development expenses				
Elpida	\$ 378,667	15	\$ 21	-
Renesas	295,747	12	36,076	2
Syntronix	44,055	2	62,364	4
Powerflash	39,071	2	-	-
Zentel	24,386	1	29,933	2
eMemory	19,619	1	2,702	-
Others	<u>3,661</u>	<u>-</u>	<u>10,447</u>	<u>1</u>
	<u>\$ 805,206</u>	<u>33</u>	<u>\$ 141,543</u>	<u>9</u>
9) Interest income				
Veutron	\$ 4,362	1	\$ 4,742	1
MaxEdge	<u>2,596</u>	<u>-</u>	<u>6,184</u>	<u>1</u>
	<u>\$ 6,958</u>	<u>1</u>	<u>\$ 10,926</u>	<u>2</u>
10) Other income				
Powertech	\$ 39,552	29	\$ 826	1
Neo-Solar	19,999	15	-	-
eMemory	7,330	5	7,618	9
Syntronix	6,864	5	6,085	7
Zentel	2,020	1	2,005	2
Silicon	1,727	1	1,648	2
Siptron	1,235	1	1,318	2
Veutron	-	-	1,390	2
Others	<u>1,962</u>	<u>1</u>	<u>237</u>	<u>-</u>
	<u>\$ 80,689</u>	<u>58</u>	<u>\$ 21,127</u>	<u>25</u>

<u>At end of year</u>	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
1) Accounts receivable, net				
Elpida	\$ 4,713,074	36	\$ 755,986	16
Deutron	1,991,223	15	968,788	21
Zentel	615,870	5	41,807	1
Novax	486,651	4	309,054	7
Renesas-Taiwan	80,914	1	185,510	4
Silicon	35,166	-	22,979	-
Syntronix	8,796	-	12,609	-
Siptron	2,586	-	10,243	-
Others	2,241	-	1,230	-
	<u>\$ 7,936,521</u>	<u>61</u>	<u>\$ 2,308,206</u>	<u>49</u>
2) Accounts payable				
Powertech	\$ 1,211,926	15	\$ 993,565	16
Power ASE	49,007	1	-	-
Renesas-Taiwan	-	-	58,144	1
	<u>\$ 1,260,933</u>	<u>16</u>	<u>\$ 1,051,709</u>	<u>17</u>
3) Accrued expenses				
Elpida	\$ 662,174	14	\$ 559,800	25
Tekmax	10,655	-	833	-
Zentel	1,373	-	30,867	1
Syntronix	1,046	-	13,985	1
eMemory	-	-	20,893	1
Others	16,136	-	7,144	-
	<u>\$ 691,384</u>	<u>14</u>	<u>\$ 633,522</u>	<u>28</u>

The Corporation also purchased (sold) the following long-term investments of stocks and bonds from (to) related parties for the years ended December 31, 2006 and 2005:

1) Stocks

<u>Related Parties</u>	<u>Investee</u>	<u>Shares Purchased (Sold) (in Thousands)</u>	<u>Costs (Proceeds)</u>	<u>Profit (Loss)</u>
<u>2006</u>				
Deutron	Syntronix	(600)	\$ (16,800)	\$ 9,712
Artrix	Zentel	(1,919)	\$ (23,028)	\$ (2,026)
Zhi-Li	Zentel	(400)	\$ (4,800)	\$ (422)
Paramax	Zentel	(300)	\$ (3,600)	\$ (317)

(Continued)

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

2) Bonds

Related Parties	Investee	Units Purchased (Matured)	Amount	Rate
<u>2006</u>				
Veutron	Veutron Bonds	5	\$ 25,000	3.50%
Veutron	Veutron Bonds	(6)	\$ (31,000)	3.50%
<u>2005</u>				
Veutron	Veutron Bonds	16	\$ 80,000	3.50%
MaxEdge	Max Edge Bonds	20	\$ 20,000	3.25%
MaxEdge	Max Edge Bonds	30	\$ 30,000	3.25%
MaxEdge	Max Edge Bonds	30	\$ 30,000	3.25%
Veutron	Veutron bonds	(18)	\$ (90,000)	3.95%
MaxEdge	MaxEdge Bonds	(16)	\$ (80,000)	4.48%
MaxEdge	MaxEdge Bonds	(12)	\$ (60,000)	4.48%

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

The products sold to Silicon, Elpida and Elpida-Taiwan by the Corporation was 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 Powerflash by the Corporation were based on specifically negotiated terms.

The proceeds of disposal of properties and deferred charges to related parties 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.

26. 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>December 31</u>	
	<u>2006</u>	<u>2005</u>
Properties, net	\$ 58,689,009	\$ 49,566,119
Restricted deposits	791,499	1,212,376
Accounts receivable	<u>-</u>	<u>260,440</u>
	<u>\$ 59,480,508</u>	<u>\$ 51,038,935</u>

27. 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. In January 2007, the Corporation signed a joint venture agreement with Elpida on obtaining technology transfer and licenses, developing of DRAM process technology and establishing a new company that will obtain Corporation’s 12 inches fab (“FAB 12C”). The capacity of this company will be split between both parties. Under the agreement, the Corporation will pay a certain amount of license fee to Elpida over five years from January 2007.
- q. In December 2006, the Corporation signed a joint venture agreement with Renesas for joint investment in a company. Renesas and the company will develop flash memory products and grant a license to the Corporation for using related technologies. Also, the Corporation and Renesas should pay the company a development fee.
- r. Unused letters of credit amounted to approximately US\$62,570 thousand and JPY562,397 thousand as of December 31, 2006.
- s. 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 December 31, 2006, future lease payments were as follows:

Year	Amount
2007	\$ 96,729
2008	96,729
2009	96,729
2010	96,729
2011	96,729
2012 and thereafter	<u>805,719</u>
	<u>\$1,289,364</u>

28. 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 Securities and Futures Bureau:

- 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 24.

29. SEGMENT FINANCIAL INFORMATION

- a. Industry: The Corporation only manufactures and sells semiconductor products.
- b. Geographic information: The Corporation operates only in the Republic of China.
- c. Export sales: The export sales were \$30,989,211 thousand in 2006 and \$8,038,169 thousand in 2005.
- d. Customers accounting for more than 10% of net sales:

Customer	Years Ended December 31			
	2006		2005	
	Amount	%	Amount	%
A	\$ 27,745,978	30	\$ 6,657,425	13
B	15,226,002	17	10,951,617	21
C	7,023,810	8	6,324,559	12

TABLE 1

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 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	December 31, 2006				Note
				Shares (Thousands/ Units) (Note 8)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Powerchip Semiconductor Corporation	<u>Stock</u> Quantum Vision Corp.	Subsidiary	Equity-method investments	299,890	\$ 3,702,592	99.99	\$ 3,709,075	Note 1
	Li-Hsin Investment Corp.	Subsidiary	Equity-method investments	249,850	2,018,288	99.94	2,111,849	Note 1
	Paramax Corp.	Subsidiary	Equity-method investments	132,894	1,225,940	99.99	1,228,553	Note 1
	Rui-Wang Investment Corp.	Subsidiary	Equity-method investments	80,000	800,244	100.00	800,244	Note 1
	Lu-Chu Development Corp.	Investee	Equity-method investments	63,499	574,883	27.18	574,883	Note 1
	Zhi-Li Investment Corp.	Investee	Equity-method investments	45,535	569,965	32.53	570,393	Note 1
	Global Powertec Co., Ltd.	Subsidiary	Equity-method investments	1,620	482,128	100.00	482,128	Note 1
	Smart Art Corp.	Subsidiary	Equity-method investments	35,137	352,784	43.92	352,784	Note 1
	Novax Technologies, Inc.	Investee	Equity-method investments	24,658	336,901	24.66	336,901	Note 1
	Deutron Electronics Corp.	Investee	Equity-method investments	6,997	229,968	9.44	243,787	Note 1
	Artrix International Inc.	Investee	Equity-method investments	22,429	254,870	24.92	254,870	Note 1
	Powerflash Technology Corporation	Subsidiary	Equity-method investments	15,300	127,222	51.00	154,725	Note 1
	Veutron Corp.	Investee	Equity-method investments	10,432	144,763	9.60	144,763	Notes 1 and 7
	Optimicro Corp.	Investee	Equity-method investments	14,700	98,232	29.40	98,232	Note 1
	Neo Solar Power Corp.	Investee	Equity-method investments	9,600	96,710	15.64	96,710	Note 1
	Syntronix Corp.	Investee	Equity-method investments	6,548	86,366	20.20	86,366	Note 1
	Luxxon Technology Corp.	Investee	Equity-method investments	20,733	84,956	20.73	84,956	Note 1
	Deutron Japan Corp.	Investee	Equity-method investments	1,910	78,140	38.98	78,140	Note 1
	Tekmax Development Corp.	Investee	Equity-method investments	5,851	77,040	15.65	77,282	Note 1
	Signia Technologies Co., Ltd.	Investee	Equity-method investments	5,187	73,479	28.01	24,008	Note 1
	Synage Technology Corp.	Investee	Equity-method investments	9,984	67,351	19.97	67,351	Note 1
	Zentel Electronics Corp.	Investee	Equity-method investments	5,300	57,749	21.03	69,988	Note 1
	Astel Electronics Corp.	Investee	Equity-method investments	8,000	57,464	40.00	57,464	Note 1
	Retronix Technology Corp.	Investee	Equity-method investments	5,000	48,758	25.00	48,758	Note 1
	Terax Communication Technology Inc.	Investee	Equity-method investments	6,090	47,189	17.40	47,189	Note 1
	Luxchip Technology Corp.	Investee	Equity-method investments	3,800	39,132	19.00	39,132	Note 1
	Vivichip Electronics Corp.	Investee	Equity-method investments	4,000	37,491	40.00	37,491	Note 1
	Siptron Technology Corporation	Subsidiary	Equity-method investments	4,160	35,697	32.00	35,697	Note 1
	Silicon Optronics, Inc.	Investee	Equity-method investments	2,076	31,505	11.53	31,505	Note 1
	AVAC Systems, Inc.	Investee	Equity-method investments	4,000	30,608	23.31	30,608	Note 1
	MicroMedia Technology Corp.	Investee	Equity-method investments	3,000	28,743	30.00	28,743	Note 1
	PowerGate Optical, Inc.	Investee	Equity-method investments	1,774	11,561	5.26	11,561	Note 1
	Rexchip Electronics Corp.	Subsidiary	Equity-method investments	100	767	100.00	767	Note 2
	MaxEdge Electronics Corp.	Investee	Equity-method investments	1,714	-	13.39	(31,804)	Note 2
	Optimax Technology Corp.	Corporation is its director	Available-for-sale financial assets	5,105	117,420	-	117,420	-
	China Coal Energy Company Limited	-	Available-for-sale financial assets	31	656	-	656	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2006				Note
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	China Communications Construction Company Limited	-	Available-for-sale financial assets	8	\$ 258	-	\$ 258	-
	Besteam Technology Inc.	-	Financial assets carried at cost	6,430	58,454	9.84	58,454	Note 2
	PowerWorld Fund Inc.	Same chairman	Financial assets carried at cost	2,882	42,563	9.09	42,563	Note 2
	uPI Semiconductor Corp.	Same chairman	Financial assets carried at cost	2,000	30,000	16.00	30,000	Note 2
	eMemory Technology Inc.	Same chairman	Financial assets carried at cost	2,972	28,961	7.53	28,961	Note 2
	TwinMOS Technologies Inc.	-	Financial assets carried at cost	2,757	23,109	1.34	23,109	Note 2
	Universal Venture Fund, Inc.	Same chairman	Financial assets carried at cost	2,191	21,902	4.76	21,902	Note 2
	A-Optronics Technology Inc.	Same chairman	Financial assets carried at cost	2,232	19,865	6.98	19,865	Note 2
	EUDAR Technology Inc.	-	Financial assets carried at cost	600	15,420	2.20	15,420	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
	Advanced Chip Engineering Technology Inc.	-	Financial assets carried at cost	1,891	13,237	1.52	13,237	Note 2
	Lightsonic Optoelectronics Inc.	Quantum Vision is its director	Financial assets carried at cost	1,700	11,678	1.83	11,678	Note 2
	Area East Technology Corp.	Corporation is its director	Financial assets carried at cost	1,300	9,997	18.81	9,997	Note 2
	Taiwan Liposome Co., Ltd.	Quantum Vision is its director	Financial assets carried at cost	300	9,000	2.25	9,000	Note 2
	CHIPSHIP Technology Co., Ltd.	Corporation is its director	Financial assets carried at cost	934	4,819	10.61	4,819	Note 2
	DRAMeXchange Tech. Inc.	-	Financial assets carried at cost	330	1,715	3.59	1,715	Note 2
	Phitech Corp.	-	Financial assets carried at cost	305	1,552	1.27	1,552	Note 2
	Jade Pacific Corp.	-	Financial assets carried at cost	8	83	1.35	83	Note 2
	Asia Pacific Broadband Telecommunications Co., Ltd.	-	Financial assets carried at cost	12,000	-	0.18	-	Note 2
	Miluku Entertainment Corp.	Quantum Vision is its director	Financial assets carried at cost	220	-	1.80	-	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	-	16,590	5.18	16,590	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
	SemilLEDs Corp. Series C - preferred shares	-	Financial assets carried at cost	6,102	116,172	18.00	116,172	Note 2
	e-Phocus, Inc., Series B-preferred shares	-	Financial assets carried at cost	667	10,030	33.33	10,030	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
	Macronix International Co., Ltd.	-	Financial assets at fair value through profit and loss	151,333	2,133,800	-	2,133,800	-
	Shinkong Financial Holding Co., Ltd.	-	Financial assets at fair value through profit and loss	22,773	799,326	-	799,326	-
	Wafer Works Corp.	Corporation is its director	Financial assets at fair value through profit and loss	9,526	691,582	-	691,582	-
	Hua Nan Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit and loss	14,291	345,134	-	345,134	-
	ProMos Technologies Inc.	-	Financial assets at fair value through profit and loss	18,001	255,609	-	255,609	-
	Advanced Semiconductor Engineering, Inc.	-	Financial assets at fair value through profit and loss	5,485	202,945	-	202,945	-
	Chang Hwa Commercial Bank, Ltd.	-	Financial assets at fair value through profit and loss	5,400	122,850	-	122,850	-
	Wintek Corporation	-	Financial assets at fair value through profit and loss	3,576	110,664	-	110,664	-
	Depo Auto Parts Ind. Co., Ltd.	-	Financial assets at fair value through profit and loss	675	62,715	-	62,715	-
	Silicon Integrated System Corp.	-	Financial assets at fair value through profit and loss	3,135	62,388	-	62,388	-
	Fuhwa Financial Holding Co., Ltd.	-	Financial assets at fair value through profit and loss	3,725	60,718	-	60,718	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2006				Note
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Fullerton Technology Co., Ltd.	Quantum Vision is its director	Financial assets at fair value through profit and loss	3,000	\$ 58,500	-	\$ 58,500	-
	BENQ Corporation	-	Financial assets at fair value through profit and loss	1,500	26,175	-	26,175	-
	Yaego Corporation	-	Financial assets at fair value through profit and loss	1,500	22,800	-	22,800	-
	Yang Ming Marine Transport Corp.	-	Financial assets at fair value through profit and loss	1,000	18,800	-	18,800	-
	Etron Technology, Inc.	-	Financial assets at fair value through profit and loss	260	8,361	-	8,361	-
	NewSoft Technology Corp.	Same chairman	Financial assets at fair value through profit and loss	180	2,034	-	2,034	-
	Elpida Memory Inc.	-	Financial assets at fair value through profit and loss	429	768,135	-	768,135	-
	Silicon Storage Technology Inc.	-	Financial assets at fair value through profit and loss	68	9,943	-	9,943	-
	Sony Corporation	-	Financial assets at fair value through profit and loss	5	6,990	-	6,990	-
	Bonds							
	Veutron Corp. - issued in 2005 (I)	Investee	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)	Investee	Held-to-maturity financial assets	5	25,000	-	25,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (III)	Investee	Held-to-maturity financial assets	20	20,000	-	20,000	Note 2
	Veutron Corp. - issued in 2002 (II)	Investee	Held-to-maturity financial assets	3	14,000	-	14,000	Note 2
	Credit Link Note issued by Credit Suisse First Boston	-	Financial assets at fair value through profit and loss	-	48,307	-	48,307	-
	Equity							
	Polaris Global ABS Fund - A	-	Financial assets at fair value through profit and loss	8,002	80,979	-	80,979	-
	Fuh-Hwa Omni Fund	-	Financial assets at fair value through profit and loss	5,000	51,350	-	51,350	-
	UPAMC Select Guaranteed No. 1 Fund	-	Financial assets at fair value through profit and loss	1,000	10,000	-	10,000	-
	Fuh-Hwa Heirloom No. 2 Balance Fund	-	Financial assets at fair value through profit and loss	639	9,254	-	9,254	-
	Shinkong Number One Real Estate Investment	-	Financial assets at fair value through profit and loss	20,000	227,000	-	227,000	-
	Fuh Hwa Asia Pacific Balance Fund	-	Available-for-sale financial assets	3,536	36,739	-	36,739	-
	Cathay Wealthy One Fund	-	Available-for-sale financial assets	3,000	30,472	-	30,472	-
	UPAMC Fully Wealth Fund 1	-	Available-for-sale financial assets	2,998	30,463	-	30,463	-
	SKIT Strategy Balanced Fund 2	-	Available-for-sale financial assets	3,000	30,111	-	30,111	-
	Fubon No.2 REITs	-	Available-for-sale financial assets	18,000	226,800	-	226,800	-
	Champion Real Estate Investment Trust	-	Available-for-sale financial assets	2,458	38,724	-	38,724	-
Li-Hsin Investment Corp.	Stock							
	MaxEdge Electronics Corp.	Investee	Equity-method investments	2,045	-	15.97	(37,932)	Note 1
	Synage Technology Corp.	Investee	Equity-method investments	10,467	70,589	20.93	70,589	Note 1
	Novax Technologies, Inc.	Investee	Equity-method investments	5,246	71,725	5.25	71,725	Note 1
	Luxxon Technology Corp.	Investee	Equity-method investments	1,363	5,574	1.36	5,574	Note 1
	Tekmax Development Corp.	Investee	Equity-method investments	2,846	37,579	7.61	37,579	Note 1
	Powerflash Technology Corporation.	Investee	Equity-method investments	1,430	14,471	4.77	14,471	Note 1
	Artrix International Inc.	Investee	Equity-method investments	4,805	54,788	5.34	54,788	Note 1
	Optimicro Corp.	Investee	Equity-method investments	2,118	14,167	4.24	14,167	Note 1
	Lu-Chu Development Corp.	Investee	Equity-method investments	24,337	220,393	10.42	220,393	Note 1
	Smart Art Corp.	Investee	Equity-method investments	11,450	114,944	14.31	114,944	Note 1
	LoanSky.Net Corp.	Investee	Equity-method investments	400	3,139	8.00	3,139	Note 1
	Luxchip Technology Corp.	Investee	Equity-method investments	1,800	18,536	9.00	18,536	Note 1
	Neo Solar Power Corp.	Investee	Equity-method investments	1,500	15,088	2.50	15,088	Note 1

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2006				Note
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Deutron Japan Corp.	Investee	Equity-method investments	191	\$ 7,741	3.89	\$ 7,741	Note 1
	Veutron Corp.	Investee	Equity-method investments	4,700	65,143	4.32	65,143	Notes 1 and 7
	Navisys Technology Corp.	Investee	Equity-method investments	400	3,949	8.89	3,949	Note 1
	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
	Eon Silicon Solution Inc.	-	Financial assets carried at cost	195	4,515	0.34	4,515	Note 2
	Ili Technology Corp.	Quantum Vision is its supervisor	Financial assets carried at cost	500	7,500	2.13	7,500	Note 2
	Chipking Electronic Co., Ltd.	Quantum Vision is its supervisor	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	1,729	0.90	1,729	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)	Investee	Held-to-maturity financial assets	3	10,500	-	10,500	Note 2
	Veutron Corp. - issued in 2003 (II)	Investee	Held-to-maturity financial assets	3	6,000	-	6,000	Note 2
	Veutron Corp. - issued in 2005 (I)	Investee	Held-to-maturity financial assets	4	20,000	-	20,000	Note 2
	Veutron Corp. - issued in 2006 (I)	Investee	Held-to-maturity financial assets	3	15,000	-	15,000	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 (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	12,725	-	12,725	-
	Fullerton Technology Co., Ltd.	Quantum Vision is its director	Financial assets at fair value through profit and loss	1,045	20,379	-	20,379	-
	Yang Ming Marine Transport Corp.	-	Financial assets at fair value through profit and loss	100	1,880	-	1,880	-
	Macronix International Co., Ltd.	-	Financial assets at fair value through profit and loss	7,005	98,764	-	98,764	-
	ProMos Technologies Inc.	-	Financial assets at fair value through profit and loss	5,070	71,994	-	71,994	-
	Optimax Technology Corp.	Parent company is its director	Available-for-sale financial assets	60	1,380	-	1,380	-
	Powerchip Semiconductor Corp.	Parent company	Available-for-sale financial assets	4,200	92,396	-	92,396	-
	AIPTEK International Inc.	-	Available-for-sale financial assets	1,000	8,100	-	8,100	-
	Pacgen Biopharmaceuticals Corp.	-	Available-for-sale financial assets	143	4,277	-	4,277	-
	<u>Equity</u>							
	Polaris De-Li Fund	-	Financial assets at fair value through profit and loss	3,347	50,436	-	50,436	-
	Jih Sun Bond Fund	-	Financial assets at fair value through profit and loss	4,207	57,400	-	57,400	-
	PCA Bond Fund	-	Financial assets at fair value through profit and loss	171	2,655	-	2,655	-
	Sheng Hua 5599 Bond Fund	-	Financial assets at fair value through profit and loss	3,156	35,373	-	35,373	-
	Champion Real Estate Investment Trust	-	Available-for-sale financial assets	396	6,197	-	6,197	-
Quantum Vision Corp.	<u>Stock</u>							
	MaxEdge Electronics Corp.	Investee	Equity-method investments	1,425	-	11.13	(26,436)	Note 1
	Deutron Electronics Corp.	Investee	Equity-method investments	7,330	255,408	9.89	255,408	Note 1
	Syntronix Corp.	Investee	Equity-method investments	665	8,765	2.06	8,765	Note 1
	Zentel Electronics Corp.	Investee	Equity-method investments	1,800	23,762	7.20	23,762	Note 1
	Synage Technology Corp.	Investee	Equity-method investments	1,836	12,378	3.67	12,378	Note 1

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2006				Note
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Novax Technologies, Inc.	Investee	Equity-method investments	12,735	\$ 173,915	12.73	\$ 173,915	Note 1
	Luxxon Technology Corp.	Investee	Equity-method investments	9,670	39,534	9.67	39,534	Note 1
	AVAC Systems Inc.	Investee	Equity-method investments	2,501	19,145	14.58	19,145	Note 1
	PowerGate Optical, Inc.	Investee	Equity-method investments	3,598	23,430	10.66	23,430	Note 1
	Tekmax Development Corp.	Investee	Equity-method investments	5,729	75,702	15.33	75,702	Note 1
	Silicon Optronics, Inc.	Investee	Equity-method investments	1,099	16,695	6.11	16,695	Note 1
	Siptron Technology Corporation	Investee	Equity-method investments	1,040	8,924	8.00	8,924	Note 1
	Poweflash Technology Corporation	Investee	Equity-method investments	1,800	18,203	6.00	18,203	Note 1
	Artrix International Inc.	Investee	Equity-method investments	9,580	108,821	10.64	108,821	Note 1
	Optimicro Corp.	Investee	Equity-method investments	3,987	26,629	7.97	26,629	Note 1
	Lu-Chu Development Corp.	Investee	Equity-method investments	7,327	66,414	3.14	66,414	Note 1
	Astel Electronics Corp.	Investee	Equity-method investments	1,000	7,183	5.00	7,183	Note 1
	Smart Art Corp.	Investee	Equity-method investments	15,190	152,536	18.99	152,536	Note 1
	LoanSky.Net Corp.	Investee	Equity-method investments	1,000	7,847	20.00	7,847	Note 1
	Luxchip Technology Corp.	Investee	Equity-method investments	3,800	39,132	19.00	39,132	Note 1
	Neo Solar Power Corp.	Investee	Equity-method investments	1,800	18,118	3.00	18,118	Note 1
	Retronix Technology Corp.	Investee	Equity-method investments	1,000	9,752	5.00	9,752	Note 1
	Network Holdings Limited	Investee	Equity-method investments	1,135	35,131	20.64	35,131	Note 1
	Signia Technologies Co., Ltd.	Investee	Equity-method investments	795	3,677	4.29	3,677	Note 1
	Vivichip Electronics Corp.	Investee	Equity-method investments	100	937	1.00	937	Note 1
	Zhi-Li Investment Corp.	Investee	Equity-method investments	5,620	70,313	4.01	70,313	Note 1
	MicroMedia Technology Corp.	Investee	Equity-method investments	1,000	9,581	10.00	9,581	Note 1
	Veutron Corp.	Investee	Equity-method investments	3,767	52,326	3.47	52,326	Notes 1 and 7
	Terax Communication Technologies Inc.	Investee	Equity-method investments	3,134	24,273	8.95	24,273	Note 1
	Navisys Technology Corp.	Investee	Equity-method investments	1,000	9,871	22.22	9,871	Note 1
	eBsuccess Solutions Inc.	Investee	Equity-method investments	1,000	11,000	12.50	11,000	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.	Quantum Vision is its director	Financial assets carried at cost	1,500	10,301	1.62	10,301	Note 2
	Ili Technology Corp.	Quantum Vision is its supervisor	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	2,865	4.44	2,865	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	219	-	1.80	-	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

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2006				Note
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Chipking Electronic Co., Ltd.	Quantum Vision is its supervisor	Financial assets carried at cost	800	\$ 8,000	16.00	\$ 8,000	Note 2
	TVbean Holding Ltd.	-	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	3,195	28,436	9.98	28,436	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
	<u>Bonds</u>							
	Veutron Corp. - issued in 2002 (II)	Investee	Held-to-maturity financial assets	5	17,500	-	17,500	Note 2
	Veutron Corp. - issued in 2003 (II)	Investee	Held-to-maturity financial assets	13	26,000	-	26,000	Note 2
	Veutron Corp. - issued in 2005 (I)	Investee	Held-to-maturity financial assets	4	20,000	-	20,000	Note 2
	Veutron Corp. - issued in 2006 (I)	Investee	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
	<u>Stocks</u>							
	NewSoft Technology Corp.	Same chairman	Financial assets at fair value through profit and loss	473	5,347	-	5,347	-
	Silicon Storage Technology Inc.	-	Financial assets at fair value through profit and loss	40	5,872	-	5,872	-
	Fullerton Technology Co., Ltd.	Quantum Vision is its director	Financial assets at fair value through profit and loss	3,060	59,672	-	59,672	-
	Yang Ming Marine Transport Corp.	-	Financial assets at fair value through profit and loss	100	1,880	-	1,880	-
	Macronix International Co., Ltd.	-	Financial assets at fair value through profit and loss	13,161	185,564	-	185,564	-
	Hua Nan Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit and loss	1,000	24,150	-	24,150	-
	Wafer Works Corp.	Quantum Vision is its supervisor	Financial assets at fair value through profit and loss	3,362	244,088	-	244,088	-
	ProMos Technologies Inc.	-	Financial assets at fair value through profit and loss	5,180	73,556	-	73,556	-
	Optimax Technology Corp.	Parent company is its director	Available-for-sale financial assets	150	3,445	-	3,445	-
	Powertech Technology Inc.	Quantum Vision is its director	Available-for-sale financial assets	3,193	434,193	-	434,193	-
	Pacgen Biopharmaceuticals Corp.	-	Available-for-sale financial assets	133	3,979	-	3,979	-
	China Coal Energy Company Limited	-	Available-for-sale financial assets	10	210	-	210	-
	<u>Equity</u>							
	PCA Bond Fund	-	Financial assets at fair value through profit and loss	6,436	100,008	-	100,008	-
	Taishin Lucky Investment Trust Fund	-	Financial assets at fair value through profit and loss	19,502	200,016	-	200,016	-
	Cathay Bond Fund	-	Financial assets at fair value through profit and loss	5,409	70,005	-	70,005	-
	TIM High Yield Bond Fund	-	Financial assets at fair value through profit and loss	2,416	30,002	-	30,002	-
	Hua Nan Kirin Bond Fund	-	Financial assets at fair value through profit and loss	9,034	100,008	-	100,008	-
	ShingKong Chi-Shin Bond Fund	-	Financial assets at fair value through profit and loss	13,964	200,015	-	200,015	-
	Champion Real Estate Investment Trust	-	Available-for-sale financial assets	450	7,042	-	7,042	-
Paramax Corp.	<u>Stock</u>							
	MaxEdge Electronics Corp.	Investee	Equity-method investments	910	-	7.11	(16,888)	Note 1
	Synage Technology Corp.	Investee	Equity-method investments	1,581	10,657	3.16	10,657	Note 1
	Novax Technologies, Inc.	Investee	Equity-method investments	4,042	55,194	4.04	55,194	Note 1
	Luxxon Technology Corp.	Investee	Equity-method investments	7,728	31,679	7.73	31,679	Note 1
	AVAC Systems Inc.	Investee	Equity-method investments	1,093	8,364	6.37	8,364	Note 1
	PowerGate Optical, Inc.	Investee	Equity-method investments	1,467	9,539	4.34	9,539	Note 1
	Tekmax Development Corp.	Investee	Equity-method investments	1,060	14,024	2.84	14,024	Note 1
	Silicon Optronics, Inc.	Investee	Equity-method investments	611	9,263	3.39	9,263	Note 1

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2006				Note
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Siptron Technology Corporation	Investee	Equity-method investments	500	\$ 4,295	3.85	\$ 4,295	Note 1
	Powerflash Technology Corporation	Investee	Equity-method investments	1,800	18,203	6.00	18,203	Note 1
	Artrix International Inc.	Investee	Equity-method investments	4,246	48,274	4.72	48,274	Note 1
	Optimicro Corp.	Investee	Equity-method investments	1,824	12,195	3.65	12,195	Note 1
	Lu-Chu Development Corp.	Investee	Equity-method investments	5,294	48,013	2.27	48,013	Note 1
	Smart Art Corp.	Investee	Equity-method investments	18,223	182,979	22.78	182,979	Note 1
	LoanSky.Net Corp.	Investee	Equity-method investments	400	3,139	8.00	3,139	Note 1
	Deutron Japan Corp.	Investee	Equity-method investments	232	9,413	4.73	9,413	Note 1
	Zhi-Li Investment Corp.	Investee	Equity-method investments	10,247	128,352	7.32	128,352	Note 1
	Retronix Technology Corp.	Investee	Equity-method investments	1,000	9,752	5.00	9,752	Note 1
	Veutron Corp.	Investee	Equity-method investments	8,705	120,787	8.01	120,787	Notes 1 and 7
	Terax Communication Technologies Inc.	Investee	Equity-method investments	1,132	8,787	3.24	8,787	Note 1
	Zentel Electronics Corp.	Investee	Equity-method investments	300	3,960	1.20	3,960	Note 1
	Navisys Technology Corp.	Investee	Equity-method investments	820	8,094	18.22	8,094	Note 1
	eBsuccess Solutions Inc.	Investee	Equity-method investments	900	9,900	11.25	9,900	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
	Lightsonic Optoelectronics Inc.	Quantum Vision is its director	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.	Quantum Vision is its supervisor	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 Holding 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
	Bonds							
	Veutron Corp. - issued in 2002 (II)	Investee	Held-to-maturity financial assets	2	7,000	-	7,000	Note 2
	Veutron Corp. - issued in 2003 (II)	Investee	Held-to-maturity financial assets	7	14,000	-	14,000	Note 2
	Veutron Corp. - issued in 2005 (I)	Investee	Held-to-maturity financial assets	4	20,000	-	20,000	Note 2
	Veutron Corp. - issued in 2006 (I)	Investee	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
	Stock							
	Macronix International Co., Ltd.	-	Financial assets at fair value through profit and loss	7,005	98,764	-	98,764	-
	ProMos Technologies Inc.	-	Financial assets at fair value through profit and loss	5,000	71,000	-	71,000	-
	Optimax Technology Corp.	Parent company is its director	Available-for-sale financial assets	40	920	-	920	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2006				Note	
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value		
Powerflash Technology Corporation	<u>Equity</u>								
	President James Bond Fund	-	Financial assets at fair value through profit and loss	549	\$ 8,471	-	\$ 8,471	-	
	Fuhwa Bond Fund	-	Financial assets at fair value through profit and loss	4,163	55,494	-	55,494	-	
	<u>Stock</u>								
	Optimax Technology Corp.	Investee	Equity-method investments	702	4,678	1.40	4,678	Note 1	
	Retronix Technology Corp.	Investee	Equity-method investments	2,000	19,503	10.00	19,503	Note 1	
	Zhi-Li Investment Corp.	Investee	Equity-method investments	3,819	47,869	2.73	47,869	Note 1	
	Artrix International Inc.	Investee	Equity-method investments	1,487	16,875	1.65	16,875	Note 1	
	Siptron Technology Corporation	Investee	Equity-method investments	500	4,295	3.85	4,295	Note 1	
	Luxxon Technology Corp.	Investee	Equity-method investments	1,800	7,359	1.80	7,359	Note 1	
	Veutron Corp.	Investee	Equity-method investments	600	8,294	0.55	8,294	Notes 1 and 7	
	Powerchip Semiconductor Corp.	Parent Company	Available-for-sale financial assets	2,451	53,928	-	53,928		
	Macronix International Co., Ltd.	-	Financial assets at fair value through profit and loss	800	11,280	-	11,280		
	ProMos Technologies Inc.	-	Financial assets at fair value through profit and loss	3,000	42,600	-	42,600		
Smart Art Corp.	<u>Equity</u>								
	PCA Bond Fund	-	Financial assets at fair value through profit and loss	2,935	45,602	-	45,602	-	
	Capital Income Fund	-	Financial assets at fair value through profit and loss	457	6,799	-	6,799	-	
	<u>Stock</u>								
	Veutron Corp.	Investee	Equity-method investments	1,000	13,873	0.92	13,873	Notes 1 and 7	
	<u>Equity</u>								
	Fuhwa Bond Fund	-	Financial assets at fair value through profit and loss	14,312	190,786	-	190,786	-	
	Jih Sun Bond Fund	-	Financial assets at fair value through profit and loss	3,353	45,741	-	45,741	-	
	Siptron Technology Corporation	<u>Stock</u>							
		Artrix International Inc.	Investee	Equity-method investments	1,054	11,966	1.17	11,966	Note 1
Zhi-Li Investment Inc.		Investee	Equity-method investments	2,665	33,315	1.90	33,315	Note 1	
Zentel Electronics Corp.		Investee	Equity-method investments	320	4,227	1.27	4,227	Note 1	
Vivichip Electronics Corp.		Investee	Equity-method investments	500	4,686	5.00	4,686	Note 1	
Network Holdings Limited		Investee	Equity-method investments	1,000	30,992	18.87	30,992	Note 1	
Macronix International Co., Ltd.		-	Financial assets at fair value through profit and loss	800	11,280	-	11,280	-	
<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		
Rui-Wang Investment Corp.	<u>Equity</u>								
	Fuhwa Bond Fund	-	Financial assets at fair value through profit and loss	11,257	150,059	-	150,059	-	
	Jih Sun Bond Fund	-	Financial assets at fair value through profit and loss	3,666	50,016	-	50,016	-	
	Polaris De-Li Fund	-	Financial assets at fair value through profit and loss	6,639	100,031	-	100,031	-	
	Polaris De-Bo Fund	-	Financial assets at fair value through profit and loss	9,028	100,035	-	100,035	-	
	ING Taiwan Bond Fund	-	Financial assets at fair value through profit and loss	6,638	100,035	-	100,035	-	
	Cathay Bond Fund	-	Financial assets at fair value through profit and loss	8,676	100,032	-	100,032	-	
President James Bond Fund	-	Financial assets at fair value through profit and loss	6,484	100,034	-	100,034	-		

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2006				Note
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Global Powertec Co., Ltd.	<u>Stock</u> Vantel Corp.	Investee	Equity-method investments	5	\$ 23,669	99.96	\$ 23,669	Note 1
	Power ASE Tech. Holding Ltd.	Investee	Equity-method investments	14,000	452,752	29.47	452,752	Note 1

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

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

Note 3: As of December 31, 2006, the above marketable securities had not been pledged or mortgaged, except for those placed in the centralized securities depository enterprise due to application for the first time for the investee companies' stocks to be listed or traded on the stock exchange market.

Note 4: Under the Securities and Exchange Act, 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: Prepayments for long-term investments of the Corporation, Quantum and Paramax are excluded.

Note 7: Under the Securities and Exchange Act, certain portion of Veutron's stock investments was acquired partially through private market transactions with certain restrictions on the transferability of the stock.

Note 8: In thousands, except for bond investments which are units. (Concluded)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 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	116,000	\$ 1,160,000	-	\$ -	\$ -	\$ -	249,850	\$ 2,018,288
	Paramax Corp.	Equity-method investments	-	-	83,994	659,455	48,900	489,000	-	-	-	-	132,894	1,225,940
	Quantum Vision Corp.	Equity-method investments	-	-	160,990	1,567,813	138,900	1,389,000	-	-	-	-	299,890	3,702,592
	Rui-Wang Investment Corp.	Equity-method investments	-	-	-	-	80,000	800,000	-	-	-	-	80,000	800,244
	Smart Art Corp.	Equity-method investments	-	-	12,000	119,989	23,137	231,367	-	-	-	-	35,137	352,784
	Artrix International Inc.	Equity-method investments	-	-	8,760	85,279	13,669	136,689	-	-	-	-	22,429	254,870
	Powerflash Technology Corporation	Equity-method investments	-	-	3,000	19,671	13,050	130,500	750	-	-	-	15,300	127,222
	Zhi-Li Investment Corp.	Equity-method investments	-	-	18,650	185,305	26,885	268,852	(Note 2)	-	-	-	45,535	569,965
	Global Powertec Co., Ltd.	Equity-method investments	-	-	-	-	1,620	531,236	-	-	-	-	1,620	482,128
	SemiLEDs Corp. Series C	Financial assets carried at cost	-	-	-	-	6,102	116,172	-	-	-	-	6,102	116,172
	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	799,326
	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	345,134
	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	-	-
	First Financial Holding Co., Ltd.	Financial assets at fair value through profit and loss	-	-	3,125	73,438	2,474	59,906	5,599	136,960	136,891	69	-	-
	ProMos Technologies Inc.	Financial assets at fair value through profit and loss	-	-	3,001	37,808	15,000	197,300	-	-	-	-	18,001	255,609
	Macronix International Co., Ltd.	Financial assets at fair value through profit and loss	-	-	58,032	305,248	118,500	1,123,370	25,199	-	-	-	151,333	2,133,800
	Mega Financial Holding Co., Ltd.	Financial assets at fair value through profit and loss	-	-	-	-	6,950	168,206	6,950	169,306	168,206	1,100	-	-
	Wafer Works Corp.	Financial assets at fair value through profit and loss	-	-	-	-	9,526	313,106	-	-	-	-	9,526	691,582
	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	202,945
	Chang Hwa Commercial Bank, Ltd.	Financial assets at fair value through profit and loss	-	-	-	-	5,400	117,653	-	-	-	-	5,400	122,850
	Taiwan Semiconductor Manufacturing Company Limited	Financial assets at fair value through profit and loss	-	-	-	-	2,575	158,449	2,575	159,508	158,449	1,059	-	-
	Wintek Corporation	Financial assets at fair value through profit and loss	-	-	-	-	3,576	121,488	-	-	-	-	3,576	110,664
	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	768,135

(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> Fuhwa Commercial Bank Common Trust Fund	Financial assets at fair value through profit and loss	-	-	10,000	\$ 101,131 (Note 3)	-	\$ -	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 (Note 3)	581 (Note 6)	-	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 (Note 3)	-	-	7,003	101,427	100,000	1,427	-	-
	Fubon No. 2 REITs	Available-for-sale financial assets	-	-	-	-	18,000	180,360	-	-	-	-	18,000	226,800 (Note 4)
	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	-	-
Paramax	Jih Sun Bond Fund	Financial assets at fair value through profit and loss	-	-	-	-	7,363	100,000	3,156	43,000	42,862	138	4,207	57,400 (Note 4)
	<u>Stock</u> Smart Art Corp.	Equity-method investments	-	-	5,000	49,996	13,223	132,231	-	-	-	-	18,223	182,979 (Note 1)
	Zhi-Li Investment Corp.	Equity-method investments	-	-	-	-	10,247	102,470	-	-	-	-	10,247	128,352 (Note 1)
Quantum	<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	-	-
	Fuhwa Bond Fund	Financial assets at fair value through profit and loss	-	-	-	-	7,552	100,000	3,389	45,000	44,872	128	4,163	55,494 (Note 4)
	<u>Stock</u> Smart Art Corp.	Equity-method investments	-	-	5,000	49,996	10,190	101,902	-	-	-	-	15,190	152,536 (Note 1)
	Wafer Works Corp.	Financial assets at fair value through profit and loss	-	-	-	-	4,362	166,348	1,000	50,646	39,642	11,004	3,362	244,088 (Note 4)
	<u>Equity</u> Taishin Lucky Investment Trust Fund	Financial assets at fair value through profit and loss	-	-	-	-	29,319	300,000	9,817	100,409	100,000	409	19,502	200,016 (Note 4)
	Dresdner Bond Dam Fund	Financial assets at fair value through profit and loss	-	-	-	-	14,794	170,000	14,794	170,363	170,000	363	-	-
Smart Art	PCA Bond Fund	Financial assets at fair value through profit and loss	-	-	-	-	6,436	100,000	-	-	-	-	6,436	100,008 (Note 4)
	Hua Nan Kirin Bond Fund	Financial assets at fair value through profit and loss	-	-	-	-	14,511	160,000	5,477	60,018	60,000	18	9,034	100,008 (Note 4)
	ShingKong Chi-shin Bond Fund	Financial assets at fair value through profit and loss	-	-	-	-	13,964	200,000	-	-	-	-	13,964	200,015 (Note 4)
	<u>Equity</u> Jih Sun Bond Fund	Financial assets at fair value through profit and loss	-	-	-	-	17,680	240,000	14,327	195,000	194,450	550	3,353	45,741 (Note 4)
	Fuhwa Bond Fund	Financial assets at fair value through profit and loss	-	-	-	-	18,092	240,000	3,780	50,030	50,000	30	14,312	190,786 (Note 4)
Global Powertec	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	-	-
	<u>Stock</u> Power ASE Tech. Holding Ltd.	Equity-method investments	-	-	-	-	14,000	455,980	-	-	-	-	14,000	452,752 (Note 1)

(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
Rui-Wang	<u>Equity</u>													
	Polaris De-Li Fund	Financial assets at fair value through profit and loss	-	-	-	\$ -	6,639	\$ 100,000	-	\$ -	\$ -	\$ -	6,639	\$ 100,031
	Polaris De-Bo Fund	Financial assets at fair value through profit and loss	-	-	-	-	9,028	100,000	-	-	-	-	9,028	(Note 4) 100,035
	Fuhwa Bond Fund	Financial assets at fair value through profit and loss	-	-	-	-	11,257	150,000	-	-	-	-	11,257	(Note 4) 150,059
	ING Taiwan Bond Fund	Financial assets at fair value through profit and loss	-	-	-	-	6,638	100,000	-	-	-	-	6,638	(Note 4) 100,035
	Cathay Bond Fund	Financial assets at fair value through profit and loss	-	-	-	-	8,676	100,000	-	-	-	-	8,676	(Note 4) 100,032
	President James Bond Fund	Financial assets at fair value through profit and loss	-	-	-	-	6,484	100,000	-	-	-	-	6,484	(Note 4) 100,034

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 AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATES AT COSTS OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL

YEAR ENDED DECEMBER 31, 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	May 26, 2006 - December 23, 2006	\$ 2,838,442	\$ 1,510,261	Toko Steel Structure Corp.	-	-	-	-	\$ -	-	Fab. 12C	-
	Buildings	June 30, 2006 - December 14, 2006	5,300,000	5,300,000	Macronix International Co., Ltd.	-	-	-	-	-	According to the Contracts	Fab. 12M	Please see Note 27
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 AND SUBSIDIARIES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 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	\$ 27,745,978	30	Note 2	\$ -	-	\$ 4,713,074	36	
	Deutron Electronics Corp.	Investee	Sales	15,226,002	17	Note 3	-	-	1,991,223	15	
	Novax Technologies, Inc.	Investee	Sales	4,719,545	5	Note 3	-	-	486,651	4	
	Renesas Technology (Taiwan) Co., Ltd. (Note 5)	Subsidiary of Renesas	Sales	2,409,808	3	Note 2	-	-	80,914	1	
	Elpida Memory (Taiwan) Co., Ltd.	Director of the Corporation	Sales	2,066,611	2	Note 3	-	-	-	-	
	Zentel Electronics Corp.	Investee	Sales	1,644,690	2	Note 3	-	-	615,870	5	
	Syntronix Corp.	Investee	Sales	571,633	1	Note 2	-	-	8,796	-	
	Silicon Optronics, Inc.	Investee	Sales	210,618	-	Note 2	-	-	35,166	-	
	Renesas Technology (Taiwan) Co., Ltd. (Note 5)	Subsidiary of Renesas	Purchase	194,269	1	Note 2	-	-	-	-	
	Powertech Technology Inc.	Quantum Vision is its director	Note 1	5,124,574	10	Note 4	-	-	(1,211,926)	(15)	

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 December 31, 2006; the transaction made as of and for the year ended December 31, 2006 are disclosed only for reference.

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

DECEMBER 31, 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	\$ 4,713,074	10.15	\$ -	-	\$ -	\$ 144,192
	Deutron Electronics Corp.	Investee	1,991,223	10.29	-	-	1,347,098	61,178
	Zentel Electronics Corp.	Investee	615,870	5.00	-	-	302,530	18,957
	Novax Technologies, Inc.	Investee	486,651	11.86	-	-	425,193	14,950

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

Note 2: The Company ceased to be the Corporation's related party as of December 31, 2006; the transaction made as of and for the year ended December 31, 2006 are disclosed only for reference.

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
 YEAR ENDED DECEMBER 31, 2006
 (In Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2006			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note	
				Dec. 31, 2006	Dec. 31, 2005	Shares (Thousands)	% of Ownership	Carrying Value				
Powerchip Semiconductor Corporation	Quantum Vision Corp.	Taipei, Taiwan	Investment	\$ 2,971,900	\$ 1,582,900	299,890	99.99	\$ 3,702,592	\$ 310,408	\$ 309,485		
	Li-Hsin Investment Corp.	Taipei, Taiwan	Investment	2,498,500	1,338,500	249,850	99.94	2,018,288	21,484	19,629		
	Paramax Corp.	Taipei, Taiwan	Investment	1,328,940	839,940	132,894	99.99	1,225,940	(3,871)	(3,321)		
	Rui-Wang Investment Corp.	Taipei, Taiwan	Investment	800,000	-	80,000	100.00	800,244	244	244		
	Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	634,990	634,990	63,499	27.18	574,883	(33,679)	(9,154)		
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	455,352	186,500	45,535	32.53	569,965	211,327	75,101		
	Global Powertec Co., Ltd.	British Virgin Islands	Investment	531,236	-	1,620	100.00	482,128	(35,651)	(35,651)		
	Smart Art Corp.	Taipei, Taiwan	Transaction of artistry	351,367	120,000	35,137	43.92	352,784	(4,579)	(2,112)		
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic component manufacturing	287,476	287,476	24,658	24.66	336,901	137,706	33,589		
	Deutron Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	21,300	21,300	6,997	9.44	229,968	1,132,949	96,055		
	Artrix International Inc.	Taipei, Taiwan	Investment	224,289	87,600	22,429	24.92	254,870	117,453	29,385		
	Powerflash Technology Corporation	Taipei, Taiwan	Design of electronic products	160,500	30,000	15,300	51.00	127,222	(4,965)	(3,066)		
	Veutron Corp.	Hsin-Chu, Taiwan	Optical component manufacturing	94,855	3,955	10,432	9.60	144,763	(72,222)	38,036		
	Optimicro Corp.	Taipei, Taiwan	Optical component manufacturing	147,000	147,000	14,700	29.40	98,232	(148,071)	(43,532)		
	Neo Solar Power Corp.	Hsin-Chu, Taiwan	Solar cells manufacturing	96,000	96,000	9,600	15.64	96,710	9,309	1,489		
	Syntronix Corp.	Hsin-Chu, Taiwan	Design of electronic products	71,664	81,516	6,548	20.20	86,366	59,154	10,992		
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic component manufacturing	207,331	207,331	20,733	20.73	84,956	(237,011)	(49,133)		
	Deutron Japan Corp.	Japan	Electronic component manufacturing	90,020	90,020	1,910	38.98	78,140	400	155		
	Tekmax Development Corp.	Taipei, Taiwan	Investment	58,640	58,640	5,851	15.65	77,040	60,482	8,765		
	Signia Technologies Co., Ltd.	Taipei, Taiwan	Design of electronic products	98,626	-	5,187	28.01	73,479	(101,549)	(23,095)		
	Synage Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	101,212	101,212	9,984	19.97	67,351	(42,246)	(8,516)		
	Zentel Electronics Corp.	Hsin-Chu, Taiwan	Design of electronic products	53,000	92,000	5,300	21.03	57,749	94,435	36,163		
	Astel Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	80,000	80,000	8,000	40.00	57,464	(51,719)	(20,687)		
	Retronix Technology Corp.	Taipei, Taiwan	Design and transaction of software	50,000	-	5,000	25.00	48,758	(12,263)	(3,016)		
	Terax Communication Technologies Inc.	Hsin-Chu, Taiwan	Design and transaction of software	88,344	33,650	6,090	17.40	47,189	(115,777)	(36,656)		
	Luxchip Technology Corp.	Taoyuan, Taiwan	Lighting manufacturing	38,000	38,000	3,800	19.00	39,132	6,136	1,166		
	Vivichip Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	40,000	-	4,000	40.00	37,491	(6,274)	(2,509)		
	Siptron Technology Corporation	Taipei, Taiwan	Design of electronic products	41,600	41,600	4,160	32.00	35,697	12,987	4,156		
	Silicon Optronics, Inc.	Hsin-Chu, Taiwan	Electronic component manufacturing	17,000	17,000	2,076	11.53	31,505	53,114	5,577		
	AVAC Systems, Inc.	Hsin-Chu, Taiwan	Digital camera manufacturing	44,000	44,000	4,000	23.31	30,608	(44,672)	(10,413)		
	MicroMedia Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	30,000	-	3,000	30.00	28,743	(4,190)	(1,257)		
	PowerGate Optical, Inc.	Taipei, Taiwan	Optical component manufacturing	23,575	18,700	1,774	5.26	11,561	(91,975)	(6,704)		
	Rexchip Electronics Corp.	Hsin-Chu, Taiwan	Electronic component manufacturing	1,000	-	100	100.00	767	(233)	(233)		
	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	449,874	436,874	1,714	13.39	-	(364,957)	(17,077)		
	Li-Hsin Investment Corp.	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	516,369	500,369	2,045	15.97	-	(364,957)	(19,906)	
		Synage Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	122,477	124,409	10,467	20.93	70,589	(42,246)	(8,773)	
		Novax Technologies, Inc.	Taipei, Taiwan	Electronic component manufacturing	57,987	58,512	5,246	5.25	71,725	137,706	7,151	
Luxxon Technology Corp.		Taoyuan, Taiwan	Electronic component manufacturing	13,079	13,079	1,363	1.36	5,574	(237,011)	(3,223)		
Tekmax Development Corp.		Taipei, Taiwan	Investment	34,208	17,120	2,846	7.61	37,579	60,482	354		
Powerflash Technology Corporation		Taipei, Taiwan	Design of electronic products	15,500	4,800	1,430	4.77	14,471	(4,965)	(80)		
Artrix International Inc.		Taipei, Taiwan	Investment	48,045	16,950	4,805	5.34	54,788	117,453	5,901		
Optimicro Corp.		Taipei, Taiwan	Optical component manufacturing	21,177	21,177	2,118	4.24	14,167	(148,071)	(6,278)		
Lu-Chu Development Corp.		Taipei, Taiwan	Transaction of real estate	243,371	243,371	24,337	10.42	220,393	(33,679)	(3,509)		
Smart Art Corp.		Taipei, Taiwan	Transaction of artistry	114,500	30,000	11,450	14.31	114,944	(4,579)	(584)		
LoanSky.Net Corp.		Taipei, Taiwan	Design of electronic products	4,000	4,000	400	8.00	3,139	(9,122)	(730)		
Luxchip Technology Corp.		Taoyuan, Taiwan	Lighting manufacturing	18,000	18,000	1,800	9.00	18,536	6,136	552		
Neo Solar Power Corp.		Hsin-Chu, Taiwan	Solar cells manufacturing	15,000	15,000	1,500	2.50	15,088	9,309	233		
Deutron Japan Corp.		Japan	Electronic component manufacturing	9,067	9,067	191	3.89	7,741	400	16		
Veutron Corp.		Hsin-Chu, Taiwan	Optical component manufacturing	42,723	-	4,700	4.32	65,143	(72,222)	21,617		
Navisys Technology Corp.		Taipei, Taiwan	Electronic component manufacturing	4,000	-	400	8.89	3,949	(578)	(51)		

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2006			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note	
				Dec. 31, 2006	Dec. 31, 2005	Shares (Thousands)	% of Ownership	Carrying Value				
Quantum Vision Corp.	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	\$ 250,170	\$ 240,170	1,425	11.13	\$ -	\$ (364,957)	\$ (12,834)		
	Deutron Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	22,800	22,800	7,330	9.89	255,408	1,132,949	102,091		
	Syntrox Corp.	Hsin-Chu, Taiwan	Design of electronic products	7,380	7,380	665	2.06	8,765	59,154	1,077		
	Zentel Electronics Corp.	Hsin-Chu, Taiwan	Design of electronic products	17,411	21,000	1,800	7.20	23,762	94,435	6,771		
	Synage Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	17,250	17,250	1,836	3.67	12,378	(42,246)	(1,550)		
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic component manufacturing	132,206	133,479	12,735	12.73	173,915	137,706	17,340		
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic component manufacturing	96,699	96,699	9,670	9.67	39,534	(237,011)	(23,014)		
	AVAC Systems, Inc.	Hsin-Chu, Taiwan	Digital camera manufacturing	26,966	24,321	2,501	14.58	19,145	(44,672)	(6,427)		
	PowerGate Optical, Inc.	Taipei, Taiwan	Optical component manufacturing	43,284	23,440	3,598	10.66	23,430	(91,975)	(10,410)		
	Tekmax Development Corp.	Taipei, Taiwan	Investment	63,279	42,800	5,729	15.33	75,702	60,482	4,880		
	Silicon Optronics, Inc.	Hsin-Chu, Taiwan	Electronic component manufacturing	9,000	9,000	1,099	6.11	16,695	53,114	2,251		
	Siptron Technology Corporation	Taipei, Taiwan	Design of electronic products	10,107	8,500	1,040	8.00	8,924	12,987	10		
	Powerflash Technology Corporation	Taipei, Taiwan	Design of electronic products	19,800	7,200	1,800	6.00	18,203	(4,965)	(298)		
	Artrix International Inc.	Taipei, Taiwan	Investment	95,804	37,850	9,580	10.64	108,821	117,453	11,937		
	Optimicro Corp.	Taipei, Taiwan	Optical component manufacturing	39,873	39,873	3,987	7.97	26,629	(148,071)	(11,801)		
	Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	73,268	73,268	7,327	3.14	66,414	(33,679)	(1,058)		
	Astel Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	10,000	10,000	1,000	5.00	7,183	(51,719)	(2,586)		
	Smart Art Corp.	Taipei, Taiwan	Transaction of artistry	151,902	50,000	15,190	18.99	152,536	(4,579)	(889)		
	LoanSky.Net Corp.	Taipei, Taiwan	Design of electronic products	10,000	10,000	1,000	20.00	7,847	(9,122)	(1,824)		
	Luxchip Technology Corp.	Taoyuan, Taiwan	Lighting manufacturing	38,000	22,000	3,800	19.00	39,132	6,136	1,152		
	Neo Solar Power Corp.	Hsin-Chu, Taiwan	Solar cells manufacturing	18,000	18,000	1,800	3.00	18,118	9,309	279		
	Retronix Technology Corp.	Taipei, Taiwan	Design and transaction of software	10,000	-	1,000	5.00	9,752	(12,263)	(603)		
	Network Holdings Limited	Samoa	Investment	37,175	2,825	1,135	20.64	35,131	(5,920)	(1,531)		
	Signia Technologies Co., Ltd.	Taipei, Taiwan	Design of electronic products	7,949	-	795	4.29	3,677	(101,549)	(4,361)		
	Vivichip Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	1,000	-	100	1.00	937	(6,274)	(447)		
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	56,200	-	5,620	4.01	70,313	211,327	11,542		
	MicroMedia Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	10,000	-	1,000	10.00	9,581	(4,190)	(419)		
	Veutron Corp.	Hsin-Chu, Taiwan	Optical component manufacturing	38,816	7,001	3,767	3.47	52,326	(72,222)	14,363		
	Terax Communication Technologies Inc.	Hsin-Chu, Taiwan	Design and transaction of software	65,651	50,337	3,134	8.95	24,273	(115,777)	(4,936)		
	Navisys Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	10,000	-	1,000	22.22	9,871	(578)	(129)		
	eBsuccess Solutions Inc.	Taipei, Taiwan	Design and transaction of software	11,000	-	1,000	12.50	11,000	(3,775)	-		
	Paramax Corp.	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	103,894	123,474	910	7.11	-	(364,957)	(9,439)	
		Synage Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	18,151	21,641	1,581	3.16	10,657	(42,246)	(1,335)	
		Novax Technologies, Inc.	Taipei, Taiwan	Electronic component manufacturing	44,101	44,505	4,042	4.04	55,194	137,706	5,503	
		Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic component manufacturing	72,788	57,428	7,728	7.73	31,679	(237,011)	(20,744)	
		AVAC Systems, Inc.	Hsin-Chu, Taiwan	Digital camera manufacturing	11,593	-	1,093	6.37	8,364	(44,672)	(3,212)	
		PowerGate Optical, Inc.	Taipei, Taiwan	Optical component manufacturing	18,661	12,820	1,467	4.34	9,539	(91,975)	(4,963)	
		Tekmax Development Corp.	Taipei, Taiwan	Investment	14,000	14,000	1,060	2.84	14,024	60,482	1,504	
		Silicon Optronics, Inc.	Hsin-Chu, Taiwan	Electronic component manufacturing	5,000	5,000	611	3.39	9,263	53,114	1,244	
		Siptron Technology Corporation	Taipei, Taiwan	Design of electronic products	5,000	5,000	500	3.85	4,295	12,987	500	
		Powerflash Technology Corporation	Taipei, Taiwan	Design of electronic products	19,800	7,200	1,800	6.00	18,203	(4,965)	(298)	
Artrix International Inc.		Taipei, Taiwan	Investment	42,456	11,973	4,246	4.72	48,274	117,453	4,613		
Optimicro Corp.		Taipei, Taiwan	Optical component manufacturing	21,308	8,000	1,824	3.65	12,195	(148,071)	(8,861)		
Lu-Chu Development Corp.		Taipei, Taiwan	Transaction of real estate	52,936	52,936	5,294	2.27	48,013	(33,679)	(765)		
Smart Art Corp.		Taipei, Taiwan	Transaction of artistry	182,231	50,000	18,223	22.78	182,979	(4,579)	(994)		
LoanSky.Net Corp.		Taipei, Taiwan	Design of electronic products	4,000	4,000	400	8.00	3,139	(9,122)	(730)		
Deutron Japan Corp.		Japan	Electronic component manufacturing	11,031	11,031	232	4.73	9,413	400	19		
Zhi-Li Investment Corp.		Taipei, Taiwan	Investment	102,470	-	10,247	7.32	128,352	211,327	19,804		
Retronix Technology Corp.		Taipei, Taiwan	Design and transaction of software	10,000	-	1,000	5.00	9,752	(12,263)	(665)		
Veutron Corp.		Hsin-Chu, Taiwan	Optical component manufacturing	75,053	47,784	8,705	8.01	120,787	(72,222)	(23,950)		
Terax Communication Technologies Inc.		Hsin-Chu, Taiwan	Design and transaction of software	16,868	7,900	1,132	3.24	8,787	(115,777)	(4,303)		
Zentel Electronics Corp.		Hsin-Chu, Taiwan	Design of electronic products	3,600	-	300	1.20	3,960	94,435	355		
Navisys Technology Corp.		Taipei, Taiwan	Electronic component manufacturing	8,200	-	820	18.22	8,094	(578)	(106)		
eBsuccess Solutions Inc.		Taipei, Taiwan	Design and transaction of software	9,900	-	900	11.25	9,900	(3,775)	-		
Powerflash Technology Corporation		Optimicro Corp.	Taipei, Taiwan	Optical component manufacturing	7,023	-	702	1.40	4,678	(148,071)	(2,369)	
		Retronix Technology Corp.	Taipei, Taiwan	Design and transaction of software	20,000	-	2,000	10.00	19,503	(12,263)	(1,247)	
		Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	38,193	-	3,819	2.73	47,869	211,327	4,251	
		Artrix International Inc.	Taipei, Taiwan	Investment	14,874	-	1,487	1.65	16,875	117,453	664	

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2006			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				Dec. 31, 2006	Dec. 31, 2005	Shares (Thousands)	% of Ownership	Carrying Value			
Smart Art Corp.	Siptron Technology Corporation	Taipei, Taiwan	Design of electronic products	\$ 5,750	\$ -	500	3.85	\$ 4,295	\$ 12,987	\$ (1,565)	
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic component manufacturing	14,400	-	1,800	1.80	7,359	(237,011)	(7,041)	
	Veutron Corp.	Hsin-Chu, Taiwan	Optical component manufacturing	5,454	-	600	0.55	8,294	(72,222)	1,850	
	Veutron Corp.	Hsin-Chu, Taiwan	Optical component manufacturing	9,090	-	1,000	0.92	13,873	(72,222)	3,061	
Siptron Technology Corporation	Artrix International Inc.	Taipei, Taiwan	Investment	10,547	4,000	1,054	1.17	11,966	117,453	1,375	
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	26,648	6,000	2,665	1.90	33,315	211,327	3,265	
	Zentel Electronics Corp.	Hsin-Chu, Taiwan	Design of electronic products	2,880	2,880	320	1.27	4,227	94,435	1,202	
	Vivichip Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	5,000	-	500	5.00	4,686	(6,274)	(314)	
Global Powertec Co., Ltd.	Network Holdings Limited	Samoa	Investment	32,845	-	1,000	18.87	30,992	(5,920)	(1,099)	
	Vantel Corp.	Japan	Design of electronic products	66,215	-	5	99.96	23,669	(40,586)	(40,565)	
	Power ASE Tech. Holding Ltd.	The Cayman Island	Investment	455,980	-	14,000	29.47	452,752	16,149	4,760	

(Concluded)