

# **Powerchip Semiconductor Corporation**

**Financial Statements as of December 31, 2000 and 1999**

**Together with Independent Auditors' Report**

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

The Board of Directors and the Shareholders  
Powerchip Semiconductor Corporation

We have audited the accompanying balance sheets of Powerchip Semiconductor Corporation as of December 31, 2000 and 1999, 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.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of China. Those 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Powerchip Semiconductor Corporation as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with the regulations governing the preparation of financial statements of public companies and accounting principles generally accepted in the Republic of China.

T N Soong & Co  
A Member Firm of Andersen Worldwide, SC  
Taipei, Taiwan, ROC  
January 29, 2001

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.

## POWERCHIP SEMICONDUCTOR CORPORATION

BALANCE SHEETS  
December 31, 2000 and 1999  
(In Thousand Except Par Value)

ASSETS	December 31,				LIABILITIES AND SHAREHOLDERS' EQUITY	December 31,			
	2000		1999			2000		1999	
	Amount	%	Amount	%	Amount	%	Amount	%	
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 3)	\$ 5,913,777	14	\$ 11,912,766	28	Short-term bank borrowings (Notes 9)	\$ 80,000	-	\$ 100,000	-
Short-term investments (Notes 2 and 4)	317,385	1	742,931	2	Commercial papers issued (Note 10)	-	-	348,997	1
Accounts receivable (Notes 2 and 16)					Accounts payable (Note 16)				
Related parties - net of allowance for doubtful accounts of NT\$ 2,200 in 2000 and NT\$ 69 in 1999	1,108,570	3	1,124,572	2	Related parties	475,705	1	161,752	-
Third parties - net of allowance for doubtful accounts of NT\$ 44,706 in 2000 and NT\$ 58,428 in 1999	1,104,245	2	734,097	2	Third parties	1,149,142	3	681,571	2
Other receivables (Note 16)	901,048	2	431,487	1	Accrued expenses (Note 16)	802,825	2	562,099	1
Inventories (Notes 2 and 5)	2,440,344	6	1,819,546	4	Payable on equipment (Note 16)				
Prepaid expenses	190,840	-	169,901	1	Related parties	109,359	-	497,207	1
Deferred income tax assets (Notes 2 and 15)	674,853	2	54,613	-	Third parties	1,654,155	4	1,601,737	4
Pledged time deposits (Note 17)	12,382	-	95,362	-	Current portion of long-term bank loans (Notes 11 and 17)	2,689,839	6	4,131,704	10
Other current assets (Notes 2 and 19)	7,338	-	73,821	-	Other current liabilities (Note 2 and 19)	38,139	-	4,249	-
Total Current Assets	<u>12,670,782</u>	<u>30</u>	<u>17,159,096</u>	<u>40</u>	Total Current Liabilities	<u>6,999,164</u>	<u>16</u>	<u>8,089,316</u>	<u>19</u>
LONG-TERM STOCK INVESTMENTS (Notes 2, 6, and 16)	<u>1,878,125</u>	<u>4</u>	<u>1,056,012</u>	<u>2</u>	LONG-TERM BANK LOANS (Notes 11 and 17)	3,222,559	8	5,604,142	13
PROPERTIES (Notes 2, 7, 16, 17 and 18)					OTHER LIABILITIES (Notes 2 and 12)	<u>20,913</u>	<u>-</u>	<u>23,061</u>	<u>-</u>
Cost					Total Liabilities	<u>10,242,636</u>	<u>24</u>	<u>13,716,519</u>	<u>32</u>
Buildings	2,875,483	7	2,740,187	6	SHAREHOLDERS' EQUITY (Note 13)				
Machinery and equipment	25,917,178	60	19,996,002	47	Capital stock, NT\$10 par value;				
Research and development equipment	54,248	-	22,266	-	Authorized - 2,500,000 thousand shares				
Facility equipment	5,344,053	13	4,473,684	11	Issued and outstanding -1,900,321 thousand shares in 2000 and 1,701,000 thousand shares in 1999	19,003,210	44	17,010,000	40
Transportation equipment	12,040	-	9,054	-	Capital surplus (Note 2)				
Office equipment	78,210	-	95,692	-	Paid-in capital in excess of par value	10,041,760	24	11,572,660	27
Miscellaneous equipment	96,962	-	92,287	-	Gain on disposal of properties	99,280	-	107	-
	34,378,174	80	27,429,172	64	Retained earnings				
Accumulated depreciation	(13,720,561)	(32)	(10,942,360)	(25)	Appropriated for Legal reserve	60,081	-	-	-
	20,657,613	48	16,486,812	39	Unappropriated earnings	4,225,803	10	600,812	1
Construction in progress	318,693	1	53,628	-	Treasury stock (Note 14)	(646,948)	(2)	-	-
Advance payments	1,351,111	3	2,593,439	6	Total Shareholders' Equity	<u>32,783,186</u>	<u>76</u>	<u>29,183,579</u>	<u>68</u>
Net Properties	<u>22,327,417</u>	<u>52</u>	<u>19,133,879</u>	<u>45</u>					
OTHER ASSETS									
Refundable deposits	23,837	-	18,014	-					
Organization costs (Note 2)	16,365	-	38,185	-					
Deferred charges - net (Notes 2, 8 and 16)	3,442,343	8	3,476,871	8					
Deferred income tax assets (Notes 2 and 15)	1,400,855	3	1,779,228	4					
Land (Note 17)	311,510	1	60,835	-					
Spare parts - net (Note 16)	190,680	-	177,978	1					
Installment equipment receivable (Note 16)	763,908	2	-	-					
Total Other Assets	<u>6,149,498</u>	<u>14</u>	<u>5,551,111</u>	<u>13</u>					
TOTAL ASSETS	<u>\$ 43,025,822</u>	<u>100</u>	<u>\$ 42,900,098</u>	<u>100</u>	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 43,025,822</u>	<u>100</u>	<u>\$ 42,900,098</u>	<u>100</u>

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

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME

For the Years Ended December 31, 2000 and 1999

(In Thousand Except Earnings (Loss) Per Share)

	For the Years Ended December 31			
	2000		1999	
	Amount	%	Amount	%
GROSS SALES	\$19,178,907		\$10,855,293	
SALES RETURNS AND ALLOWANCES	<u>143,109</u>		<u>126,305</u>	
NET SALES (Notes 2 and 16)	19,035,798	100	10,728,988	100
COST OF SALES (Note 16)	<u>12,203,901</u>	<u>64</u>	<u>8,054,046</u>	<u>75</u>
GROSS PROFIT	<u>6,831,897</u>	<u>36</u>	<u>2,674,942</u>	<u>25</u>
OPERATING EXPENSES				
Selling	60,361	-	96,083	1
General and administrative	547,429	3	401,721	4
Research and development	<u>1,498,233</u>	<u>8</u>	<u>1,303,976</u>	<u>12</u>
Total Operating Expenses	<u>2,106,023</u>	<u>11</u>	<u>1,801,780</u>	<u>17</u>
INCOME FROM OPERATIONS	<u>4,725,874</u>	<u>25</u>	<u>873,162</u>	<u>8</u>
NON-OPERATING INCOME				
Interest	419,269	2	273,215	3
Gain on sales of investments - net	238,140	1	54,815	1
Indemnity income	164,798	1	65,136	1
Gain on disposal of properties	132,230	1	107	-
Reversal of allowances for loss on inventories and spare parts	-	-	161,960	1
Investment income recognized by equity method - net (Notes 2 and 6)	-	-	143,499	1
Other	<u>29,927</u>	<u>-</u>	<u>21,821</u>	<u>-</u>
Total Non-Operating Income	<u>984,364</u>	<u>5</u>	<u>720,553</u>	<u>7</u>
NON-OPERATING EXPENSES				
Interest (Notes 2 and 7)	630,499	3	820,799	8
Investment loss recognized by equity method - net (Notes 2 and 6)	311,666	2	-	-
Provision for decline in value of short - term investments	293,264	2	-	-
Impairment loss of idle assets (Note 2)	254,831	1	-	-
Foreign exchange loss - net (Note 2)	67,604	1	112,457	1
Departmental reorganization charge	54,960	-	-	-
Provision for loss on inventories and spare parts	40,318	-	-	-
Loss on disposal of properties (Forward)	32,046	-	547	-

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Loss from earthquake	-	-	60,361	-
Other	<u>4,755</u>	<u>-</u>	<u>3,887</u>	<u>-</u>
Total Non-Operating Expenses	<u>1,689,943</u>	<u>9</u>	<u>998,051</u>	<u>9</u>
 INCOME BEFORE INCOME TAX	 \$ 4,020,295	 21	 \$ 595,664	 6
INCOME TAX BENEFIT (Notes 2 and 15)	<u>237,382</u>	<u>1</u>	<u>5,228</u>	<u>-</u>
NET INCOME	<u>\$ 4,257,677</u>	<u>22</u>	<u>\$ 600,892</u>	<u>6</u>
 EARNINGS PER SHARE				
Based on number of weighted average shares				
outstanding of 1,897,109 thousand in 2000 and				
1,451,000 thousand in 1999	<u>\$ 2.24</u>		<u>\$ 0.41</u>	
Based on retroactively - adjusted number of outstanding				
shares of 1,621,026 thousand			<u>\$ 0.37</u>	

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

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POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2000 and 1999

(In Thousand New Taiwan Dollars)

	CAPITAL STOCK ISSUED		CAPITAL SURPLUS (Note 2)			RETAINED EARNINGS (DEFICIT)			TREASURY STOCK (Note 13)	TOTAL SHAREHOLDERS' EQUITY (Note 13)
	Shares (Thousand)	Amount	Paid-in Capital in Excess of Par Value	Gain on Disposal of Properties	Total	Legal Reserve	Unappropriated Earnings (Deficit)	Total		
BALANCE, JANUARY 1, 1999	1,401,000	\$14,010,000	\$ 9,368,000	\$ 27	\$ 9,368,027	\$ -	(\$ 4,741,900)	(\$4,741,900)	\$ -	\$18,636,127
Transfer of paid-in capital in excess of par value to offset deficit	-	-	( 4,741,900)	-	( 4,741,900)	-	4,741,900	4,741,900	-	-
Issuance of capital stock, November 2, 1999 - \$34 per share (certain portion for GDS offering)	300,000	3,000,000	6,946,560	-	6,946,560	-	-	-	-	9,946,560
Net income in 1999	-	-	-	-	-	-	600,892	600,892	-	600,892
Gain on disposal of properties	-	-	-	80	80	-	( 80)	( 80)	-	-
BALANCE, DECEMBER 31, 1999	1,701,000	17,010,000	11,572,660	107	11,572,767	-	600,812	600,812	-	29,183,579
Appropriations of prior years earnings										
Legal reserve	-	-	-	-	-	60,081	( 60,081)	-	-	-
Stock dividend - 2.5%	42,525	425,250	-	-	-	-	( 425,250)	( 425,250)	-	-
Bonus to employees	3,706	37,060	-	-	-	-	( 37,063)	( 37,063)	-	( 3)
Bonus to directors and supervisors	-	-	-	-	-	-	( 11,119)	( 11,119)	-	( 11,119)
	1,747,231	17,472,310	11,572,660	107	11,572,767	60,081	67,299	127,380	-	29,172,457
Transfer of paid - in capital in excess of par value to capital stock	153,090	1,530,900	( 1,530,900)	-	( 1,530,900)	-	-	-	-	-
Net income in 2000	-	-	-	-	-	-	4,257,677	4,257,677	-	4,257,677
Gain on disposal of properties	-	-	-	99,173	99,173	-	( 99,173)	( 99,173)	-	-
Treasury stock - 30,000 thousand shares	-	-	-	-	-	-	-	-	( 646,948)	( 646,948)
BALANCE, DECEMBER 31, 2000	<u>\$1,900,321</u>	<u>\$19,003,210</u>	<u>\$10,041,760</u>	<u>\$ 99,280</u>	<u>\$10,141,040</u>	<u>\$ 60,081</u>	<u>\$ 4,225,803</u>	<u>\$4,285,884</u>	<u>(\$ 646,948)</u>	<u>\$32,783,186</u>

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

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 1998, 1999 and 2000

(In Thousand)

	For the Years Ended	
	December 31	
	2000	1999
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 4,257,677	\$ 600,892
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,914,495	4,083,448
Amortization	1,792,304	1,420,634
Receivable from insurance claim over earthquake damage	242,886	( 242,886 )
Provision (reversal of allowance) for loss on inventories and spare parts	40,318	( 161,960 )
Impairment loss of idle assets	254,831	-
Foreign exchange loss (income) from bank loans	( 25,228 )	143,528
Investment (income) loss recognized by equity method - net	311,666	( 143,499 )
Provision (reversal of allowance) for bad debts	( 11,591 )	50,391
Amortization of discount on commercial papers issued	5,900	23,361
Deferred income tax assets	( 241,867 )	( 5,350 )
Loss on fire damage of properties	-	2,767
Provision (reversal of allowance) for decline in value of short-term investments	293,264	( 1,947 )
Loss (gain) on disposal of properties - net	( 100,184 )	440
Interest income - installment equipment receivable	( 17,037 )	-
Other income - disposal of packaging and testing related assets	( 3,400 )	-
Donation of properties	1,326	-
Changes in operating assets and liabilities		
Short-term investments	188,043	305,593
Accounts receivable	( 342,555 )	( 521,395 )
Other receivables	67,014	( 132,204 )
Inventories	( 723,469 )	( 665,763 )
Prepaid expenses	( 20,939 )	( 104,699 )
Other current assets	( 6,766 )	( 408 )
Accounts payable	781,524	244,073
Accrued expenses	240,726	95,446
Forward contract payable - net	104,690	42,462
Other current liabilities	2,450	( 3,345 )
Accrued pension costs	1,488	1,407
Net Cash Provided by Operating Activities	12,007,566	5,030,986
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of:		

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Land	( 250,675 )	( 60,835 )
Properties	( 10,015,748 )	( 2,389,288 )
Long-term stock investments	( 1,189,540 )	( 152,597 )
Deferred charges	( 1,802,024 )	( 1,250,889 )
Increase in spare parts	( 66,195 )	( 37,103 )
Decrease in pledged time deposits	82,980	198,459
Proceeds from disposals of:		
Long-term stock investments	-	130,580
Properties	12,694	708
Idle assets	67	-
Packaging and testing related assets	62,532	-
Insurance proceeds on fire damage:		
Properties	-	71,080
Deferred charges	-	2,957
Decrease in refundable deposits	( <u>5,823</u> )	( <u>7,464</u> )
Net Cash Used in Investing Activities	( <u>13,171,732</u> )	( <u>3,494,392</u> )
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceed from issuance of capital stock	-	9,946,560
Repayments of long-term bank loans	( 5,610,820 )	( 3,609,306 )
Decrease in short-term bank borrowings	( 20,000 )	( 387,237 )
Increase in long-term bank loans	1,812,600	160,000
Decrease in commercial papers issued	( 354,897 )	( 64,137 )
Increase (decrease) in guarantee deposits	( 3,636 )	4,076
Bonus paid to directors and supervisors	( 11,119 )	-
Bonus paid to employees	( 3 )	-
Reacquisition of capital stock (treasury stock)	( <u>646,948</u> )	<u>-</u>
Net Cash Provided by (Used in) Financing Activities	( <u>4,834,823</u> )	<u>6,049,956</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	( 5,998,989 )	7,586,550
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		
	<u>11,912,766</u>	<u>4,326,216</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR		
	<u>\$ 5,913,777</u>	<u>\$ 11,912,766</u>
 SUPPLEMENTAL INFORMATION		
Interest paid (excluding amounts capitalized)	<u>\$ 648,657</u>	<u>\$ 816,098</u>
Income tax paid	<u>\$ 28,768</u>	<u>\$ -</u>
 Noncash investing and financing activities		
Transfer of long - term stock investments to short - term investments	<u>\$ 55,761</u>	<u>\$ -</u>
Transfer of inventories to idle assets	<u>\$ 25,720</u>	<u>\$ -</u>
Transfer of properties to idle assets	<u>\$ 206,903</u>	<u>\$ -</u>
Transfer of spare parts to idle assets	<u>\$ 22,275</u>	<u>\$ -</u>
Current portion of long-term bank loans	<u>\$ 2,689,839</u>	<u>\$ 4,131,704</u>
 Cash paid for acquisition of properties		
Total acquisition	\$ 9,680,318	\$ 3,908,312

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Payable, beginning of year	2,098,944	579,920
Payable, end of year	( <u>1,763,514</u> )	( <u>2,098,944</u> )
	<u>\$10,015,748</u>	<u>\$ 2,389,288</u>
Proceeds from disposal of packaging and testing related assets		
Total proceeds (including interest income)	\$ 1,605,902	\$ -
Receivable, end of year	( <u>1,543,370</u> )	<u>-</u>
	<u>\$ 62,532</u>	<u>\$ -</u>

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

POWERCHIP SEMICONDUCTOR CORPORATION

NOTES TO FINANCIAL STATEMENTS

(In Thousand Except Exchange Rate, Shares and Per Share Data)

1. GENERAL

The Corporation was incorporated on December 20, 1994 and the Corporation's stock has been traded on the Taiwan Over-The-Counter Securities Exchange since March 23, 1998. In November 1999, the Corporation had issued Global Depositary Shares (GDS). Such GDS has been listed on Luxembourg Stock Exchange and has been accepted for quotation on the SEAQ system of the London Stock Exchange and eligible for trading in the Portal Market of the Nasdaq Stock Market, Inc.

The business activities of the Corporation mainly includes research and development, manufacturing, testing, assembling, sub-contract and sales of various IC.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Corporation, which conform to the regulations governing the preparation of financial statements of public companies and accounting principles generally accepted in the Republic of China, are summarized follows:

Cash equivalents

Commercial paper purchased and negotiable certificate of deposits with original maturities of less than three months from the date of purchase are classified as cash equivalents.

Short-term investments

Investments in listed stocks and mutual funds are stated at the lower of aggregate costs or market value. An allowance for decline in value is provided when the aggregate carrying value of the investments exceeds the total market value. Any recovery of the aggregate market value to the extent of the original carrying value is recognized as income. Costs of such investments sold are determined by the moving average method.

Bonds purchased under resale agreements are stated at cost. Costs of bonds sold are determined by the specific identification method.

Allowance for doubtful receivables

Allowance for doubtful receivables is provided based on a review of the estimated collectibility of individual receivables.

Inventories

Inventories are stated at the lower of weighted average cost or market value. Market value represents net realizable value or replacement cost.

### Long-term stock investments

Investments in shares of stock of companies wherein the Corporation exercises significant influence on their operating and financial decisions are accounted for by equity method. The difference between the investment cost and the Corporation's proportionate share in the net assets of the investee on the date of acquisition is amortized on a straight-line method over five years. Such amortization and the Corporation's proportionate share in the earnings or losses of investee companies are recognized as investment income or loss.

Other stock investments are accounted for by cost method. These investment are stated at cost less decline in market value of listed stocks or decline in value of unlisted stocks which is considered irrecoverable; such reductions are charged to shareholders' equity or current income, respectively. Cash dividends are recognized as income in the year received but are accounted for as reduction in the carrying value of the long-term investment if the dividends are received in the same year that the related investments are acquired.

Stock dividends received are recognized only as increase in the number of stocks held on the ex-dividend date.

The costs of investments sold are determined by the moving average method.

### Properties

Properties 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 provided on the straight-line method over estimated service lives which range as follows: buildings, 10 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. The carrying values of properties which have reached their original estimated service lives but are still in use are continuously depreciated over their re-estimated remaining service lives.

Upon sale or disposal of properties, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is credited or charged to current income. Any such gain, less applicable income tax, is currently transferred to capital surplus.

### Organization costs

Organization costs are amortized over five years from start of operation.

### Deferred charges

Deferred charges are amortized on the straight-line method over the following periods: technical know-how, remaining contract period; computer software system, 2 to 5 years; test-run costs and technical service charge, 5 years; others, 2 to 7 years.

### Idle assets

Idle assets are stated at the lower of carrying value or net realizable value.

### Revenue recognition

Sales revenue is recognized when risk and title of products are transferred upon their shipment.

### Pension benefits

The Corporation has a retirement plan covering all regular employees, which provides benefits based on length of service and average salaries and wages for the final six months of employment. Starting May 1996, the Corporation makes monthly contributions to the pension fund equal to 2% of salaries and wages paid. The fund is administered by a pension fund committee and the contributions to the fund are deposited with Central Trust of China under the Committee's Name.

The annual pension costs are recognized as actuarially calculated.

### Income tax

The Corporation adopted interperiod tax allocation. The tax effects of deductible temporary differences, unused tax credits and operating loss carryforwards are recognized as deferred income tax assets, and those of taxable temporary differences are recognized as deferred income tax liabilities. Valuation allowance is provided for deferred income tax assets that are not certain to be realized. A deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or non-current. However, if a deferred asset or liability cannot be related to an asset or liability in the financial statements, then it should be classified as current or non-current based on the expected reversal date of temporary difference.

Income taxes (10%) on undistributed earnings are recorded as expenses in the year when the shareholders have resolved that the earnings shall be retained.

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

### Foreign-currency transactions

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

### Derivative financial instruments

Forward exchange contracts and cross currency swap contracts for hedging purposes are recorded at the spot rate on the contract date. The foreign-currency amount of

each contract multiplied by the difference between the spot rate and the contracted forward rate is amortized over the contract period. Any resulting gain or loss upon settlement is credited or charged to income in the year of settlement. For cross currency swap contracts entered into as hedges of interest rate exposures, the related interest income and expense are recognized on the basis of contracted interest rates.

At year-end, the balances of forward exchange receivables or payables are translated based on prevailing exchange rates and the resulting gains or losses are credited or charged to income. The net forward contract receivable or payable is presented either as an asset or a liability in the balance sheet.

### Reclassifications

Certain accounts in 1998 and 1999 have been reclassified to conform to 2000 classifications, including the newly revised ROC FAS 17 "Cash Flow Preparation".

3. CASH AND CASH EQUIVALENTS	December 31,	
	2000	1999
Time deposits	\$ 4,694,701	\$11,834,301
Commercial papers purchased	1,106,746	-
Negotiable certificate of deposits	102,732	-
Demand deposits	8,681	77,503
Checking accounts	597	642
Cash on hand	320	320
	<u>\$ 5,913,777</u>	<u>\$11,912,766</u>

4. SHORT-TERM INVESTMENTS	December 31,	
	2000	1999
Mutual funds	\$ 10,000	\$ 142,969
Listed stocks	<u>600,649</u>	-
	610,649	142,969
Allowance for decline in value	( <u>293,264</u> )	-
	317,385	142,969
Bonds purchased under resale agreements	-	<u>599,962</u>
	<u>\$ 317,385</u>	<u>\$ 742,931</u>

The market values of mutual funds and stocks as of December 31, 2000 and 1999 were \$317,385 and \$152,398, respectively, based on net asset value of funds as of December 31 and average closing price of listed stocks in December. Bonds as of December 31, 1999 were contracted to be resold for \$601,592.

5. INVENTORIES	December 31,	
	2000	1999
Finished goods	\$ 446,948	\$ 76,550
Work in process	1,620,517	1,280,347

Materials	<u>419,272</u>	<u>493,850</u>
	2,486,737	1,850,747
Allowance for losses	( <u>46,393</u> )	( <u>31,201</u> )
	<u>\$ 2,440,344</u>	<u>\$ 1,819,546</u>

6. LONG-TERM STOCK INVESTMENTS	December 31,			
	2000		1999	
	<u>Amount</u>	Percentage of <u>Ownership</u>	<u>Amount</u>	Percentage of <u>Ownership</u>
Equity method				
Li-Hsin Investment Corp.	\$ 510,193	99.75	\$ 700,271	99.75
MaxEdge Electronics Corp.	138,644	10.04	104,632	4.27
Cost method				
Powertest Technology Inc.	368,993	10.49	101,288	4.36
Venglobal Capital Fund L.P.	30,660	5.18	33,928	5.18
Omnivision Technologies Inc.	-	-	31,750	2.11
E-Tech. Inc.	25,000	2.26	25,000	2.26
Newsoft Technology Corp.	-	-	20,743	1.61
Billions of Operations Per Second, Inc.	16,175	1.65	16,175	4.55
Hsin Chu Golf Country Club	6,420	0.24	6,420	0.24
Power Quotient International Co., Ltd.	291,663	14.11	-	-
Eastern Broadland Telecommunications Co., Ltd.	120,000	0.18	-	-
Netimage Corp.	96,600	4.69	-	-
Ardentec Corp.	55,000	2.56	-	-
Optimax Technology Co., Ltd.	53,996	1.10	-	-
Ememory Technology Inc.	30,800	11.00	-	-
PHI Tech Corp.	24,621	1.29	-	-
Jade Pacific Corp.	22,500	1.35	-	-
Advance Chip Engineering Technology Inc.	40,257	3.03	-	-
Globalgate Com, Inc. (Globalgate E- Commerce, LLC)	15,805	0.93	-	-
Venglobal International Fund	15,258	2.83	-	-
Dramexchange.com Corp.	15,540	3.55	-	-
Prepayments				
Globalegate E - Commerce, LLC	-		<u>15,805</u>	
	<u>\$1,878,125</u>		<u>\$1,056,012</u>	

The Corporation and Li-Hsin Investment Corp. have combined equity interests representing 22% of the outstanding common stock of Powertest Technology Inc. in the first quarter of 1999. Accordingly, this investment was accounted for by equity method. In April 1999, Powertest Technology Inc. offered for cash subscription, however, the Corporation and Li-Hsin Investment Corp. did not subscribed to such shares which has led to the joint ownership of the Corporation and Li-Hsin Investment Corp. immaterial to Powertest Technology Inc. Accordingly, this investment has been accounted for by cost method since April 1999.

Also, the Corporation and Li-Hsin Investment Corp. have combined equity interest

representing 13% of the outstanding common stock of MaxEdge Electronics Corp. in the beginning of 2000 and accordingly, this investment was accounted for by cost method. In 2000, the Corporation and Li-Hsin Investment Corp has subscribed to the capital increase of MaxEdge Electronics Corp. which has led to a joint ownership of 24% by the Corporation and Li-Hsin Investment Corp. in the fourth quarter of 2000, accordingly this investment has been accounted by equity method since then.

Investment income (losses), which are recognized based on audited financial statements except Powertest Technology Inc., are summarized as follows:

	For the Year Ended	
	December 31	
	2000	1999
Li-Hsin Investment Corp.	(\$ 190,078)	\$ 148,085
MaxEdge Electronics Corp.	( 121,588)	-
Powertest Technology Inc.	-	( 4,586)
	<u>(\$ 311,666)</u>	<u>\$ 143,499</u>

The total sales and total assets of Li-Hsin Investment Corp. are each less than 10% of those of the Corporation and, therefore, the Corporation is not required to, and did not prepare consolidated financial statements.

## 7. PROPERTIES

Accumulated depreciation on properties consists of the following:

	December 31,	
	2000	1999
Buildings	\$ 553,025	\$ 420,581
Machinery and equipment	10,125,089	8,333,792
Research and development equipment	24,242	11,074
Facility equipment	2,911,319	2,071,723
Transportation equipment	2,984	5,683
Office equipment	52,486	60,521
Miscellaneous equipment	<u>51,416</u>	<u>38,986</u>
	<u>\$13,720,561</u>	<u>\$10,942,360</u>

Total depreciation expenses in 2000 and 1999 were \$4,914,495 and \$4,083,448, respectively, and interest expenses capitalized for year ended December 31, 2000 were \$55,012.

The details of properties pledged as collateral are shown in Note 17.

8. DEFERRED CHARGES - NET	December 31,	
	2000	1999
Technical know-how	\$ 3,207,396	\$ 2,898,709
Computer software system	121,489	231,395
Test-run costs	43,693	111,161
Technical service charge	36,007	89,836
Others	<u>33,758</u>	<u>145,770</u>
	<u>\$ 3,442,343</u>	<u>\$ 3,476,871</u>

The Corporation has several agreements under which Mitsubishi Electric Corporation (Mitsubishi-Japan) shall transfer to the Corporation certain technologies related to the manufacture of Dynamic Random Access Memory for which Mitsubishi-Japan shall receive technical know-how fees.

#### 9. SHORT-TERM BANK BORROWINGS

These consist of working capital loans, and are payable by January of the following years. Interest rates range from 5.60% to 5.65% for those outstanding as of December 31, 2000 and from 5.60% to 6.016% for those outstanding as of December 31, 1999.

Unused credit lines for short-term borrowings as of December 31, 2000 are about \$4,259,244.

#### 10. COMMERCIAL PAPERS ISSUED

These commercial papers, guaranteed by financial institutions, bear annual interest rate of 5.74% to 6.30% and had matured by February 18, 2000.

11. LONG-TERM BANK LOANS	December 31,	
	2000	1999
Long-term secured syndicated loans (1)		
New Taiwan dollars	\$ 1,375,968	\$ 2,231,806
Japanese yen - ¥ 1,350,000 in 2000 and ¥ 6,750,000 in 1999	388,935	2,069,550
U.S. dollars - US\$15,409 in 2000 and US\$70,588 in 1999	508,388	2,216,120
Long - term secured syndicated loans (2)		
U.S. dollars - US\$51,000 in 2000	1,682,592	-
Medium to long-term loans		
New Taiwan dollars	1,790,729	2,572,279
Japanese yen - ¥ 560,418 in 2000 and ¥ 1,176,332 in 1999	161,456	360,663
U.S. dollars - US\$131 in 2000 and US\$9,092 in 1999	<u>4,330</u>	<u>285,428</u>
	<u>5,912,398</u>	<u>9,735,846</u>



Unrecognized net gain	34,261	22,694
Additional liability	<u>-</u>	<u>-</u>
Accrued pension cost	<u>\$ 19,877</u>	<u>\$ 18,389</u>
c. Vested benefit	<u>\$ -</u>	<u>\$ -</u>
d. Actuarial assumptions		
Discount rate used in determining present values	6.25%	6.50%
Future salary increase rate	6.00%	6.50%
Expected rate of return on plan assets	6.25%	6.50%
e. Contributions to fund	<u>\$ 17,550</u>	<u>\$ 15,051</u>
f. Payments from pension fund	<u>\$ 304</u>	<u>\$ -</u>

### 13. SHAREHOLDERS' EQUITY

The Corporation's Articles of Incorporation provide that the annual net income, after offsetting against any deficit, shall be appropriated as follows:

- a. 10% as legal reserve;
- b. Special reserve;
- c. Cash dividends and bonus to preferred stocks based on the terms of their issuance;
- d. Bonus to directors and supervisors, and to employees, equal to 3% and 10% of the balance after deducting item a and b, respectively;
- e. The remainder, as bonus to shareholders.

These appropriations and the disposition of the remaining net income shall be resolved by the shareholders in the following year and given effect to in the financial statements of that year.

Pursuant to regulations promulgated by the Securities and Futures Commission, a special reserve equivalent to the debit balance of any account shown in the shareholders' equity section of the balance sheets, other than the deficit and treasury stock, shall be made from unappropriated retained earnings. The special reserve shall be adjusted accordingly based on the debit balance of such accounts as at year-end.

The Corporation's policy is to declare at least 60% of its available earnings as dividends and that at least 50% of the dividend shall be in the form of shares of stock.

The ROC Company Law provides that the aforementioned appropriation for legal reserve shall be made until the reserve equals the aggregate par value of the Corporation's outstanding capital stock. Such reserve may be used to offset a deficit; also, when the reserve has reached 50% of the aggregate par value of the Corporation's outstanding capital stock, up to 50% thereof can be distributed as stock

dividend.

Under the Integrated Income Tax System that became effective 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 in 1998 and onwards. 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 balance shown in the ICA on the date of dividend distribution.

#### 14. TREASURY STOCK

In 2000, the Corporation re-acquired 30,000 thousand shares of its own outstanding capital stock for purposes of subsequently transferring those shares to employees.

According to the SFC regulation, a Corporation shall acquire no more than 10% of the total issued shares of its own capital stock. The redeemed shares are not available for pledge and are also not entitled to any shareholder's right before transferring. In additions, the aggregate acquisition cost can not exceed combined balance of the retained earnings and capital surplus.

#### 15. INCOME TAX BENEFIT

1) A reconciliation of income tax currently payable is shown below:

	For the Years Ended December 31	
	<u>2000</u>	<u>1999</u>
Tax on pretax income at statutory rate of 20%	\$ 795,600	\$ 119,133
Permanent differences		
-Tax-exempt income	( 180,312)	-
-Others	68,216	( 37,902)
Temporary differences	<u>45,109</u>	<u>( 335,595)</u>
Income tax currently payable	<u>\$ 728,613</u>	<u>( \$ 254,364)</u>

2) Income tax benefit as of December 31, 2000 and 1999 consist of :

	For the Years Ended December 31	
	<u>2000</u>	<u>1999</u>
Income tax currently payable	\$ 728,613	\$ -
Loss carryforwards	( 665)	-
Investment tax credits	( 727,948)	-
Net change in deferred income tax assets and liabilities		
Loss carryforwards	( 204,527)	315,361
Investment tax credits	( 433,430)	341,435
Temporary differences	216,951	( 361,756)

Valuation allowance	662,873	( 289,690)
Tax on interest income on short-term bills	( 4,485)	( 122)
	<u>\$ 237,382</u>	<u>\$ 5,228</u>

3) Deferred income tax assets and liabilities as of December 31, 2000 and 1999 are as follows:

	<u>December 31,</u>	
	<u>2000</u>	<u>1999</u>
Current		
Deferred income tax assets		
-Investment tax credit	\$ 385,778	\$ -
-Loss carryforwards	268,985	-
-Accrued employee separation benefits	10,992	-
-Unrealized provision for loss on inventories	9,279	6,240
-Other	7,510	48,373
Deferred income tax liabilities	( 3,000)	-
	<u>679,544</u>	<u>54,613</u>
Valuation allowance	( 4,691)	-
	<u>\$ 674,853</u>	<u>\$ 54,613</u>
Noncurrent		
Deferred income tax assets		
-Investment tax credit	\$1,770,908	\$2,590,116
-Loss carryforwards	1,624,956	2,098,468
-Unrealized foreign exchange loss	66,366	-
-Other	18,903	12,266
Deferred income tax liabilities		
-Depreciation	( 776,031)	( 923,079)
-Unrealized foreign exchange gain	-	( 24,542)
-Other	-	( 2,190)
	<u>\$2,705,102</u>	<u>\$3,751,039</u>
Valuation allowance	( 1,304,247)	( 1,971,811)
	<u>\$1,400,855</u>	<u>\$1,779,228</u>

4) The related information under the Integrated Income Tax System is as follows:

	<u>2000</u>	<u>1999</u>
Shareholders' imputed tax credits	<u>\$ 6,353</u>	<u>\$ 601</u>

The expected and actual creditable ratio for 2000 and 1999 are 0.15% and 0.53%, respectively. The tax credits for which the Corporation can distribute to its shareholders are calculated based on the ratio of imputed tax credit to unappropriated earnings on the date of dividends distribution; thus, the 2000's expected creditable ratio may be adjusted according to the difference between the expected and actual imputation credit allowed under the regulation.

The effective tax rates for deferred income tax as of December 31, 2000 and 1999 were 20%.

5) As of December 31, 2000, the unused tax credits, mainly pertaining to investment in machinery and equipment, research and development expenditures and professional personnel training expenditures, and unused loss carryforwards are amounting to \$2,156,686 and \$1,893,941, respectively, which will expire from 2001 to 2004.

According to the regulation, the Corporation's income for five consecutive years beginning January 1, 2000 is partially exempt from income tax.

Income tax returns through 1997 have been examined by the tax authorities.

## 16. RELATED PARTY TRANSACTIONS

a. Related parties:	<u>Relationship</u>
Powertest Technology Inc. (Powertest)	The Corporation is its director
UMAX Data Systems Inc. (UMAX)	Same chairman
Kanematsu Corporation (Kanematsu)	Director (until 30th July, 1999)
Mitsubishi Electric Corp. (Mitsubishi -Japan)	Director
Vanguard International Semiconductor Corporation (Vanguard)	Director
Mitsubishi Electric Taiwan Company (Mitsubishi -Taiwan)	Subsidiary of Mitsubishi -Japan
Power Quotient International Co., Ltd. (Power)	The Corporation is its director
Li-Hsin Investment Corp. (Li-Hsin)	Subsidiary of the Corporation
Max Edge Electronics Corp. (Max Edge)	An investee

b. Related party transactions other than those disclosed in other notes:

	<u>2000</u>		<u>1999</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>For the year</u>				
1) Net sales				
Mitsubishi -Taiwan	\$7,703,524	40	\$7,019,969	65
Power	2,328,776	12	-	-
Vanguard	387,573	2	56,111	-
UMAX	-	-	53,722	-
Powertest	-	-	440	-
	<u>\$10,419,873</u>	<u>54</u>	<u>\$7,130,242</u>	<u>65</u>

2) Purchases				
Mitsubishi -Taiwan	\$ 709,396	23	\$ 781,974	35
Kanematsu	38,410	1	11,635	-
Mitsubishi -Japan	38,052	1	13,210	1
Other	<u>-</u>	<u>-</u>	<u>3,323</u>	<u>-</u>
	<u>\$ 785,858</u>	<u>25</u>	<u>\$ 810,142</u>	<u>36</u>
3) Properties				
Kanematsu	\$ 348,526	4	\$ 657,884	17
Mitsubishi -Taiwan	266,660	3	33,900	1
Mitsubishi -Japan	14,662	-	3,395	-
Powertest	<u>368</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 630,216</u>	<u>7</u>	<u>\$ 695,179</u>	<u>18</u>
4) Technical know-how and royalty				
Mitsubishi -Japan	<u>\$1,954,956</u>	<u>91</u>	<u>\$1,199,109</u>	<u>90</u>
5) Manufacturing expenses – sub- contract costs, indirect materials, expensed properties, repairs and maintenance, etc.				
Powertest	\$ 733,466	7	\$ 179,126	2
Mitsubishi -Japan	62,232	1	75,621	1
Other	<u>8,649</u>	<u>-</u>	<u>4,688</u>	<u>-</u>
	<u>\$ 804,347</u>	<u>8</u>	<u>\$ 259,435</u>	<u>3</u>
6) Research and development expenses – masks, indirect material, professional service charges and training expenses, etc.				
Mitsubishi -Japan	\$ 10,576	-	\$ 21,244	2
Other	<u>-</u>	<u>-</u>	<u>9,485</u>	<u>-</u>
	<u>\$ 10,576</u>	<u>-</u>	<u>\$ 30,729</u>	<u>2</u>
7) Deferred charges – computer software system, etc.				
Mitsubishi -Japan	\$ 5,112	-	\$ 9,143	1
Kanematsu	<u>-</u>	<u>-</u>	<u>119</u>	<u>-</u>
	<u>\$ 5,112</u>	<u>-</u>	<u>\$ 9,262</u>	<u>1</u>
8) Spare parts				
Kanematsu	\$ 19,629	4	\$ 19,871	6
Other	<u>7,647</u>	<u>1</u>	<u>6,810</u>	<u>2</u>
	<u>\$ 27,276</u>	<u>5</u>	<u>\$ 26,681</u>	<u>8</u>
9) Interest income				
Powertest	<u>\$ 27,905</u>	<u>7</u>	<u>\$ -</u>	<u>-</u>

At end of year

1) Accounts receivable - net				
Mitsubishi -Taiwan	\$ 885,105	40	\$ 1,118,390	60
Power	205,304	9	-	-
Vanguard	<u>18,161</u>	<u>1</u>	<u>6,182</u>	<u>-</u>
	<u>\$ 1,108,570</u>	<u>50</u>	<u>\$ 1,124,572</u>	<u>60</u>
2) Accounts payable				
Powertest	\$ 411,998	25	\$ 13,048	2
Mitsubishi -Taiwan	43,575	3	102,063	12
Mitsubishi -Japan	14,236	1	43,987	5
Other	<u>5,896</u>	<u>-</u>	<u>2,654</u>	<u>-</u>
	<u>\$ 475,705</u>	<u>29</u>	<u>\$ 161,752</u>	<u>19</u>
3) Payable on equipment				
Kanematsu	\$ 73,373	4	\$ 496,931	24
Mitsubishi -Taiwan	30,723	2	-	-
Mitsubishi -Japan	4,877	-	276	-
Powertest	<u>386</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 109,359</u>	<u>6</u>	<u>\$ 497,207</u>	<u>24</u>
4) Accrued expenses				
Mitsubishi -Japan	\$ 119,058	26	\$ 53,631	10
Powertest	7,966	2	161	-
Others	<u>1,247</u>	<u>-</u>	<u>3,120</u>	<u>-</u>
	<u>\$ 128,271</u>	<u>28</u>	<u>\$ 56,912</u>	<u>10</u>
5) Installment equipment receivable and other receivables				
Powertest				
Current	\$ 782,042	47	\$ -	-
Noncurrent	<u>763,908</u>	<u>46</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,545,950</u>	<u>93</u>	<u>\$ -</u>	<u>-</u>

The Corporation also purchased the following long-term stock investments from related parties in 2000 and 1999:

<u>Related parties</u>	<u>Investee</u>	<u>Shares (In Thousand)</u>	<u>Amount</u>
<u>2000</u>			
Li-Hsin	Powertest Technology Inc.	11,747	\$ 254,554
UMAX	Optimax Technology Co., Ltd.	850	<u>47,600</u>
			<u>\$ 302,154</u>
<u>1999</u>			

UMAX	Venglobal Capital Fund	-	\$ 37,364
	L.P.		
	Billion of Operatings Per	833	<u>16,175</u>
	Second, Inc.		
			<u>\$ 53,539</u>

Under a purchase agreement entered into in October 1996, the Corporation shall sell DRAM bearing Mitsubishi brand to Mitsubishi -Japan through Mitsubishi -Taiwan within the term of the agreement.

Also, starting in October 2000, the Corporation's subcontract activities with Powertest Technology Inc. is performed within the term of the subcontract cooperation agreement. (see Note 19-d).

Except for the aforementioned transactions with Mitsubishi-Taiwan and Powertest, for which the Corporation has no comparable counterparties, all transactions with other related parties are conducted based on normal commercial prices and terms.

On October 1, 2000, the Corporation sold packaging and testing equipment, and related inventories and spare parts, among others, to Powertest Technology Inc., at the selling price of \$1,588,866, and recognized a gain of \$135,359. The selling price was determined based on independent appraisal reports and is payable in 24 monthly installments starting from December 2000, bearing annual interest rate of 7%.

#### 17. PLEDGED OR MORTGAGED ASSETS

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

	<u>December 31,</u>	
	<u>2000</u>	<u>1999</u>
Properties - net	\$18,002,038	\$13,435,347
Other assets - Land	311,510	-
Pledged time deposits	<u>12,382</u>	<u>95,362</u>
	<u>\$18,325,930</u>	<u>\$13,530,709</u>

#### 18. COMMITMENTS AND CONTINGENCIES

- a. Under a patent license agreement with Texas Instruments Inc. executed in February 1999, the Corporation shall pay royalty for ten years from January 1, 1998 at an agreed percentage of the sale price of the licensed products.
- b. Under a patent license agreement with International Business Machines executed in September 1998, the Corporation shall pay a specific amount of royalty annually for five years from 1998.

- c. Under several license and technology transfer agreements, executed or amended in June, August and October 1999, respectively, with Mitsubishi-Japan, the Corporation shall pay royalties at agreed percentages of the sale price of certain specific licensed products starting from June 1998.
- d. The Corporation sold its packaging and testing related equipment and assets to Powertest Technology Inc. ("Powertest") on October 1, 2000 ("transfer date"), and both parties had reached a subcontract cooperation agreement which provided that Powertest shall guarantee specific production capacity to the Corporation for two years starting from the transfer date, and the Corporation shall subcontract packaging and testing works to Powertest based on the quantity and price specified in the agreement. In the event of default on the agreement, either party shall be compensated or shall re-negotiate on the quantity and price specified in the agreement.
- e. Unused letters of credit of about US\$6,174 and ¥800,346 as of December 31, 2000.
- f. The Corporation has leased two parcels of land from the Science-Based Industrial Park Administration (SBIP) for twenty years from April 1995 and October 1998, respectively, renewable upon expiration. The current minimum annual rental is \$56,760 which is subject to adjustment by SBIP according to its rule.

#### 19. DERIVATIVE FINANCIAL INSTRUMENTS

- a. Outstanding contracts as of December 31, 2000, and credit risk:

<u>Items</u>	<u>2000</u>	
	<u>Contract Amount (Nominal Amount)</u>	<u>Credit Risk</u>
Cross currency swap	¥1,090,000 (JP ¥ to US\$) floating ¥ interest rate swap for fixed US\$ interest rate of 6.6%	\$ -
	US\$18,000 (US\$ to NT\$) floating US\$ interest rate swap for fixed NT\$ interest rate from 6.7% to 6.95%	11,,796
	JP ¥2,195,400 (JP ¥ to US\$) floating ¥ interest rate swap for floating US\$ interest rate	-

The Corporation is exposed to credit risk in the event of nonperformance of forward contracts by the counterparties on maturity. In order to minimize this risk, the Corporation transacts only with financial institutions with good credit ratings. Thus, no material losses from the above are anticipated.

- b. Market risk - The Corporation enters into cross currency swap and forward

exchange contracts to hedge the effect of interest rate or foreign currency fluctuation on its net foreign currency-denominated assets or liabilities. Thus, gain or loss arising from exchange rate and interest rate fluctuations will approximately be offset by those hedged items. The potential market risk is insignificant.

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

As of December 31, 2000, the Corporation's future cash demand for the outstanding cross currency swap is as follows:

<u>Term</u>	<u>Cross Currency Swap</u>	
	<u>Inflow</u>	<u>Outflow</u>
Within one year	¥ 3,285,400	US\$ 30,000
	US\$ 9,000	NT\$ 291,030
1 - 2 years	US\$ 9,000	NT\$ 291,030

The Corporation has sufficient operating capital to meet the above cash demand, and the exchange rate of cross currency swap contracts have been fixed, so there is no material fund raising risk and cash flow risk.

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

The Corporation contracted or entered into the derivative financial transactions, completely for hedging purpose other than trading. The Corporation entered into forward contracts and cross currency swap to hedge the effect of exchange rate fluctuations on net foreign currency-denominated assets and liabilities. The purpose of hedging strategies is to hedge market risk the Corporation is exposed to. The Corporation has designated hedging instruments as high correlations with the fair value of the hedged item and periodically evaluates the effectiveness of the instruments.

- e. Other information

The realized exchange gains derived from settled cross currency swap and forward exchange contracts are gains of \$72,866 in 2000 under non-operating income; and a payable of \$31,440 as of December 31, 2000 generated from cross currency swap and forward exchange contracts are accounted under liabilities.

## 20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of the Corporation's financial instruments are presented in Exhibit A. The methods and assumptions applied in estimating fair values are as follows:

- a. The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, pledged time deposits, accounts payable, payable on

equipment, short-term bank borrowings and commercial papers issued approximate their fair values.

- b. Fair value of short-term and long-term investments, except bonds purchased under resale agreements, is based on quoted market prices or, if quoted market prices are unavailable, upon net worth or book value. Bonds purchased under resale agreements are based on contracted resell price.
- c. Fair value of long-term bank loans is estimated using discounted cash flow analysis, based on the Corporation's current incremental borrowing rates for similar types (similar maturity dates) of borrowings. The fair value of long-term bank loans of the Corporation all bearing floating interest rates is equivalent to their book value.
- d. Fair value of refundable deposits and guarantee deposits are based on their book value.
- f. Fair value of derivative financial instruments is the estimated net receivable (positive) or payable (negative) if those contracts are terminated on the balance sheet date.

## 21. MATERIAL TRANSACTION AND INVESTMENT INFORMATION

- a. FINANCING PROVIDED TO RELATED PARTIES as of December 31, 2000: None.
- b. COLLATERAL PROVIDED TO RELATED PARTIES as of December 31, 2000: None.

c. MARKETABLE SECURITIES HELD as of December 31, 2000:

Held Company Name	Marketable Securities Name and Type	Relationship with the Corporation	Financial Statement Account	December 31				Note
				Shares (Thousand)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
PSC	Li-Hsin Investment Corp. - Stock	A 99.75% - owned subsidiary	long-term investment	59,850	\$ 510,193	99.75	518,570	
	Powertest Technology Inc. - Stock	The Company is its director	long-term investment	20,980	368,993	10.49	257,765	
	Power Quotient International Co., Ltd. - Stock	The Company is its director	long-term investment	7,054	291,663	14.11	118,716	
	MaxEdge Electronics Corp. - Stock	Investee	long-term investment	24,096	138,644	10.04	138,644	
	Eastern Broadland Telecommunications Co., Ltd. - Stock	-	long-term investment	12,000	120,000	0.18	121,315	
	Netimage Corp. - Stock	Director	long-term investment	2,440	96,600	4.69	19,487	
	Ardentec Corp. - Stock	-	long-term investment	5,000	55,000	2.56	50,439	
	Optimax Technology Co., Ltd. - Stock	Same chairman	long-term investment	1,205	53,996	1.10	15,778	
	Ememory Technology Inc. - Stock	Same chairman	long-term investment	3,080	30,800	11.00	29,916	
	E-Tech. Inc. - Stock	Same chairman	long-term investment	2,000	25,000	2.26	14,008	
	PHI Tech Corp. - Stock	-	long-term investment	258	24,621	1.29	3,143	
	Jade Pacific - Stock	-	long-term investment	250	22,500	1.35	7,643	
	Advance Chip Engineering Technology Inc. - Stock	-	long-term investment	3,334	40,257	3.03	32,503	
	Billions of Operations Per Second, Inc. - Stock	-	long-term investment	833	16,175	1.65	16,175	Note3
	Globalgate Com, Inc. (Globalgate E-Commerce, LLC) - Stock	-	long-term investment	500	15,805	0.93	15,805	Note3
	Hsin Chu Golf Country Club - Stock	-	long-term investment	-	6,420	0.24	145	
	Merida Industry Co. Ltd. - Stock	-	Short-term investment	4,720	170,775	-	68,204	
	Winbond Electronic Corp. - Stock	-	Short-term investment	1,200	106,520	-	39,048	
	UMAX Data Systems Inc. - Stock	Same chairman	Short-term investment	3,696	100,277	-	18,997	
	Unaited Microelectronics Corp. - Stock	-	Short-term investment	1,150	95,380	-	56,729	
	Rectron Ltd. - Stock	-	Short-term investment	1,155	45,534	-	6,607	
	Omnivision Technologies Inc. - Stock	-	Short-term investment	333	31,750	-	80,520	
	Genuine C & C Inc. - Stock	-	Short-term investment	830	19,920	-	7,279	
	Aurora Corp. - Stock	-	Short-term investment	60	3,617	-	1,535	
	NewSoft Technology Corp. - Stock	Same chairman	Short-term investment	963	23,546	-	18,617	
	Broadcom Corp. - Stock	-	Short-term investment	3	3,330	-	12,649	
	Dramexchange.com Corp. - Stock	-	long-term investment	1,000	15,540	3.55	15,540	Note3
	United New Centry Fund - Equity	-	Short-term investment	1,000	10,000	-	7,200	Note1
	Venglobal Capital Fund L.P. - Equity	-	long-term investment	-	30,660	5.18	30,660	Note3
	Venglobal International Fund - Equity	-	long-term investment	1	15,258	2.83	15,258	Note3
Li - Hsin	MaxEdge Electronics Corp. - Stock	Same chairman	long-term investment	34,000	195,623	14.17	195,623	
	TwinMOS Technologies Inc. - Stock	-	long-term investment	2,398	56,048	1.35	56,048	Note3
	Optimax Technology Co., Ltd. - Stock	Same chairman	long-term investment	1,172	52,291	1.07	15,338	
	Ceon Computers Corp. - Stock	-	long-term investment	3,300	33,000	17.37	31,999	
	Telmax Technologies, Inc. - Stock	-	long-term investment	2,500	25,000	13.89	24,553	
	Maxium Technologies, Inc. - Stock	-	long-term investment	2,000	20,000	18.18	16,977	
	Innovation Group, Inc. - Stock	-	long-term investment	626	9,390	1.25	6,362	
	EWave Technology - Stock	Same chairman	long-term investment	900	9,000	18.00	5,801	
	CurioBox Interactive Marketing Co., Ltd. - Stock	-	long-term investment	171	5,985	2.44	719	
	Gatetech Technology Inc. - Stock	-	long-term investment	147	5,784	0.36	2,858	
	Explore Technology Electronics Inc. - Stock	-	long-term investment	500	5,000	4.17	2,091	
	Turnkey Manufacturing Solutions, Inc. - Stock	-	long-term investment	1,212	14,254	1.16	12,227	
	Powerchip Semiconductor Corp. - Stock	Parent Company	Short-term investment	2,852	98,107	0.15	56,163	
	Winbond Electronics Corp. - Stock	-	Short-term investment	110	8,702	0.003	3,579	
	Chiao Tung Bank - Stock	-	Short-term investment	99	3,286	0.004	2,483	

(Forward)

	Genuine C & C Inc. – Stock	The Company is its supervisor	Short-term investment	132	3,256	0.16	1,152	
	NewSoft Technology Corp. – Stock	Same chairman	Short-term investment	982	29,051	1.80	18,983	
	Bond	-	Short-term investment	-	14,260	-	14,338	Note2

Note1: The market values of mutual funds are based on net asset value of funds as of December 31, 2000.

Note2: Bonds are based on contracted resell price.

Note3: The investments are stated at cost.

Note4: The prepayment of Li Hsin investment Corp. is excluded from the above table.

Note5: All the above mentioned securities are not pledged.

d. BALANCE OF MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF EXCEEDING 100 MILLION OR 20% OF THE ISSUED CAPITAL:

Company Name	Marketable Securities Name and Type	Account	Counter - Party	Nature of the Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares (Thousand)	Amount (Thousand)	Shares (Thousand)	Amount (Thousand)	Shares (Thousand)	Amount (Thousand)	Carrying Value	Gain (loss)	Shares (Thousand)	Amount (Thousand)
PSC	Powertest Technology Inc. – Stock	Long-term investment	Li-Hsin, etc	Subsidiary of the Company and others	\$ 8,720	\$ 101,288	\$ 12,260	\$ 267,705	\$ -	\$ -	\$ -	\$ -	\$ 20,980	\$ 368,993
	Power Quotient International Co., Ltd. - Stock	Long-term investment	志成投資公司等	-	-	-	7,054	291,663	-	-	-	-	7,054	291,663
	MaxEdge Electronics Corp. – Stock	Long-term investment	Note2	-	8,536	104,632	15,560	155,600	-	-	-	-	24,096	138,644
	Eastern Broadland Telecommunications Co., Ltd. – Stock	Long-term investment	Note3	-	-	-	12,000	120,000	-	-	-	-	12,000	120,000
	Merida Industry Co. Ltd. – Stock	Short-term investment	-	-	-	-	4,720	170,775	-	-	-	-	4,720	170,775
	Winbond Electronics Corp. – Stock	Short-term investment	-	-	-	-	1,200	106,521	-	-	-	-	1,200	106,521
	UMAX Data Systems Inc. – Stock	Short-term investment	-	-	-	-	4,896	137,429	1,200	40,793	37,152	3,641	3,696	100,277
	United Microelectronics Corp. – Stock	Short-term investment	-	-	-	-	2,218	205,783	1,068	91,052	110,403	( 19,351 )	1,150	95,380
	匯僑工業	Short-term investment	-	-	-	-	4,102	316,782	4,102	516,651	316,782	199,869	-	-
Li-Hsin	MaxEdge Electronics Corp. – Stock	Long-term investment	Note2	-	17,700	177,000	1,6300	163,003	-	-	-	-	34,000	195,623
	Powertest Technology Inc. – Stock	Long-term investment	PSC	Parent Company	11,747	245,393	-	-	11,747	253,790	245,393	8,397	-	-
	Powerchip Semiconductor Corp. - Stock	Short-term investment	-	-	261	6,621	4,856	214,831	2,265	123,473	123,345	128	2,852	98,107

Note1: The prepayment and bonds of Li Hsin investment Corp. is excluded from the above table.

Note2: cash subscription.

Note3: initial subscription.

Note4: The ending balance included the recognition of the investment loss of \$121,588.

Note5: The ending balance included the recognition of the investment loss of \$144,379.

e. ACQUISITION OF INDIVIDUAL REAL ESTATES EXCEEDING 100 MILLION OR 20% OF ISSUED CAPITAL:

Company Name	Property	Transaction Date	Transaction Amount	Payment Term	Transaction Entity	Nature of the Relationship	Former Transaction Detail when Transacting with Related Parties				Reference of Price Determined	Purpose of Acquisition	Other Commitments
							Owner	Relationship	Transfer Date	Amount			
PSC	Land	Feb. 15, 2000 (Note 1)	\$ 311,510	Cash payment	福生投資	-	-	-	-	-	Market value and appraisal report	Employee dormitory	None

Note1: the date of transferring ownership.

Note2: According to the appraisal report, the market value of the land was \$318,833.

f. DISPOSAL OF INDIVIDUAL REAL ESTATES EXCEEDING 100 MILLION OR 20% OF ISSUED CAPITAL: None.

g. TRANSACTION OF PRUCHASE OF SALES WITH RELATED PARTIED AMOUNTING TO MORE THAN 100 MILLION OR 20% OF THE ISSUED CAPITAL:

Company Name	Transaction Entity	Nature of the Relationship	Transaction Detail				Abnormal Transaction		Notes, Accounts Payable or Receivables		Note
			Purchase or Sales	Amount	%	Collection Terms	Unit Price	Collection Terms	Ending Balance	%	
PSC	Mitsubishi - Taiwan	Subsidiary of Mitsubishi - Japan	Sales	\$ 7,703,524	40	Note2	Note6	Note6	\$ 885,105	40	
	Power	The Company is its director	Sales	2,328,776	12	Note3	-	-	205,304	9	
	Vanguard	Director	Sales	387,573	2	Note4	-	-	18,164	1	
	Mitsubishi - Taiwan	Subsidiary of Mitsubishi - Japan	Purchase	709,396	23	Note4	-	-	( 43,575)	( 3)	
	Powertest	The Company is its director	Note1	650,144	42	Note5	Note7	Note7	( 411,998)	( 25)	

Note1: subcontract charges.

Note2:

Note3:

Note4:

Note5:

Note6:

Note7:

h. RECEIVABLE FROM RELATED PARTIES AMOUNTING TO MORE THAN 100 MILLION OR 20% OF THE ISSUED CAPITAL:

Company Name	Transaction Entity	Nature Of the Relationship	Ending Balance	Turnover	Overdue		Amounts Received from December 31, 2000 Up-to-Date	Allowance for Bad Debts
					Amount	Management		
PSC	Mitsubishi - Taiwan	Subsidiary of Mitsubishi - Japan	\$ 885,105	7.69	-	-	\$ 446,291	\$ -
	Power	The Company is its director	205,304	22.69	-	-	207,320	2,016
	Powertest	The Company is its director	1,545,950	-	-	-	65,477	-

i. INFORMATION N INVESTEE ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCES:

Company Name	Investees	Location	Main Business	Original Investment Amount		Balance as of December 31, 2000			Net Income (Loss) of the Investee	Investment Income (Loss) Recognized	Note
				Dec. 31, 2000	Dec. 31, 1999	Shares (Thousand)	%	Carrying Value			
PSC	Li-Hsin	Taipei, Taiwan	Investment	\$ 598,500	\$ 598,500	59,850	99.75	\$ 510,193	(\$ 196,840)	(\$ 190,078)	Note1
	MaxEdge	Taoyuan, Taiwan	Manufacture of PCB	260,232	104,632	24,96	10.04	138,644	( 457,113)	( 121,588)	Note2

Note1:

Note2: The investment loss included the recognition of decline in value of stocks.

## 22. SEGMENT FINANCIAL INFORMATION

- a. Industry: The Corporation is only engaged in the manufacture and sale of semi-conductor products.
- b. Geographic information: The Corporation operates only in the Republic of China.
- c. Export sales: Not applicable.
- d. Customers accounting for more than 10% of net sales:

Customer	For the years Ended December 31			
	2000		1999	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
A	\$7,703,524	40	\$7,019,969	65
B	3,300,632	17	2,524,111	25
C	2,328,776	12	-	-
D	2,011,688	11	2,409	-

## POWERCHIP SEMICONDUCTOR CORPORATION

## FAIR VALUE OF FINANCIAL INSTRUMENTS

	<u>December 31, 2000</u>		<u>December 31, 1999</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
<u>Non-derivative instruments</u>				
Assets				
Cash and cash equivalents	\$ 5,913,777	\$ 5,913,777	\$ 11,912,766	\$ 11,912,766
Accounts receivable	2,212,815	2,212,815	1,858,669	1,858,669
Short-term and long-term investments	2,195,510	1,738,895	1,798,943	1,755,408
Pledged time deposits	12,382	12,382	95,362	95,362
Refundable deposits	23,837	23,837	18,014	18,014
Liabilities				
Short-term bank borrowings and commercial papers issued	80,000	80,000	448,997	448,997
Accounts payable and payable on equipment	3,388,361	3,388,361	2,942,267	2,942,267
Long-term bank loans (including current portion)	5,912,398	5,912,398	9,735,846	9,735,846
Guarantee deposits	1,036	1,036	4,672	4,672
<u>Derivative Instruments</u>				
Cross currency swap	( 31,440)	( 41,778)	63,015	63,015
Forward exchange contracts	-	-	8,225	8,225