

Powerchip Semiconductor Corporation

Financial Statements as of December 31, 2001 and 2000

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, 2001 and 2000, 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 Regulations for Auditing and Certification of Financial Statements by Certified Public Accountants, and 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, 2001 and 2000, 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 24, 2002

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.

English Translation of Financial Statements Originally Issued in Chinese

POWERCHIP SEMICONDUCTOR CORPORATION

BALANCE SHEETS

December 31, 2001 and 2000

(In Thousand New Taiwan Dollars Except Par Value)

ASSETS	2001		2000		LIABILITIES AND SHAREHOLDERS' EQUITY	2001		2000	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 3)	\$ 12,219,607	26	\$ 5,913,777	14	Short-term bank borrowings (Note 9)	\$ 920,000	2	\$ 80,000	-
Short-term investments (Notes 2 and 4)	204,554	-	317,385	1	Commercial papers issued (Note 10)	298,320	1	-	-
Accounts receivable (Notes 2 and 17)					Accounts payable (Note 17)				
Related parties - net of allowance for doubtful accounts of \$327 in 2001 and \$2,200 in 2000	116,826	-	1,108,570	3	Related parties	491,912	1	475,705	1
Third parties - net of allowance for doubtful accounts of \$75,161 in 2001 and \$44,706 in 2000	673,377	2	1,104,245	2	Third parties	777,432	2	1,149,142	3
Other receivables (Note 17)	1,010,951	2	901,048	2	Accrued expenses (Note 17)	491,930	1	802,825	2
Inventories (Notes 2 and 5)	1,319,811	3	2,440,344	6	Payable on equipment (Note 17)				
Prepaid expenses	208,524	1	190,840	-	Related parties	747,642	1	35,986	-
Deferred income tax assets (Notes 2 and 16)	165,201	-	674,853	2	Third parties	1,835,763	4	1,727,528	4
Pledged time deposits (Note 18)	34,000	-	12,382	-	Convertible bonds payable (Notes 2 and 11)	6,999,800	15	-	-
Other current assets (Notes 2 and 20)	97,250	-	7,338	-	Current portion of long-term bank loans (Notes 12 and 18)	2,500,086	5	2,689,839	6
Total Current Assets	<u>16,050,101</u>	<u>34</u>	<u>12,670,782</u>	<u>30</u>	Other current liabilities (Note 2)	6,904	-	38,139	-
					Total Current Liabilities	15,069,789	32	6,999,164	16
LONG-TERM STOCK INVESTMENTS (Notes 2, 6, and 17)	<u>3,573,314</u>	<u>7</u>	<u>1,878,125</u>	<u>4</u>	LONG-TERM BANK LOANS (Notes 12 and 18)	6,879,832	15	3,222,559	8
					OTHER LIABILITIES (Notes 2 and 13)	<u>21,224</u>	<u>-</u>	<u>20,913</u>	<u>-</u>
PROPERTIES (Notes 2, 7, 17 and 18)					Total Liabilities	<u>21,970,845</u>	<u>47</u>	<u>10,242,636</u>	<u>24</u>
Cost					SHAREHOLDERS' EQUITY (Note 14)				
Buildings	2,877,522	6	2,875,483	7	Capital stock, \$10 par value				
Machinery and equipment	27,746,119	59	25,917,178	60	Authorized - 2,943,200 thousand shares in 2001 and 2,500,000 thousand shares in 2000				
Research and development equipment	71,727	-	54,248	-	Issued - 2,311,811 thousand shares in 2001 and 1,900,321 thousand shares in 2000	23,118,112	49	19,003,210	44
Facility equipment	5,658,612	12	5,344,053	13	Capital surplus (Note 2)				
Transportation equipment	15,100	-	12,040	-	Paid-in capital in excess of par value	8,545,503	18	10,041,760	24
Office equipment	136,364	1	78,210	-	Gain on disposal of properties	99,280	-	99,280	-
Miscellaneous equipment	98,341	-	96,962	-	Retained earnings				
	36,603,785	78	34,378,174	80	Appropriated for Legal reserve	475,932	1	60,081	-
Accumulated depreciation	(19,224,786)	(41)	(13,720,561)	(32)	Unappropriated earnings (deficit)	(6,293,442)	(13)	4,225,803	10
	17,378,999	37	20,657,613	48	Treasury stock (Notes 2 and 15)	(772,774)	(2)	(646,948)	(2)
Construction in progress	1,112,287	2	318,693	1	Total Shareholders' Equity	<u>25,172,611</u>	<u>53</u>	<u>32,783,186</u>	<u>76</u>
Advance payments	4,509,387	10	1,351,111	3					
Net Properties	<u>23,000,673</u>	<u>49</u>	<u>22,327,417</u>	<u>52</u>					
OTHER ASSETS									
Refundable deposits	26,221	-	23,837	-					
Organization costs (Note 2)	-	-	16,365	-					
Deferred charges - net (Notes 2, 8 and 17)	2,034,557	4	3,442,343	8					
Deferred income tax assets (Notes 2 and 16)	1,915,177	4	1,400,855	3					
Land (Notes 18 and 19)	311,510	1	311,510	1					
Spare parts - net (Note 17)	231,903	1	190,680	-					
Installment equipment receivable (Note 17)	-	-	763,908	2					
Total Other Assets	<u>4,519,368</u>	<u>10</u>	<u>6,149,498</u>	<u>14</u>					
TOTAL ASSETS	<u>\$ 47,143,456</u>	<u>100</u>	<u>\$ 43,025,822</u>	<u>100</u>	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 47,143,456</u>	<u>100</u>	<u>\$ 43,025,822</u>	<u>100</u>

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

English Translation of Financial Statements Originally Issued in Chinese

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME

For the Years Ended December 31, 2001 and 2000

(In Thousand New Taiwan Dollars Except Earnings (Loss) Per Share)

	2001		2000	
	Amount	%	Amount	%
GROSS SALES	\$11,313,319		\$19,178,907	
SALES RETURNS AND ALLOWANCES	156,422		143,109	
NET SALES (Notes 2, 17 and 23)	11,156,897	100	19,035,798	100
COST OF SALES (Note 17)	14,622,882	131	12,203,901	64
GROSS (LOSS) PROFIT	(3,465,985)	(31)	6,831,897	36
OPERATING EXPENSES				
Selling	86,390	1	60,361	-
General and administrative	784,300	7	547,429	3
Research and development (Note 17)	1,594,101	14	1,498,233	8
Total Operating Expenses	2,464,791	22	2,106,023	11
INCOME (LOSS) FROM OPERATIONS	(5,930,776)	(53)	4,725,874	25
NON-OPERATING INCOME				
Interest (Notes 2, 17 and 20)	443,989	4	419,269	2
Reversal of provision for decline in value of short term investments (Note 2)	238,400	2	-	-
Indemnity income	117,827	1	164,798	1
Foreign exchange gain - net (Notes 2 and 20)	32,648	-	-	-
Gain on sales of investments - net	-	-	238,140	1
Gain on disposal of properties	-	-	132,230	1
Other	63,302	1	29,927	-
Total Non-Operating Income	896,166	8	984,364	5
NON-OPERATING EXPENSES				
Provision for loss on inventories and spare parts	583,714	5	40,318	-
Interest (Notes 2, 7 and 20)	436,957	4	630,499	3
Loss on sales of investments - net	167,314	2	-	-
Investment loss recognized by equity method - net (Notes 2 and 6)	151,998	2	311,666	2
Impairment loss on long-term stock investments (Note 2)	15,805	-	-	-
Loss on disposal of properties	3,527	-	32,046	-
Provision for decline in value of short - term investments (Note 2)	-	-	293,264	2

(Forward)

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Impairment loss of idle assets (Note 2)	\$	-	-	\$	254,831	1
Foreign exchange loss - net (Notes 2 and 20)		-	-		67,604	1
Departmental reorganization charge		-	-		54,960	-
Other		<u>36,706</u>	<u>-</u>		<u>4,755</u>	<u>-</u>
Total Non-Operating Expenses		<u>1,396,021</u>	<u>13</u>		<u>1,689,943</u>	<u>9</u>
 INCOME (LOSS) BEFORE INCOME TAX		 (6,430,631)	 (58)		 4,020,295	 21
 INCOME TAX BENEFIT (Notes 2 and 16)		 <u>4,274</u>	 <u>-</u>		 <u>237,382</u>	 <u>1</u>
 NET (LOSS) INCOME		 <u>(\$ 6,426,357)</u>	 <u>(58)</u>		 <u>\$ 4,257,677</u>	 <u>22</u>
 EARNINGS (LOSS) PER SHARE						
Based on number of weighted average shares outstanding of 2,279,235 thousand in 2001 and 1,897,109 thousand in 2000			(<u>\$ 2.82</u>)		<u>\$ 2.24</u>	
Based on retroactively - adjusted number of outstanding shares of 2,314,493 thousand					<u>\$ 1.84</u>	

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

English Translation of Financial Statements Originally Issued in Chinese

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2001 and 2000
(In Thousand New Taiwan Dollars Except Per Share Data)

	CAPITAL STOCK ISSUED		CAPITAL SURPLUS (Note 2)			RETAINED EARNINGS (DEFICIT)			TREASURY STOCK (Notes 2 and 15)	TOTAL SHAREHOLDERS' EQUITY (Note 14)
	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, 2000	1,701,000	\$17,010,000	\$11,572,660	\$ 107	\$11,572,767	\$ -	\$ 600,812	\$ 600,812	\$ -	\$29,183,579
Appropriations of 1999 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)
Balance after appropriations	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)	-	-
Acquisition of treasury stock - 30,000 thousand shares	-	-	-	-	-	-	-	-	(646,948)	(646,948)
BALANCE, DECEMBER 31, 2000	1,900,321	19,003,210	10,041,760	99,280	10,141,040	60,081	4,225,803	4,285,884	(646,948)	32,783,186
Appropriations of 2000 earnings										
Legal reserve	-	-	-	-	-	415,851	(415,851)	-	-	-
Stock dividend - 12%	224,438	2,244,385	-	-	-	-	(2,244,385)	(2,244,385)	-	-
Cash dividend - \$0.5 per share	-	-	-	-	-	-	(935,161)	(935,161)	-	(935,161)
Bonus to employees	37,426	374,260	-	-	-	-	(374,265)	(374,265)	-	(5)
Bonus to directors and supervisors	-	-	-	-	-	-	(112,280)	(112,280)	-	(112,280)
Balance after appropriations	2,162,185	21,621,855	10,041,760	99,280	10,141,040	475,932	143,861	619,793	(646,948)	31,735,740
Transfer of paid-in capital in excess of par value to capital stock	149,626	1,496,257	(1,496,257)	-	(1,496,257)	-	-	-	-	-
Net loss in 2001	-	-	-	-	-	-	(6,426,357)	(6,426,357)	-	(6,426,357)
Adjustment for changes in investee companies' shareholders' equities under equity method	-	-	-	-	-	-	(10,435)	(10,435)	-	(10,435)
Acquisition of treasury stock - 15,509 thousand shares	-	-	-	-	-	-	-	-	(133,588)	(133,588)
Sales of treasury stock - 360 thousand shares	-	-	-	-	-	-	(511)	(511)	7,762	7,251
BALANCE, DECEMBER 31, 2001	<u>2,311,811</u>	<u>\$23,118,112</u>	<u>\$ 8,545,503</u>	<u>\$ 99,280</u>	<u>\$ 8,644,783</u>	<u>\$475,932</u>	<u>(\$6,293,442)</u>	<u>(\$5,817,510)</u>	<u>(\$ 772,774)</u>	<u>\$25,172,611</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, 2001 and 2000
(In Thousand New Taiwan Dollars)

	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	(\$ 6,426,357)	\$ 4,257,677
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation	5,520,382	4,914,495
Amortization	1,775,226	1,792,304
Provision for loss on inventories and spare parts	583,714	40,318
Foreign exchange loss from convertible bonds payable	292,800	-
Foreign exchange loss (gain) from bank loans	172,427	(25,228)
Investment loss recognized by equity method - net	151,998	311,666
Provision (reversal of allowance) for bad debts	28,582	(11,591)
Amortization of discount on commercial papers issued	17,216	5,900
Impairment loss on long - term stock investments	15,805	-
Loss (gain) on disposal of properties - net	3,527	(100,184)
Provision (reversal of allowance) for decline in value of short-term investments	(238,400)	293,264
Deferred income tax assets	(4,670)	(241,867)
Gain on sales of long-term stock investments - net	(4,222)	-
Impairment loss of idle assets	-	254,831
Receivable from insurance claim over earthquake damage	-	242,886
Donation of properties	-	1,326
Interest income - installment equipment receivable	-	(17,037)
Other income - disposal of packaging and testing related assets	-	(3,400)
Changes in operating assets and liabilities		
Accounts receivable	1,394,030	(342,555)
Other receivables	(125,457)	67,014
Inventories	550,776	(723,469)
Prepaid expenses	(17,684)	(20,939)
Forward contract receivable - net	(64,128)	-
Other current assets	(57,224)	(6,766)
Accounts payable	(355,503)	781,524
Accrued expenses	(310,895)	240,726
Forward contract payable - net	-	104,690
Other current liabilities	205	2,450
Accrued pension costs	232	1,488
Net Cash Provided by Operating Activities	<u>2,902,380</u>	<u>11,819,523</u>

(Forward)

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CASH FLOWS FROM INVESTING ACTIVITIES

Decrease in short-term investments	\$ 351,231	\$ 188,043
Acquisition of		
Properties	(5,378,067)	(10,015,748)
Long-term stock investments	(1,892,576)	(1,189,540)
Deferred charges	(351,075)	(1,802,024)
Land	-	(250,675)
Increase in spare parts	(55,180)	(66,195)
Decrease (increase) in pledged time deposits	(21,618)	82,980
Proceeds from disposals of		
Packaging and testing related assets	779,462	62,532
Long-term stock investments	23,371	-
Properties	793	12,694
Idle assets	-	67
Increase in refundable deposits	(<u>2,384</u>)	(<u>5,823</u>)
Net Cash Used in Investing Activities	(<u>6,546,043</u>)	(<u>12,983,689</u>)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from		
Issuance of convertible bonds	6,707,000	-
Long-term bank loans	5,959,942	1,812,600
Sales of treasury stock	7,251	-
Increase (decrease) in short-term bank borrowings	840,000	(20,000)
Increase (decrease) in commercial papers issued	297,643	(354,897)
Increase (decrease) in guarantee deposits	79	(3,636)
Repayments of long-term bank loans	(2,681,388)	(5,610,820)
Cash dividend paid	(935,161)	-
Reacquisition of capital stock (treasury stock)	(133,588)	(646,948)
Bonus paid to directors and supervisors	(112,280)	(11,119)
Bonus paid to employees	(<u>5</u>)	(<u>3</u>)
Net Cash Provided by (Used in) Financing Activities	<u>9,949,493</u>	(<u>4,834,823</u>)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,305,830	(5,998,989)
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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,913,777</u>	<u>11,912,766</u>
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CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$12,219,607</u>	<u>\$ 5,913,777</u>
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SUPPLEMENTAL INFORMATION

Interest paid (excluding amounts capitalized of \$83,324 in 2001 and \$55,012 in 2000)	<u>\$ 487,715</u>	<u>\$ 648,657</u>
Income tax paid	<u>\$ 30,806</u>	<u>\$ 28,768</u>

(Forward)

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Noncash investing and financing activities		
Transfer of long-term stock investments to short-term investments	\$ -	\$ 55,761
Transfer of inventories to idle assets	\$ -	\$ 25,720
Transfer of properties to idle assets	\$ -	\$ 206,903
Transfer of spare parts to idle assets	\$ -	\$ 22,275
Current portion of long-term bank loans	\$ 2,500,086	\$ 2,689,839
Cash paid for acquisition of properties		
Total acquisition	\$ 6,197,958	\$ 9,680,318
Payable, beginning of year	1,763,514	2,098,944
Payable, end of year	(2,583,405)	(1,763,514)
	<u>\$ 5,378,067</u>	<u>\$ 10,015,748</u>
Proceeds from disposal of packaging and testing related assets		
Receivable, beginning of year	\$ 1,543,370	\$ -
Total proceeds (including interest income)	-	1,605,902
Receivable, end of year	(763,908)	(1,543,370)
	<u>\$ 779,462</u>	<u>\$ 62,532</u>

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

POWERCHIP SEMICONDUCTOR CORPORATION

NOTES TO FINANCIAL STATEMENTS

(In Thousand New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

The Corporation was incorporated on December 20, 1994 and the Corporation's common shares have been traded on the Taiwan Over-The-Counter Securities Exchange since March 23, 1998. In November 1999, the Corporation issued Global Depositary Shares (GDS). Such GDS have been listed on Luxembourg Stock Exchange and have been accepted for quotation on the SEAQ International of the London Stock Exchange and eligible for trading in the Private Offerings, Resales and Trading through Automated Linkages Market of the Nasdaq Stock Market, Inc.

The business activities of the Corporation mainly include research and development, manufacturing, testing, assembling, sub-contract and sales of various integrated circuit products.

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 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 net income or net losses of the investee companies are recognized as investment income or loss.

Other stock investments are accounted for by cost method. 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.

These investments 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.

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 (before the relevant regulation was amended in 2001).

Organization costs

These are amortized over five years from the 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; issuance costs of the convertible bonds, the period from the date of issuance to the expiration date of redemption; test-run costs and technical service charge, 5 years; others, 2 to 7 years.

Idle assets

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

Convertible bonds

Capital stock account is credited for the par value of the Corporation's common shares which the bond is converted into and the excess of the carrying value of the bond and other assets and liabilities related to such convertible bond as of the date of its conversion over the amounts credited into capital stock account above is then credited to capital surplus account.

Treasury stock

The acquisition of treasury stock is accounted for under cost method. The cost method results in, debiting the treasury stock account for the reacquisition cost (or debiting the treasury stock account at the fair value when the shares are donated) and in reporting this account as a deduction from shareholders' equity account. If the 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 reduction of retained earnings.

Revenue recognition

Revenue is mainly from product sales to customers and is recognized at the time of shipment, indicating that revenue has been realized and earned. The four criteria for revenue being realized and earned are the existence of evidence of sale, actual shipment, fixed or determinable selling price, and reasonable assurance of collectibility.

Pension costs

Net periodic pension costs are recorded on the basis of actuarial calculations. Unrecognized net transition obligation is amortized over 25 years.

Income tax

The Corporation adopts interperiod income tax allocation method. The tax effects of deductible temporary differences, unused tax credits and operating loss carryforwards are recognized as deferred income tax assets, and those of taxable temporary differences are recognized as deferred income tax liabilities. Valuation allowance is provided for deferred income tax assets that are not certain to be realized. A deferred tax asset or liability is, according to the classification of its related asset or liability, 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 is classified as current or non-current based on the expected reversal date.

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 period-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 period 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 period-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 2000 have been reclassified to conform to 2001 classifications.

3. CASH AND CASH EQUIVALENTS	<u>2001</u>	<u>2000</u>
Time deposits	\$11,964,497	\$ 4,694,701
Commercial papers purchased	134,893	1,106,746
Checking accounts	106,063	597
Demand deposits	13,812	8,681
Cash on hand	342	320
Negotiable certificate of deposits	<u>-</u>	<u>102,732</u>
	<u>\$12,219,607</u>	<u>\$ 5,913,777</u>

4. SHORT-TERM INVESTMENTS	<u>2001</u>	<u>2000</u>
Mutual funds	\$ 10,000	\$ 10,000
Listed stocks	<u>249,418</u>	<u>600,649</u>
	259,418	610,649
Allowance for decline in value	(<u>54,864</u>)	(<u>293,264</u>)
	<u>\$ 204,554</u>	<u>\$ 317,385</u>

The market values of mutual funds and stocks as of December 31, 2001 and 2000 were \$204,554 and \$317,385, respectively, based on net asset value of funds as of December 31 and average closing price of listed stocks in December.

5. INVENTORIES	<u>2001</u>	<u>2000</u>
Finished goods	\$ 256,453	\$ 446,948
Work in process	1,399,740	1,620,517
Materials	<u>273,934</u>	<u>419,272</u>
	1,930,127	2,486,737
Allowance for losses	(<u>610,316</u>)	(<u>46,393</u>)
	<u>\$1,319,811</u>	<u>\$2,440,344</u>

6. LONG-TERM STOCK INVESTMENTS	<u>2001</u>		<u>2000</u>	
	<u>Amount</u>	<u>% of Ownership</u>	<u>Amount</u>	<u>% of Ownership</u>
Equity method				
Quantum Vision Corp.	\$ 824,743	99.99	\$ -	-
Li-Hsin Investment Corp.	421,047	99.75	510,193	99.75
Paramax Corp.	148,861	99.96	-	-
MaxEdge Electronics Corp.	145,226	12.50	138,644	10.04
Telmax Technologies Corp.	87,861	29.03	-	-
Maxium Technologies, Inc.	70,390	32.27	-	-
Syntronic Corp.	63,545	65.00	-	-
Ceon Computers Corp.	<u>54,293</u>	19.66	<u>-</u>	<u>-</u>
	<u>1,815,966</u>		<u>648,837</u>	

(Forward)

Cost method				
Powertech Technology Inc.	\$ 368,993	10.40	\$ 368,993	10.49
Power Quotient International Co., Ltd.	291,663	13.99	291,663	14.11
Optimax Technology Corp.	187,098	4.56	53,996	1.10
Eastern Broadband Telecom Co., Ltd.	120,000	0.18	120,000	0.18
Webstorage Corp.	117,915	7.30	96,600	4.69
PowerWord Securities Co., Ltd.	90,370	2.45	-	-
Universal Venture Fund, Inc.	88,000	4.76	-	-
TwinMOS Technologies Inc.	55,142	1.34	-	-
Ardentec Corp.	55,000	2.48	55,000	2.56
Besteam Technology Inc.	42,500	5.54	-	-
eMemoryTechnology Inc.	40,444	9.63	30,800	11.00
Advanced Chip Engineering Technology Inc.	40,257	3.03	40,257	3.03
CDIB High Tech Investment Inc.	30,000	2.11	-	-
E-Tech. Inc.	25,000	2.26	25,000	2.26
Phitech Corp.	24,621	1.27	24,621	1.29
Jade Pacific Corp.	22,500	1.35	22,500	1.35
Venglobal Capital Fund L.P.	17,931	5.18	30,660	5.18
Cascade Semiconductor Corp.	17,205	9.09	-	-
Billions of Operations Per Second, Inc.	16,175	1.57	16,175	1.65
Dramexchange.com Corp.	15,540	3.55	15,540	3.55
Venglobal International Fund	15,258	2.83	15,258	2.83
Terax Communication Technologies Inc.	14,250	3.80	-	-
Lightsonic Optoelectronics Inc.	8,050	1.48	-	-
Globalgate Com, Inc.	-	0.93	15,805	0.93
Hsin Chu Golf Country Club	-	-	6,420	0.24
	<u>1,703,912</u>		<u>1,229,288</u>	
Prepayments				
Emerging Memory & Logic Solution Incorporation	18,931		-	
HuaWei Technology International Ltd.	17,280		-	
Billions of Operations Per Second, Inc.	<u>17,225</u>		<u>-</u>	
	<u>53,436</u>		<u>-</u>	
	<u>\$3,573,314</u>		<u>\$1,878,125</u>	

In third quarter of 2001, the Corporation invested in shares of stock of Quantum Vision Corp. ("Quantum Vision"), Paramax Corp. ("Paramax") and Syntronix Corp. ("Syntronix"). These investments have been accounted for by equity method since then. Quantum Vision is engaged in investment activities, Paramax is engaged in retail of electronic components, while Syntronix is engaged mainly in design of electronic related products.

The Corporation and Li-Hsin Investment Corp. ("Li-Hsin") have combined equity interest representing 13% of the outstanding common stock of MaxEdge Electronics Corp. ("MaxEdge") in the beginning of 2000 and accordingly, this investment was accounted for by cost method. In 2000, the Corporation and Li-Hsin has subscribed to the capital increase of MaxEdge which has led to a joint ownership of 24% by the Corporation and Li-Hsin in the forth quarter of 2000, accordingly this investment has been accounted by equity method since then. As of December 31, 2001, the Corporation, Li-Hsin, Quantum Vision and Paramax, together have a joint ownership of 38% in MaxEdge.

Also, the Corporation has subscribed to the capital increase of Ceon Computers Corp., Maxium Technologies, Inc. and Telmax Technologies Corp. which has led to a joint ownership of 39%, 48% and 44%, respectively, together by the Corporation and its subsidiaries of Li-Hsin, Quantum Vision and Paramax, at the end of 2001, accordingly this investment has been accounted for by equity method.

Investment income (losses), which are recognized based on audited financial statements, are summarized as follows:

	<u>2001</u>	<u>2000</u>
Quantum Vision Corp.	\$ 24,843	\$ -
Li-Hsin Investment Corp.	(100,025)	(190,078)
Paramax Corp.	(1,079)	-
MaxEdge Electronics Corp.	(72,985)	(121,588)
Telmax Technologies Corp.	(311)	-
Maxium Technologies, Inc.	366	-
Syntronic Corp.	(1,455)	-
Ceon Computers Corp.	(1,352)	-
	<u>(\$151,998)</u>	<u>(\$311,666)</u>

The total sales and total assets of Li-Hsin, Quantum Vision, Paramax and Syntronix are each less than 10% of those of the Corporation and the total combined sales and assets of aforementioned subsidiaries are less than 30% of those of the Corporation; therefore, the Corporation is not required to, and did not prepare consolidated financial statements.

7. PROPERTIES

Accumulated depreciation on properties consists of the following:

	<u>2001</u>	<u>2000</u>
Buildings	\$ 690,451	\$ 553,025
Machinery and equipment	14,501,678	10,125,089
Research and development equipment	46,156	24,242
Facility equipment	3,823,326	2,911,319

(Forward)

Transportation equipment	\$ 5,229	\$ 2,984
Office equipment	91,142	52,486
Miscellaneous equipment	<u>66,804</u>	<u>51,416</u>
	<u>\$19,224,786</u>	<u>\$13,720,561</u>

Total depreciation expenses in 2001 and 2000 were \$5,520,382 and \$4,914,495, respectively, and interest expenses, including amounts capitalized, for years ended December 31, 2001 and 2000, were \$520,281 and \$685,511, respectively. The rates used in capitalization of the interests were 4.47%-7.02% in 2001 and 5.63%-6.97% in 2000.

The Corporation is currently constructing its second manufacturing plant at total related cost amounting to approximately \$54,300,000. As of December 31, 2001, the incurred cost of \$5,376,222 has been recorded under construction in progress and advance payments and the plant is expected to be in production in the fourth quarter of 2002.

The details of properties pledged as collateral are shown in Note 18.

8. DEFERRED CHARGES - NET	<u>2001</u>	<u>2000</u>
Technical know-how	\$1,659,640	\$3,207,396
Computer software system	164,105	121,489
Issuance costs of the convertible bonds	155,562	-
Technical service charge	2,067	36,007
Test-run costs	-	43,693
Others	<u>53,183</u>	<u>33,758</u>
	<u>\$2,034,557</u>	<u>\$3,442,343</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 March of following year for those in 2001 and by January of the following year for those in 2000. The balances as of December 31, 2001 and 2000 bear interest rates ranging from 3.00% to 4.00% and from 5.60% to 5.65%, respectively.

Unused credit lines for short-term borrowings as of December 31, 2001 are about \$2,764,120.

10. COMMERCIAL PAPERS ISSUED

These commercial papers, guaranteed by financial institutions, bear annual interest rate of 3.05% to 3.20% and will mature by April 26, 2002 for those in 2001.

11. CONVERTIBLE BONDS PAYABLE

These are five year unsecured, Zero Coupon Euro Convertible Bonds (the "Bonds") issued and listed in Luxembourg Stock Exchange in the Second Quarter of 2001 with aggregate face value of US\$200,000 thousand. The Bonds can be convertible into common shares or Global Depository Shares (GDS) of the Corporation at initially \$30 (adjustable, and at exchange rate of US\$32.933 to NT\$1) per share from June 24, 2001 to April 24, 2006 and will mature on May 24, 2006. The Bonds can also be repurchased, at the option of the holders, on May 24 of each year (commencing in 2002) prior to maturity at 100% of their principal amount. Under certain conditions, either the holders of the Bonds or the Corporation may redeem the bonds prior to the maturity date.

12. LONG-TERM BANK LOANS	<u>2001</u>	<u>2000</u>
Long-term secured syndicated loans (1)		
New Taiwan dollars	\$ 605,842	\$ 1,375,968
Japanese yen - ¥ 1,350,000 thousand in 2000	-	388,935
U.S. dollars - US\$15,409 thousand in 2000	-	508,388
Long-term secured syndicated loans (2)		
U.S. dollars - US\$150,000 thousand in 2001 and US\$51,000 thousand in 2000	5,249,850	1,682,592
Long-term secured syndicated loans (3) (including Commercial paper issued) - New Taiwan Dollars	2,600,000	-
Medium to long-term loans		
New Taiwan dollars	861,733	1,790,729
Japanese yen - ¥ 242,255 thousand in 2001 and ¥ 560,418 thousand in 2000	64,585	161,456
U.S. dollars - US\$79 thousand in 2001 and US\$131 thousand in 2000	<u>2,756</u>	<u>4,330</u>
	9,384,766	5,912,398
Current portion	(2,500,086)	(2,689,839)
Unamortized discount of commercial paper issued	(<u>4,848</u>)	-
	<u>\$ 6,879,832</u>	<u>\$ 3,222,559</u>

The Corporation has utilized all its credit lines for long-term bank loans as of December 31, 2001.

The loans are due in monthly, quarterly or semi-annual installments of varying amounts. They will be fully repaid by December 2005. They also bear interest rate ranging from 1.00% to 8.96% and from 1.30% to 8.27% for the years ended December 31, 2001 and 2000, respectively.

The long-term secured loans were obtained from syndicates of banks. The loan agreements require, among others, the maintenance of specific financial ratios based on annual financial statements. Among those specific ratios, the Corporation has failed to meet tangible net worth requirement as of December 31, 2001 and is in the process of negotiation with the banks on release of such incompliance.

The details of assets pledged as collateral are shown in Note 18.

13. PENSION PLAN

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. The Corporation makes monthly contributions to the pension fund (the "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.

Certain pension information is as follows:

	<u>2001</u>	<u>2000</u>
a. Pension cost		
Service cost	\$ 18,926	\$ 19,213
Interest cost	4,295	3,863
Projected return on plan assets	(5,024)	(3,916)
Amortization	(<u>533</u>)	(<u>122</u>)
	<u>\$ 17,664</u>	<u>\$ 19,038</u>
b. Reconciliation of the fund status of the plan and accrued pension cost:		
Benefit obligations		
Vested benefit obligation	\$ 644	\$ -
Unvested benefit obligation	<u>49,983</u>	<u>21,012</u>
Accumulated benefit obligation	50,627	21,012
Effect of salary increase	<u>39,076</u>	<u>47,706</u>
Projected benefit obligation	89,703	68,718
Fair value of plan assets (including projected interest)	(<u>92,749</u>)	(<u>72,133</u>)
Funded status	(3,046)	(3,415)
Unrecognized prior service cost	-	-
Unrecognized net transition obligation	(10,444)	(10,969)
Unrecognized net gain	33,598	34,261
Additional liability	<u>-</u>	<u>-</u>
Accrued pension cost	<u>\$ 20,108</u>	<u>\$ 19,877</u>
c. Vested benefit	<u>\$ 644</u>	<u>\$ -</u>

(Forward)

d. Actuarial assumptions:		
Discount rate used in determining present values	4.00%	6.25%
Future salary increase rate	3.00%	6.00%
Expected rate of return on plan assets	4.00%	6.25%
e. Contributions to pension fund	<u>\$ 17,432</u>	<u>\$ 17,550</u>
f. Payments of fund	<u>\$ -</u>	<u>\$ 304</u>

14. SHAREHOLDERS' EQUITY

Capital surplus except for that arose from the application of the equity method of accounting, pursuant to ROC Company Law, can only be used to offset a deficit or transferred to capital (as stock dividend). Such transfer from capital surplus into capital can only be made once a year at a specific percentage.

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 items a, b and c, respectively;
- e. The remainder, as bonus to shareholders.

These appropriations and the disposition of the earnings shall be approved 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 ("SFC"), 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 balance of 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 issued 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 issued 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.

On December 24, 2001, the Board of Directors has approved the issuance of no more than 430,000 thousand shares of common shares mainly in the form of Global Depository Shares ("GDS") for approximately US\$199,420 thousand. This planned issuance was previously approved by shareholders on April 27 and August 14, 2001 and was cancelled due to the economic recession in 2001. As of December 31, 2001, the planned GDS offering is in the process of obtaining the SFC's approval.

In 2001, the Corporation and the SFC has adopted and approved, respectively, a 2001 Employee Stock Option Plan ("the Plan"). The Plan reserves 150,000 units of option, each representing 1,000 common share of stock, with total of 150,000 thousand shares for issuance. These options under the Plan generally vest over a period of two years from two years after the date of grant at certain percentage, and can be exercised within four years from two years after the date of grant. As of December 31, 2001, 145,410 units of option have been granted under the Plan.

15. TREASURY STOCK

The Corporation held 45,149 thousand shares of its own issued capital stock as of December 31, 2001 for purposes of subsequently transferring those shares to employees. The maximum number of treasury shares and its balance that the Corporation has during the year ended December 31, 2001 were 45,149 thousand shares and \$772,774, respectively.

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 specific capital surplus.

On January 21, 2002, the Corporation is expected to transfer 8,854 thousand shares of treasury stock to employees for total proceeds of \$178,851, which is currently in the process of obtaining the SFC's approval.

16. INCOME TAX BENEFIT

- a. For the year ended December 31, 2001, the Corporation did not have current income tax payable. A reconciliation of income tax currently payable for 2000 is shown below:

	<u>2000</u>
Tax on pretax income at statutory rate	\$ 795,600
Permanent differences	
- Tax-exempt income	(180,312)
- Others	68,216
Temporary differences	<u>45,109</u>
Income tax currently payable	<u>\$ 728,613</u>

- b. Income tax benefit (expense) for the years ended December 31, 2001 and 2000 consist of:

	<u>2001</u>	<u>2000</u>
Income tax currently payable	\$ -	(\$ 728,613)
Additional 10% tax on the unappropriated earnings	(24,841)	-
Loss carryforwards	-	665
Investment tax credits	24,841	727,948
Net change in deferred income tax assets and liabilities		
Loss carryforwards	1,521,259	(204,527)
Investment tax credits	655,729	(433,430)
Temporary differences	22,713	216,951
Valuation allowance	(2,195,031)	662,873
Tax on interest income on short-term bills	(396)	(4,485)
	<u>\$ 4,274</u>	<u>\$ 237,382</u>

- c. Deferred income tax assets and liabilities as of December 31, 2001 and 2000 are as follows:

	<u>2001</u>	<u>2000</u>
Current		
Deferred income tax assets		
- Investment tax credit	\$ 497,289	\$ 385,778
- Loss carryforwards	261,158	268,985
- Accrued departmental reorganization charge	-	10,992
- Unrealized provision for loss on inventories	152,579	9,279
- Other	16,758	7,510
Deferred income tax liabilities	(4,136)	(3,000)
	923,648	679,544
Valuation allowance	(758,447)	(4,691)
	<u>\$ 165,201</u>	<u>\$ 674,853</u>
(Forward)		

Noncurrent		
Deferred income tax assets		
- Investment tax credit	\$ 2,315,126	\$ 1,770,908
- Loss carryforwards	3,154,042	1,624,956
- Unrealized foreign exchange loss	96,019	66,366
- Other	22,948	18,903
Deferred income tax liabilities		
- Depreciation	(927,276)	(776,031)
- Other	(<u>160</u>)	<u>-</u>
	4,660,699	2,705,102
Valuation allowance	(<u>2,745,522</u>)	(<u>1,304,247</u>)
	<u>\$ 1,915,177</u>	<u>\$ 1,400,855</u>

- d. The related information under the Integrated Income Tax System as of December 31 is as follows:

	<u>2001</u>	<u>2000</u>
Shareholders' imputed tax credits	<u>\$ 4,141</u>	<u>\$ 6,353</u>

There was no tax creditable ratio for 2001 because of deficit. The actual tax creditable ratio for 2000 were 0.15%.

- e. The unappropriated retaining earnings as of December 31, 2001 and 2000 did not contain the unappropriated earnings generated on and before 1997.
- f. The effective tax rates for deferred income tax as of December 31, 2001 and 2000 were 25% and 20%, respectively.
- g. As of December 31, 2001, 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 amounted to \$2,812,415 and \$3,415,200, respectively. The said tax credits and loss carryforwards will expire from 2002 to 2006.
- h. The income from the following projects is exempt from income tax:

	<u>Tax-Exemption Period</u>
Original investment in the first manufacturing plant before 1996	2000~2004
Expansion of the first manufacturing plant in 1997	2001~2005

- i. Income tax returns through 1997 have been examined and cleared by the tax authorities.

17. RELATED PARTY TRANSACTIONS

a. Related parties:	Relationship
Powertech Technology Inc. (Powertech)	The Corporation is its director
UMAX Data Systems Inc. (UMAX)	Same chairman
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 (since June 30, 2000)
Li-Hsin Investment Corp. (Li-Hsin)	Subsidiary of the Corporation
Ceon Computers Corp. (Ceon)	An investee under equity method

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

	2001		2000	
	Amount	%	Amount	%
<u>For the year</u>				
1) Net sales				
Mitsubishi-Taiwan	\$ 3,213,812	29	\$ 7,703,524	40
Power	1,814,527	16	2,328,776	12
Vanguard	70,170	1	387,573	2
Ceon	15,136	-	-	-
Other	236	-	-	-
	<u>\$ 5,113,881</u>	<u>46</u>	<u>\$ 10,419,873</u>	<u>54</u>
2) Purchases				
Mitsubishi-Taiwan	\$ 19,209	1	\$ 709,396	23
Mitsubishi-Japan	-	-	38,052	1
Other	288	-	-	-
	<u>\$ 19,497</u>	<u>1</u>	<u>\$ 747,448</u>	<u>24</u>
3) Properties				
Mitsubishi-Taiwan	\$ 833,606	13	266,660	3
Mitsubishi-Japan	-	-	14,662	-
Other	540	-	368	-
	<u>\$ 834,146</u>	<u>13</u>	<u>\$ 281,690</u>	<u>3</u>
4) Technical know-how and royalty				
Mitsubishi-Japan	<u>\$ 94,099</u>	<u>45</u>	<u>\$ 1,954,956</u>	<u>91</u>

(Forward)

5) Manufacturing expenses – sub-contract costs, indirect materials, expensed properties, repairs and maintenance, etc.					
Powertech	\$ 2,167,844	17	\$ 733,466	7	
Mitsubishi-Japan	39,458	-	62,232	1	
Other	<u>3,844</u>	<u>-</u>	<u>8,649</u>	<u>-</u>	
	<u>\$ 2,211,146</u>	<u>17</u>	<u>\$ 804,347</u>	<u>8</u>	
6) Research and development expenses – masks, indirect material, professional service charges and training expenses, etc.					
Mitsubishi-Japan	<u>\$ 124</u>	<u>-</u>	<u>\$ 10,576</u>	<u>-</u>	
7) Deferred charges – computer software system, etc.					
Mitsubishi-Japan	<u>\$ 47,981</u>	<u>14</u>	<u>\$ 5,112</u>	<u>-</u>	
8) Spare parts					
Mitsubishi-Japan	<u>\$ 3,683</u>	<u>1</u>	<u>\$ 7,647</u>	<u>1</u>	
9) Interest income					
Powertech	<u>\$ 82,585</u>	<u>19</u>	<u>\$ 27,905</u>	<u>7</u>	
<u>At end of year</u>					
1) Accounts receivable - net					
Power	\$ 67,683	9	\$ 205,304	9	
Mitsubishi-Taiwan	46,669	6	885,105	40	
Other	<u>2,474</u>	<u>-</u>	<u>18,161</u>	<u>1</u>	
	<u>\$ 116,826</u>	<u>15</u>	<u>\$ 1,108,570</u>	<u>50</u>	
2) Accounts payable					
Powertech	\$ 491,912	39	\$ 411,998	25	
Mitsubishi-Taiwan	-	-	43,575	3	
Mitsubishi-Japan	-	-	14,236	1	
Other	<u>-</u>	<u>-</u>	<u>5,896</u>	<u>-</u>	
	<u>\$ 491,912</u>	<u>39</u>	<u>\$ 475,705</u>	<u>29</u>	
3) Payable on equipment					
Mitsubishi-Taiwan	\$ 732,870	28	30,723	2	
Mitsubishi-Japan	14,205	1	4,877	-	
Other	<u>567</u>	<u>-</u>	<u>386</u>	<u>-</u>	
	<u>\$ 747,642</u>	<u>29</u>	<u>\$ 35,986</u>	<u>2</u>	

(Forward)

4) Accrued expenses					
Mitsubishi-Japan	\$ 69,092	14	\$ 119,058	26	
Powertech	-	-	7,966	2	
Others	<u>125</u>	<u>-</u>	<u>1,247</u>	<u>-</u>	
	<u>\$ 69,217</u>	<u>14</u>	<u>\$ 128,271</u>	<u>28</u>	
5) Installment equipment receivable and other receivables					
Powertech					
Current	\$ 765,176	76	\$ 782,042	47	
Noncurrent	<u>-</u>	<u>-</u>	<u>763,908</u>	<u>46</u>	
	<u>\$ 765,176</u>	<u>76</u>	<u>\$ 1,545,950</u>	<u>93</u>	

The Corporation also purchased the following long-term stock investments from related parties in 2001 and 2000:

<u>Related parties</u>	<u>Investee</u>	<u>Shares (In Thousand)</u>	<u>Amount</u>
<u>2001</u>			
UMAX	Optimax Technology Corp.	2,700	\$ 87,450
	Universal Venture Fund, Inc.	8,000	88,000
	Besteam Technology Inc.	1,700	42,500
	PowerWorld Securities Co., Ltd.	9,300	90,370
Li-Hsin	TwinMOS Technologies Inc.	2,757	<u>55,143</u>
			<u>\$363,463</u>
<u>2000</u>			
Li-Hsin	Powertech Technology Inc.	11,747	\$ 254,554
UMAX	Optimax Technology Corp.	850	<u>47,600</u>
			<u>\$302,154</u>

Under several sale agreements, the Corporation shall sell DRAM bearing Mitsubishi brand to Mitsubishi-Japan through Mitsubishi-Taiwan within the term of the agreements.

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

Except for the aforementioned transactions with Mitsubishi-Taiwan and Powertech, 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 Powertech, 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%.

18. 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>2001</u>	<u>2000</u>
Properties - net	\$14,581,560	\$18,002,038
Other assets - land	311,510	311,510
Pledged time deposits	<u>34,000</u>	<u>12,382</u>
	<u>\$14,927,070</u>	<u>\$18,325,930</u>

19. COMMITMENTS AND CONTINGENCIES

- a. Under a patent license agreement with A Company 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 B Company 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 C Company, 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 Powertech Technology Inc. ("Powertech") on October 1, 2000 ("transfer date"), and both parties had reached a subcontract cooperation agreement which provided that Powertech 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 Powertech 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. Under a product development and license agreement with D Company, executed or amended in April and August 2001, respectively, the Corporation shall pay royalty at an agreed percentage of the sale price of the licensed products sold by 2003 or up to certain amount.

- f. Under a product development and license agreement with E Company executed in July 2001, the Corporation shall pay royalty at an agreed percentage of the sale price of the licensed products sold by 2004.
- g. The Corporation has a joint ownership with other parties on a parcel of land accounted as other assets, such land was used by all owners to secure their respective loans obtained from the bank. Due to one of the co-owners defaulted his payment obligation, the District Court of Hsinchu has granted the plea of the bank to foreclose the land by a public auction to satisfy its unpaid loan. As of January 24, 2002, the public auction has not been done yet, and the Corporation is unable to determine the loss it will incur as a result of such foreclosure since it is difficult to estimate the proceeds of sale from the public auction. In addition, the Corporation has a right of seeking indemnity if any loss incurred from such co-owner in default.
- h. Unused letters of credit are about US\$486 thousand and ¥1,250,000 thousand as of December 31, 2001.
- i. 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.

20. DERIVATIVE FINANCIAL INSTRUMENTS

- a. Outstanding contracts and credit risk:

Items	2001	
	Contract Amount (Nominal Amount)	Credit Risk
Cross currency swap	US\$9,000 thousand (US\$ to NT\$) floating US\$ interest rate swap for fixed NT\$ interest rate from 6.7% to 6.95%	\$ 17,825
Forward exchange contracts	US\$30,000 thousand (US\$ to NT\$)	9,197

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, 2001, the Corporation's future cash demand for the outstanding cross currency swap and forward exchange contracts is as follows:

<u>Term</u>	<u>Forward Exchange Contracts</u>		<u>Cross Currency Swap</u>	
	<u>Inflow</u>	<u>Outflow</u>	<u>Inflow</u>	<u>Outflow</u>
Within one year	US\$ 30,000 thousand	NT\$1,041,552	US\$ 9,000 thousand	NT\$ 291,030

The Corporation has sufficient operating capital to meet the above cash demand, and the exchange rate of cross currency swap and that of forward exchange 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 exchange 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 loss derived from settled cross currency swap and forward exchange contracts is \$97,317 in 2001 under non-operating expense; and a receivable of \$32,688 as of December 31, 2001 generated from cross currency swap and forward exchange contracts is accounted under current assets. In 2001, the interest income and expense related to cross currency swap are \$25,731 and \$80,423, respectively.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

	<u>2001</u>		<u>2000</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	\$ 12,219,607	\$ 12,219,607	\$ 5,913,777	\$ 5,913,777
Accounts receivable	790,203	790,203	2,212,815	2,212,815
Short-term and long-term investments	3,777,868	3,288,162	2,195,510	1,738,895
Pledged time deposits	34,000	34,000	12,382	12,382
Refundable deposits	26,221	26,221	23,837	23,837

(Forward)

Liabilities

Short-term bank borrowings and commercial papers issued	\$ 1,218,320	\$ 1,218,320	\$ 80,000	\$ 80,000
Accounts payable and payable on equipment	3,852,749	3,852,749	3,388,361	3,388,361
Convertible bonds payable	6,999,800	6,999,800	-	-
Long-term bank loans (including current portion)	9,379,918	9,379,918	5,912,398	5,912,398
Guarantee deposits	1,076	1,076	1,036	1,036

Derivative instruments

Cross currency swap	23,961	17,825	(31,440)	(41,778)
Forward exchange contracts	8,727	9,197	-	-

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

- 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, commercial papers issued and convertible bonds payable approximate their fair values.
- 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.
- 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.
- Fair value of refundable deposits and guarantee deposits is based on their book value.
- Fair value of derivative financial instruments is the estimated net receivable (positive) or payable (negative) if those contracts are terminated on the balance sheets date.

22. ADDITIONAL DISCLOSURES

The following are the additional disclosures for 2001 required by the SFC for the Corporation (PSC) with all items and investees which the Corporation exercises controlling influences (Li-Hsin Investment Corp., Quantum Vision Corp., Paramax Corp. and Syntronix Corp.) with items a, b, c and d.

- Financing provided: None.
- Endorsement/guarantee provided: None.
- Marketable securities held: Please see Table 1 attached.

- d. Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital: Please see Table 2 attached.
- e. Acquisition of individual real estates at costs of at least \$100 million or 20% of the paid-in capital: Please see Table 3 attached.
- f. Disposal of individual real estates at prices of at least \$100 million or 20% of the paid-in capital: None.
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Please see Table 4 attached.
- h. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Please see Table 5 attached.
- i. Names, locations, and related information of investees on which the Corporation exercises significant influence: Please see Table 6 attached.
- j. Derivative financial transactions: Please see Notes 20 and 21.
- k. Investment in Mainland China: None.

23. 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:

<u>Customer</u>	<u>2001</u>		<u>2000</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
A	\$3,213,812	29	\$7,703,524	40
B	1,814,527	16	2,328,776	12
C	1,704,606	15	2,011,688	11
D	1,405,689	13	3,300,632	17

POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

MARKETABLE SECURITIES HELD

December 31, 2001

(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
				Shares (Thousand)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
PSC	<u>Stock</u>							
	Quantum Vision Corp.	Subsidiary	Long-term stock investments	79,990	\$ 824,743	99.99	\$ 828,035	-
	Li-Hsin Investment Corp.	Subsidiary	Long-term stock investments	59,850	421,047	99.75	428,355	-
	Paramax Corp.	Subsidiary	Long-term stock investments	14,994	148,861	99.96	148,861	-
	MaxEdge Electronics Corp.	Investee	Long-term stock investments	23,648	145,226	12.50	145,226	-
	Telmax Technologies Corp.	Investee	Long-term stock investments	9,000	87,861	29.03	85,479	-
	Maxium Technologies, Inc.	Investee	Long-term stock investments	7,100	70,390	32.27	67,905	-
	Syntronix Corp.	Subsidiary	Long-term stock investments	6,500	63,545	65.00	63,545	-
	Ceon Computers Corp.	Investee	Long-term stock investments	5,700	54,293	19.66	52,362	-
	Powertech Technology Inc.	The Corporation is its director	Long-term stock investments	23,078	368,993	10.40	266,847	Note 4
	Power Quotient International Co., Ltd.	The Corporation is its director	Long-term stock investments	8,395	291,663	13.99	123,636	Note 4
	Optimax Technology Corp.	The Corporation is its director	Long-term stock investments	6,226	187,098	4.56	88,699	Note 4
	Eastern Broadband Telecom Co., Ltd.	-	Long-term stock investments	12,000	120,000	0.18	120,000	Note 2
	Webstorage Corp.	Director	Long-term stock investments	4,378	117,915	7.30	35,155	Note 4
	PowerWorld Securities Co., Ltd.	-	Long-term stock investments	9,300	90,370	2.45	85,079	Note 4
	Universal Venture Fund, Inc.	Same chairman	Long-term stock investments	8,000	88,000	4.76	88,000	Note 2
	TwinMOS Technologies Inc.	-	Long-term stock investments	2,757	55,142	1.34	55,142	Note 2
	Ardentec Corp.	-	Long-term stock investments	5,050	55,000	2.48	55,000	Note 2
	Besteam Technology Inc.	-	Long-term stock investments	1,700	42,500	5.54	42,500	Note 2
	eMemory Technology Inc.	Same chairman	Long-term stock investments	3,852	40,444	9.63	34,488	Note 4
	Advanced Chip Engineering Technology Inc.	-	Long-term stock investments	3,334	40,257	3.03	28,444	Note 4
	CDIB High Tech Investment Inc.	The Corporation is its director	Long-term stock investments	3,000	30,000	2.11	30,976	Note 4
	E-Tech. Inc.	Same chairman	Long-term stock investments	2,000	25,000	2.26	25,000	Note 2
	Phitech Corp.	-	Long-term stock investments	291	24,621	1.27	24,621	Note 2
	Jade Pacific Corp.	-	Long-term stock investments	250	22,500	1.35	2,408	Note 4
	Cascade Semiconductor Corp.	-	Long-term stock investments	1,111	17,205	9.09	17,205	Note 2
	Billions of Operations Per Second, Inc.	-	Long-term stock investments	833	16,175	1.57	16,175	Note 2
	Dramexchange.com Corp.	-	Long-term stock investments	1,000	15,540	3.55	15,540	Note 2
	Terax Communication Technologies Inc.	Same chairman	Long-term stock investments	950	14,250	3.80	14,250	Note 2
	Lightsonic Optoelectronics Inc.	Same chairman	Long-term stock investments	700	8,050	1.48	8,050	Note 2
	Globalgate.com, Inc.	-	Long-term stock investments	500	-	0.93	-	Note 2
	United Microelectronics Corp.	-	Short-term investments	1,323	95,381	-	63,387	-
	Winbond Electronics Corp.	-	Short-term investments	1,076	79,889	-	20,133	-
	OnmiVision Technologies Inc.	-	Short-term investments	333	31,750	-	96,481	-
	Merida Industry Co., Ltd.	-	Short-term investments	991	31,735	-	8,126	-
	NewSoft Technology Corp.	Same chairman	Short-term investments	324	7,333	-	5,097	-
	Broadcom Corp.	-	Short-term investments	4	3,330	-	5,320	-

(Forward)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
				Shares (Thousand)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Li-Hsin	<u>Equity</u>							
	Venglobal Capital Fund L.P.	-	Long-term stock investments	-	\$ 17,931	5.18	\$ 17,931	Note 2
	Venglobal International Fund	-	Long-term stock investments	500	15,258	2.83	15,258	Note 2
	United New Century Fund	-	Short-term investments	1,000	10,000	-	6,010	Note 1
	<u>Stock</u>							
	MaxEdge Electronics Corp.	Same chairman	Long-term stock investments	24,220	148,727	12.80	148,727	-
	Ceon Computers Corp.	Investee	Long-term stock investments	3,300	31,655	11.38	30,309	-
	Telmax Technologies Corp.	Investee	Long-term stock investments	2,500	25,094	8.06	23,733	-
	Maxium Technologies, Inc.	Investee	Long-term stock investments	2,000	20,662	9.09	19,128	-
	Optimax Technology Corp.	PSC is it's director	Long-term stock investments	1,415	54,716	1.04	20,166	Note 4
	Turnkey Manufacturing Solutions, Inc.	-	Long-term stock investments	1,212	14,254	1.16	14,254	Note 2
	Innovation Group, Inc.	-	Long-term stock investments	626	9,390	1.25	5,969	Note 4
	eWave Technology	Same chairman	Long-term stock investments	900	9,000	18.00	2,233	Note 4
	CurioBox Interactive Marketing Co., Ltd.	-	Long-term stock investments	171	5,985	2.44	5,985	Note 2
	Gatetech Technology Inc.	-	Long-term stock investments	165	5,784	0.35	5,784	Note 2
	Explore Technology Electronics Inc.	-	Long-term stock investments	500	5,000	4.17	5,000	Note 2
	Getsilicon.net Inc.	-	Long-term stock investments	400	3,071	2.20	3,071	Note 2
	Powerchip Semiconductor Corp.	Parent company	Short-term investments	3,334	95,561	0.14	53,820	-
	NewSoft Technology Corp.	Same chairman	Short-term investments	1,041	28,519	1.91	16,378	-
	Genuine C & C Inc.	The Corporation is its supervisor	Short-term investments	100	2,142	0.11	1,176	-
	UMAX Data Systems Inc.	Same chairman	Short-term investments	400	2,386	0.093	2,118	-
Quantum Vision	<u>Bonds</u>	-	Short-term investments	-	22,969	-	22,982	Note 3
	xxxx							
	<u>Stock</u>							
	MaxEdge Electronics Corp.	Same chairman	Long-term stock investments	16,800	164,129	8.88	103,168	-
	PowerWorld Securities Co., Ltd.	-	Long-term stock investments	9,100	89,070	2.39	83,156	Note 4
	Optimax Technology Corp.	PSC is it's director	Long-term stock investments	2,200	52,800	1.61	31,345	Note 4
	Besteam Technology Inc.	-	Long-term stock investments	1,200	30,000	3.91	20,995	Note 4
	Powertech Technology Inc.	PSC is it's director	Long-term stock investments	2,000	20,000	0.90	23,082	Note 4
	Ceon Computers Corp.	Investee	Long-term stock investments	2,000	19,816	6.90	18,377	-
	Billions of Operations Per Second, Inc.	-	Long-term stock investments	200	17,237	-	17,237	Note 2
	eMemory Technology Inc.	Same chairman	Long-term stock investments	700	16,800	1.75	6,268	Note 4
	Powervision Technologies, Inc.	Same chairman	Long-term stock investments	1,600	16,000	8.04	6,692	Note 4
	Maxium Technologies, Inc.	Investee	Long-term stock investments	1,500	15,009	6.82	14,351	-
	Telmax Technologies Corp.	Investee	Long-term stock investments	1,200	11,964	3.87	11,395	-
	Webstorage Corp.	PSC's director	Long-term stock investments	1,000	10,000	1.67	8,046	Note 4
	Terax Communication Technologies Inc.	Same chairman	Long-term stock investments	634	9,510	2.54	6,774	Note 4
	Emerging Memory & Logic Solution Incorporation	-	Long-term stock investments	102	6,892	0.50	6,892	Note 2
	Cascade Semiconductor Corp.	-	Long-term stock investments	444	6,891	-	6,891	Note 2
	AVAC Systems Inc.	-	Long-term stock investments	500	5,500	5.56	5,240	Note 4
Nobex Corp.	-	Long-term stock investments	40	3,444	-	3,444	Note 2	

(Forward)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
				Shares (Thousand)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Paramax	<u>Equity</u>							
	Sheng Hua 1699 Bond Fund	-	Short-term investments	9,016	\$ 100,551	-	\$ 102,001	Note 1
	Prudential Well Pool Bond Fund	-	Short-term investments	4,362	50,000	-	50,186	Note 1
	United Bond Fund	-	Short-term investments	4,201	50,000	-	50,199	Note 1
	Sheng Hua 5599 Bond Fund	-	Short-term investments	2,044	20,631	-	20,911	Note 1
	<u>Stock</u>							
	MaxEdge Electronics Corp.	Same chairman of PSC	Long-term stock investments	6,828	66,704	3.61	41,941	-
	PowerWorld Securities Co., Ltd.	-	Long-term stock investments	2,200	20,700	0.57	19,832	Note 4
	Optimax Technology Corp.	PSC is it's director	Long-term stock investments	700	16,800	0.51	9,929	Note 4
	Telmax Technologies Corp.	Investee	Long-term stock investments	800	7,976	2.58	7,597	-
Powervision Technologies, Inc.	Same chairman of PSC	Long-term stock investments	600	6,000	3.02	2,514	Note 4	
Ceon Computers Corp.	Investee	Long-term stock investments	300	2,976	1.03	2,743	-	
Syntronix	<u>Stock</u>							
	PowerWorld Securities Co., Ltd.	-	Long-term stock investments	1,500	14,850	0.39	13,722	Note 4
	Powervision Technologies, Inc.	Same chairman	Long-term stock investments	500	5,000	2.51	2,091	Note 4
	<u>Equity</u>							
	Capital Safe Income Bond Fund	-	Short-term investments	1,501	20,000	-	20,187	Note 1
	Prudential Well Pool Bond Fund	-	Short-term investments	1,750	20,000	-	20,139	Note 1
	Barits Bond Fund	-	Short-term investments	1,345	15,000	-	15,010	Note 1
	UBS Taiwan Bond Fund	-	Short-term investments	746	10,180	-	10,226	Note 1

Note 1: The market value is based on net asset value of the fund as of December 31, 2001.

Note 2: The market values are based on stated carrying value.

Note 3: The market value is based on contracted resell price.

Note 4: The net asset value is based on unaudited financial data.

Note 5: The prepayments of long-term stock investments of the Corporation, Quantum Vision and Paramax are excluded.

Note 6: Marketable securities disclosed above are not pledged nor mortgaged as of December 31, 2001.

POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
For the year Ended December 31, 2001
(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares (Thousand)	Amount	Shares (Thousand)	Amount	Shares (Thousand)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousand)	Amount
PSC	<u>Stock</u> Optimax Technology Corp.	Long-term stock investments	UMAX Data Systems Inc., etc. (Note 2)	Same chairman	1,205	\$ 53,996	5,021 (Note 1)	\$ 133,102	-	\$ -	\$ -	\$ -	6,226	\$ 187,098
	Quantum Vision Corp.	Long-term stock investments		Subsidiary	-	-	79,990	799,900	-	-	-	-	79,990	824,743 (Note 3)
	Paramax Corp.	Long-term stock investments		Subsidiary	-	-	14,994	149,940	-	-	-	-	14,994	148,861 (Note 4)
	Taiwan Semiconductor Manufacturing Company Ltd.	Short-term investments	-	-	-	-	2,000	133,320	2,000	133,409	133,320	89	-	-
	Merida Industry Co., Ltd.	Short-term investments	-	-	4,720	170,775	114 (Note 5)	-	3,843	79,418	139,040	(59,622)	991	31,735
	UMAX Data Systems Inc.	Short-term investments	-	-	3,696	100,277	-	-	3,696	29,935	100,277	(70,342)	-	-
Quantum Vision Corp.	<u>Stock</u> MaxEdge Electronics Corp.	Long-term stock investments	(Note 6)	Same chairman	-	-	16,800	168,000	-	-	-	-	16,800	164,129 (Note 7)
	<u>Equity</u> UBS Taiwan Bond Fund	Short-term investments	-	-	-	-	14,790	200,000	14,790	201,766	200,000	1,766	-	-
	Sheng Hua 1699 Bond Fund	Short-term investments	-	-	-	-	13,450	150,000	4,434	50,000	49,449	551	9,016	100,551
	Capital Safe Income Bond Fund	Short-term investments	-	-	-	-	7,542	100,000	7,542	100,953	100,000	953	-	-
	Sheng Hua 5599 Bond Fund	Short-term investments	-	-	-	-	16,845	170,000	14,801	150,000	149,369	631	2,044	20,631

Note 1: The acquisition shares included stock dividend of 344 thousand shares.

Note 2: Initial subscription of capital.

Note 3: The ending balance included the recognition of the investment income of \$24,843.

Note 4: The ending balance included the recognition of the investment loss of \$1,079.

Note 5: The acquisition shares included stock dividend of 114 thousand shares.

Note 6: Cash subscription of capital.

Note 7: The ending balance included the recognition of the investment loss of \$3,871.

POWERCHIP SEMICONDUCTOR CORPORATION

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

For the year Ended December 31, 2001

(Amounts in Thousand 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			
PSC	Construction in progress	Jan. 10, 2001~ Dec. 26, 2001	\$2,245,640	\$2,110,895 paid	Fu Tsu Construction Co., Ltd., etc.	-	-	-	-	\$ -	-	Fab. II and office manufacturing	None

POWERCHIP SEMICONDUCTOR CORPORATION

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

For the year Ended December 31, 2001

(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
PSC	Mitsubishi - Taiwan Power Powertech	Subsidiary of Mitsubishi - Japan The Corporation is its director The Corporation is its director	Sales	\$ 3,213,812	29	Note 2	Note 5	Note 5	\$ 46,669	6	-
			Sales	1,814,527	16	Note 3	-	-	67,683	9	-
			Note 1	2,167,844	17	Note 4	Note 6	Note 6	(491,912)	(39)	-

Note 1: Subcontract fees.

Note 2: Mainly paid on the 20th and the last day of the month following the month the shipment is made before and after the 15th, respectively.

Note 3: Mainly paid on the 14th day after shipment is made.

Note 4: Mainly paid on the 60th day.

Note 5: Contract terms with no comparable counterparties.

Note 6: Agreement terms with no comparable counterparties.

POWERCHIP SEMICONDUCTOR CORPORATION

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

December 31, 2001

(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
PSC	Powertech	The Corporation is its director	\$ 765,176	Note	\$ -	-	\$ -	\$ -

Note: Mainly for installment equipment receivable over 24 months starting from December 25, 2000.

POWERCHIP SEMICONDUCTOR CORPORATION

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE

For the year Ended December 31, 2001

(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2001			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				Dec. 31, 2001	Dec. 31, 2000	Shares (Thousand)	Percentage of Ownership	Carrying Value			
PSC	Quantum Vision Corp.	Taipei, Taiwan	Investment	\$ 799,900	\$ -	79,990	99.99%	\$ 824,743	\$ 28,139	\$ 24,843	-
	Li-Hsin Investment Corp.	Taipei, Taiwan	Investment	598,500	598,500	59,850	99.75%	421,047	(101,346)	(100,025)	Note
	Paramax Corp.	Taipei, Taiwan	Retail of electronic components	149,940	-	14,994	99.96%	148,861	(1,080)	(1,079)	-
	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	260,232	260,232	23,648	12.50%	145,226	(719,054)	(72,985)	-
	Telmax Technologies Corp.	Taipei, Taiwan	Electronic components manufacturing	90,000	-	9,000	29.03%	87,861	(430)	(311)	-
	Maxium Technologies Inc.	Taipei, Taiwan	Electronic components manufacturing	71,000	-	7,100	32.27%	70,390	4,612	366	-
	Syntronix Corp.	Taipei, Taiwan	Design of electronic related products	65,000	-	6,500	65.00%	63,545	(2,239)	(1,455)	-
	Ceon Computers Corp.	Taipei, Taiwan	Electronic components manufacturing	57,000	-	5,700	19.66%	54,293	(10,220)	(1,352)	-

Note: Intercompany transactions have been eliminated before recognition of the investment loss.