

Powerchip Semiconductor Corporation

**Financial Statements for the Six Months Ended
June 30, 2003 and 2002**

Together with Independent Auditors' Report

Readers are advised that the original version of these financial statements is in Chinese. This English translation is solely for the readers' convenience. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

July 17, 2003

The Board of Directors and Shareholders
Powerchip Semiconductor Corporation

We have audited the accompanying balance sheets of Powerchip Semiconductor Corporation as of June 30, 2003 and 2002, and the related statements of income, changes in shareholders' equity and cash flows for the six months 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.

Except as discussed in the following paragraph, 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.

As mentioned in Note 6 to the financial statements, the carrying values of the entire investments accounted for under the equity method of NT\$1,826,332 thousand and NT\$1,763,326 thousand and the related investment loss of NT\$42,054 thousand and NT\$71,552 thousand as of and for the six months ended June 30, 2003 and 2002, respectively, were based on the investees' unaudited financial statements in the same period.

In our opinion, except for any adjustments of the June 30, 2003 and 2002 financial statements that might have been made had we audited the investees' financial statements mentioned in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Powerchip Semiconductor Corporation as of June 30, 2003 and 2002 and the results of its operations and its cash flows for the six months 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.

Deloitte & Touche
(T N Soong & Co and Deloitte & Touche Taiwan
Established Deloitte & Touche Effective June 1, 2003)
Taipei, Taiwan
The Republic of China

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

June 30, 2003 and 2002

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

ASSETS	2003		2002		LIABILITIES AND SHAREHOLDERS' EQUITY	2003		2002	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 3)	\$ 7,265,058	12	\$ 12,874,641	21	Short-term bank borrowings (Note 9)	\$ 2,469,401	4	\$ 500,000	1
Short-term investments - net (Notes 2 and 4)	1,523,171	2	470,980	1	Commercial paper issued (Note 10)	299,714	-	598,805	1
Notes and accounts receivable (Notes 2, 19 and 20)					Accounts payable (Note 19)				
Related parties - net of allowance for doubtful accounts of \$3,399 thousand in 2003 and \$272 thousand in 2002	428,245	1	220,532	-	Related parties	140,578	-	405,688	1
Third parties - net of allowance for doubtful accounts of \$118,564 thousand in 2003 and \$81,019 thousand in 2002	1,653,639	2	1,144,197	2	Third parties	1,555,151	3	850,762	1
Other receivables (Note 19)	148,245	-	547,703	1	Accrued expenses (Note 19)	1,039,189	2	683,514	1
Inventories - net (Notes 2 and 5)	3,490,955	6	1,548,228	3	Payable on equipment (Note 19)				
Prepaid expenses	90,208	-	105,010	-	Related parties	-	-	5,796	-
Deferred income tax assets - current (Notes 2 and 16)	-	-	82,494	-	Third parties	7,726,020	12	8,881,916	15
Pledged time deposits (Note 20)	364,757	1	930,823	2	Convertible bonds payable (Notes 2 and 11)	7,640,772	12	6,264,608	10
Other current assets (Note 2)	5,424	-	41,179	-	Current portion of long-term bank loans (Notes 12 and 20)	3,754,603	6	1,958,701	3
Total Current Assets	<u>14,969,702</u>	<u>24</u>	<u>17,965,787</u>	<u>30</u>	Current portion of long-term payable on equipment (Note 7)	982,146	2	479,510	1
					Current portion of obligation under capital lease (Notes 2 and 7)	195,300	-	-	-
LONG-TERM INVESTMENTS (Notes 2, 6 and 19)					Other current liabilities (Notes 2 and 22)	46,178	-	122,765	-
Equity method	1,826,332	3	1,763,326	3	Total Current Liabilities	<u>25,849,052</u>	<u>41</u>	<u>20,752,065</u>	<u>34</u>
Cost method	996,133	2	1,733,848	3	LONG-TERM LIABILITIES				
Prepayments	-	-	17,280	-	Long-term bank loans (Notes 12 and 20)	10,539,394	17	6,885,779	12
Other	274,450	-	89,150	-	Long-term payable on equipment (Note 7)	982,146	2	1,918,040	3
Total Long-term Investments	<u>3,096,915</u>	<u>5</u>	<u>3,603,604</u>	<u>6</u>	Obligation under capital lease (Notes 2 and 7)	255,000	-	-	-
					Total Long-term Liabilities	<u>11,776,540</u>	<u>19</u>	<u>8,803,819</u>	<u>15</u>
PROPERTIES (Notes 2, 7, 19 and 20)					OTHER LIABILITIES				
Cost					Accrued pension cost (Notes 2 and 13)	29,640	-	20,807	-
Buildings	6,341,512	10	6,094,537	10	Guarantee deposits	3,734	-	1,393	-
Machinery and equipment	49,798,661	79	28,351,404	48	Total Other Liabilities	<u>33,374</u>	<u>-</u>	<u>22,200</u>	<u>-</u>
Research and development equipment	85,262	-	73,132	-					
Facility equipment	9,929,894	16	5,738,638	10	Total Liabilities	<u>37,658,966</u>	<u>60</u>	<u>29,578,084</u>	<u>49</u>
Transportation equipment	18,378	-	15,100	-					
Office equipment	250,753	-	179,868	-	SHAREHOLDERS' EQUITY (Note 14)				
Equipment under capital lease	761,708	1	-	-	Capital stock - \$10 par value				
Miscellaneous equipment	388,092	1	116,509	-	Authorized - 3,779,358 thousand shares in 2003 and 3,600,000 thousand shares in 2002				
	67,574,260	107	40,569,188	68	Issued - 2,679,571 thousand shares in 2003 and 2,679,358 thousand shares in 2002	26,795,710	42	26,793,577	45
Accumulated depreciation	(28,304,425)	(45)	(21,604,494)	(36)	Entitlement certificates	-	-	2,133	-
	39,269,835	62	18,964,694	32	Capital surplus (Note 2)				
Construction in progress	244,172	-	218,445	-	Paid-in capital in excess of par value	2,785,338	4	4,405,161	7
Advance payments	351,553	1	14,149,911	24	Arising from long-term investments	1,800	-	-	-
Net Properties	<u>39,865,560</u>	<u>63</u>	<u>33,333,050</u>	<u>56</u>	Arising from conversion of bonds	279,068	1	279,068	1
					Unappropriated earnings (deficit)	(2,898,479)	(5)	138,437	-
OTHER ASSETS					Cumulative translation adjustments	402	-	-	-
Refundable deposits	21,794	-	21,622	-	Treasury stock (Notes 2 and 15)	(1,359,418)	(2)	(1,362,082)	(2)
Deferred charges - net (Notes 2, 8 and 19)	2,260,260	4	2,026,994	3	Total Shareholders' Equity	<u>25,604,421</u>	<u>40</u>	<u>30,256,294</u>	<u>51</u>
Deferred income tax assets - noncurrent (Notes 2 and 16)	2,486,487	4	2,359,600	4					
Land (Notes 20 and 21)	311,510	-	311,510	1	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 63,263,387</u>	<u>100</u>	<u>\$ 59,834,378</u>	<u>100</u>
Spare parts - net	245,312	-	212,211	-					
Others	5,847	-	-	-					
Total Other Assets	<u>5,331,210</u>	<u>8</u>	<u>4,931,937</u>	<u>8</u>					
TOTAL ASSETS	<u>\$ 63,263,387</u>	<u>100</u>	<u>\$ 59,834,378</u>	<u>100</u>					

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

(With Deloitte & Touche report dated July 17, 2003)

English Translation of Financial Statements Originally Issued in Chinese

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME

For the Six Months Ended June 30, 2003 and 2002

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

	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
GROSS SALES	\$ 7,094,708		\$ 7,068,275	
SALES RETURNS AND ALLOWANCES	<u>25,931</u>		<u>16,241</u>	
NET SALES (Notes 2 and 19)	7,068,777	100	7,052,034	100
COST OF SALES (Notes 17 and 19)	<u>8,611,383</u>	<u>122</u>	<u>6,287,151</u>	<u>89</u>
GROSS (LOSS) PROFIT	(<u>1,542,606</u>)	(<u>22</u>)	<u>764,883</u>	<u>11</u>
OPERATING EXPENSES (Note 17)				
Selling	105,857	1	36,269	1
General and administrative (Note 19)	339,755	5	759,962	11
Research and development	<u>632,667</u>	<u>9</u>	<u>523,952</u>	<u>7</u>
Total Operating Expenses	<u>1,078,279</u>	<u>15</u>	<u>1,320,183</u>	<u>19</u>
LOSS FROM OPERATIONS	(<u>2,620,885</u>)	(<u>37</u>)	(<u>555,300</u>)	(<u>8</u>)
NON-OPERATING INCOME AND GAIN				
Reversal of provision for decline in value of short-term investments (Note 2)	93,150	1	6,203	-
Foreign exchange gain - net (Notes 2 and 22)	58,986	1	87,323	1
Interest (Notes 2 and 19)	39,577	1	111,794	2
Gain on sales of investments - net	204	-	62,340	1
Reversal of allowance for losses on inventories and spare parts (Note 2)	-	-	506,766	7
Indemnity income	-	-	6,925	-
Other	<u>20,726</u>	<u>-</u>	<u>8,962</u>	<u>-</u>
Total Non-operating Income and Gain	<u>212,643</u>	<u>3</u>	<u>790,313</u>	<u>11</u>
NON-OPERATING EXPENSE AND LOSS				
Interest (Notes 2 and 7)	337,349	5	127,430	2
Provision for losses on inventories and spare parts (Note 2)	254,832	4	-	-
Issuance costs of the convertible bonds early redeemed	67,099	1	-	-
Investment loss recognized by equity method - net (Notes 2 and 6)	42,054	-	71,552	1

(Forward)

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	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Loss on disposal of properties (Note 2)	\$ 3,238	-	\$ 1,575	-
Impairment loss on long-term investments (Note 2)	-	-	21,855	-
Loss from earthquake	-	-	97,511	1
Other	<u>58,678</u>	<u>1</u>	<u>36,462</u>	<u>1</u>
Total Non-operating Expense and Loss	<u>763,250</u>	<u>11</u>	<u>356,385</u>	<u>5</u>
LOSS BEFORE INCOME TAX	(3,171,492)	(45)	(121,372)	(2)
INCOME TAX BENEFIT (Notes 2 and 16)	<u>273,013</u>	<u>4</u>	<u>361,671</u>	<u>5</u>
NET (LOSS) INCOME	<u>(\$ 2,898,479)</u>	<u>(41)</u>	<u>\$ 240,299</u>	<u>3</u>

	<u>2003</u>		<u>2002</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>	<u>Before Income Tax</u>	<u>After Income Tax</u>
EARNINGS (LOSS) PER SHARE (Note 18)				
Basic earnings (loss) per share	<u>(\$ 1.21)</u>	<u>(\$ 1.11)</u>	<u>(\$ 0.05)</u>	<u>\$ 0.10</u>
Diluted earnings (loss) per share	<u>(\$ 1.21)</u>	<u>(\$ 1.11)</u>	<u>(\$ 0.05)</u>	<u>\$ 0.09</u>

The pro forma net income (loss) and earnings (loss) per share on the assumption that the stock of the parent company held by its subsidiaries as an investment is not treated as a treasury stock are shown as follows:

	<u>2003</u>	<u>2002</u>
NET (LOSS) INCOME	<u>(\$ 2,884,041)</u>	<u>\$ 250,613</u>

	<u>2003</u>		<u>2002</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>	<u>Before Income Tax</u>	<u>After Income Tax</u>
EARNINGS (LOSS) PER SHARE				
Basic earnings (loss) per share	<u>(\$ 1.21)</u>	<u>(\$ 1.10)</u>	<u>(\$ 0.05)</u>	<u>\$ 0.11</u>
Diluted earnings (loss) per share	<u>(\$ 1.21)</u>	<u>(\$ 1.10)</u>	<u>(\$ 0.05)</u>	<u>\$ 0.09</u>

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

(With Deloitte & Touche report dated July 17, 2003)

English Translation of Financial Statements Originally Issued in Chinese

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Six Months Ended June 30, 2003 and 2002

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

	CAPITAL STOCK ISSUED				CAPITAL SURPLUS (Notes 2 and 14)					RETAINED EARNINGS (DEFICIT)			Cumulative Translation Adjustments	TREASURY STOCK (Notes 2 and 15)	TOTAL SHAREHOLDERS' EQUITY (Note 14)
	Shares (Thousands)	Amount	Entitlement Certificates	Total	Paid-in Capital in Excess of Par Value	Gain on Disposal of Properties	Arising from Long-term Investments	Arising from Conversion of Bonds	Total	Legal Reserve	Unappropriated Earnings (Deficit)	Total			
BALANCE, JANUARY 1, 2003	2,679,571	\$ 26,795,710	\$ -	\$ 26,795,710	\$ 4,405,161	\$ -	\$ -	\$ 279,068	\$ 4,684,229	\$ -	(\$1,619,823)	(\$1,619,823)	\$ -	(\$1,359,418)	\$ 28,500,698
Transfer of paid-in capital in excess of par value to offset deficit	-	-	-	-	(1,619,823)	-	-	-	(1,619,823)	-	1,619,823	1,619,823	-	-	-
Adjustment for changes in investee companies' shareholders' equities under equity method	-	-	-	-	-	-	1,800	-	1,800	-	-	-	402	-	2,202
Net loss for the six months ended June 30, 2003	-	-	-	-	-	-	-	-	-	-	(2,898,479)	(2,898,479)	-	-	(2,898,479)
BALANCE, JUNE 30, 2003	<u>2,679,571</u>	<u>\$ 26,795,710</u>	<u>\$ -</u>	<u>\$ 26,795,710</u>	<u>\$ 2,785,338</u>	<u>\$ -</u>	<u>\$ 1,800</u>	<u>\$ 279,068</u>	<u>\$ 3,066,206</u>	<u>\$ -</u>	<u>(\$2,898,479)</u>	<u>(\$2,898,479)</u>	<u>\$ 402</u>	<u>(\$1,359,418)</u>	<u>\$ 25,604,421</u>
BALANCE, JANUARY 1, 2002	2,311,811	\$ 23,118,112	\$ -	\$ 23,118,112	\$ 8,545,503	\$ 99,280	\$ -	\$ -	\$ 8,644,783	\$ 475,932	(\$6,293,442)	(\$5,817,510)	\$ -	(\$ 772,774)	\$ 25,172,611
Transfer of paid-in capital in excess of par value and legal reserve to offset deficit	-	-	-	-	(5,718,230)	(99,280)	-	-	(5,817,510)	(475,932)	6,293,442	5,817,510	-	-	-
Issuance of capital stock, May 15, 2002 - \$15 per share (certain portion for GDS offering)	350,000	3,500,000	-	3,500,000	1,577,888	-	-	-	1,577,888	-	-	-	-	-	5,077,888
Conversion of bonds into capital stock	17,547	175,465	2,133	177,598	-	-	-	279,068	279,068	-	-	-	-	-	456,666
Adjustment for changes in investee companies' shareholders' equities under equity method	-	-	-	-	-	-	-	-	-	-	(2,355)	(2,355)	-	-	(2,355)
Net income for the six months ended June 30, 2002	-	-	-	-	-	-	-	-	-	-	240,299	240,299	-	-	240,299
Acquisition of treasury stock-45,377 thousand shares at average of \$22.04 per share	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,000,195)	(1,000,195)
Sales of treasury stock-26,391 thousand shares at average of \$13.94 per share	-	-	-	-	-	-	-	-	-	-	(99,507)	(99,507)	-	467,371	367,864
Treasury stock - the parent's shares of capital stock held by its subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(56,484)	(56,484)
BALANCE, JUNE 30, 2002	<u>2,679,358</u>	<u>\$ 26,793,577</u>	<u>\$ 2,133</u>	<u>\$ 26,795,710</u>	<u>\$ 4,405,161</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 279,068</u>	<u>\$ 4,684,229</u>	<u>\$ -</u>	<u>\$ 138,437</u>	<u>\$ 138,437</u>	<u>\$ -</u>	<u>(\$1,362,082)</u>	<u>\$ 30,256,294</u>

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

(With Deloitte & Touche report dated July 17, 2003)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2003 and 2002

(In Thousands of New Taiwan Dollars)

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	(\$ 2,898,479)	\$ 240,299
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	4,068,584	2,389,499
Amortization	681,971	547,838
Reversal of allowance for decline in value of short-term investments	(93,150)	(6,203)
Provision for bad debts	38,747	5,803
Provision (reversal of allowance) for loss on inventories and spare parts	254,832	(506,766)
Investment loss recognized by equity method - net	42,054	71,552
Impairment loss on long-term investments	-	21,855
Cash dividends from long-term investments under equity method	1,658	12,249
Amortization of discount on long-term investments of bonds	(150)	(50)
Gain on sales of long-term investments - net	(92,377)	(35,803)
Loss on disposal of properties - net	3,238	1,576
Deferred income tax assets	(273,283)	(361,716)
Amortization of discount on commercial paper issued	7,705	14,389
Foreign exchange gain from convertible bonds payable	(28,063)	(268,427)
Foreign exchange gain from long-term bank loans	(14,087)	(187,378)
Issuance costs of the convertible bonds early redeemed	67,099	-
Changes in operating assets and liabilities:		
Notes and accounts receivable	(716,177)	(580,329)
Other receivables	16,173	52,635
Inventories	(1,051,751)	284,509
Prepaid expenses	137,844	103,514
Other current assets	(3,028)	23,383
Accounts payable	494,323	(12,894)
Accrued expenses	310,145	191,584
Forward contract payable	310,384	144,005
Other current liabilities	19,676	4,544
Accrued pension costs	9,984	698
Net Cash Provided by Operating Activities	<u>1,293,872</u>	<u>2,150,366</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in short-term investments	(348,399)	(169,853)
Collections on installment equipment receivable	-	410,613
Acquisition of:		
Properties	(9,816,156)	(4,021,595)
Long-term investments	(180,000)	(345,843)
Deferred charges	(1,086,807)	(550,374)
Decrease (increase) in pledged time deposits	1,082,251	(896,823)

(Forward)

English Translation of Financial Statements Originally Issued in Chinese

	<u>2003</u>	<u>2002</u>
Decrease (increase) in spare parts	(\$ 36,440)	\$ 13,532
Decrease (increase) in refundable deposits	(139)	4,599
Proceeds from disposal of long-term investments	<u>378,491</u>	<u>96,541</u>
Net Cash Used in Investing Activities	(<u>10,007,199</u>)	(<u>5,459,203</u>)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term bank borrowings	2,319,401	(420,000)
Increase in commercial paper issued	197,949	293,880
Proceeds from:		
Issuance of capital stock	-	5,077,888
Long-term bank loans	4,195,082	1,000,000
Issuance of convertible bonds	3,115,260	-
Sales of treasury stock	-	367,864
Repayments of long-term bank loans	(717,888)	(1,355,844)
Redemption of convertible bonds	(5,060,089)	-
Decrease in obligation under capital lease	(50,033)	-
Increase in guarantee deposits	242	278
Reacquisition of capital stock (treasury stock)	-	(1,000,195)
Net Cash Provided by Financing Activities	<u>3,999,924</u>	<u>3,963,871</u>
 NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	 (4,713,403)	 655,034
 CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	 <u>11,978,461</u>	 <u>12,219,607</u>
 CASH AND CASH EQUIVALENTS, END OF PERIOD	 <u>\$ 7,265,058</u>	 <u>\$12,874,641</u>
 SUPPLEMENTAL INFORMATION		
Interest paid (excluding amounts capitalized of \$26,990 thousand in 2003 and \$112,784 thousand in 2002)	<u>\$ 294,397</u>	<u>\$ 71,487</u>
Income tax paid	<u>\$ 2,287</u>	<u>\$ 9,606</u>
Noncash investing and financing activities		
Current portion of long-term liabilities	<u>\$ 4,932,049</u>	<u>\$ 2,438,211</u>
Transfer of long-term investments to short-term investments	<u>\$ 239,526</u>	<u>\$ 90,370</u>
Conversion of bonds	<u>\$ -</u>	<u>\$ 456,666</u>
Treasury stock - the parent's shares of capital stock held by its subsidiaries	<u>\$ -</u>	<u>\$ 56,484</u>
Cash paid for acquisition of properties		
Total acquisition	\$ 2,686,877	\$12,723,452
Payable, beginning of period	16,819,591	2,583,405
Payable, end of period	(<u>9,690,312</u>)	(<u>11,285,262</u>)
	<u>\$ 9,816,156</u>	<u>\$ 4,021,595</u>

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

(With Deloitte & Touche report dated July 17, 2003)

POWERCHIP SEMICONDUCTOR CORPORATION

NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2003 and 2002

(In Thousands of New Taiwan Dollars, Except Per Share Data and Specified Otherwise)

1. GENERAL

The Corporation was incorporated on December 20, 1994 and the Corporation's common shares have been traded on the Taiwan GreTai Securities Market (formerly known as Over-The-Counter Securities Exchange) since March 23, 1998. The Corporation also issued Global Depositary Shares (GDS), which are listed on the Luxembourg Stock Exchange and accepted for quotation on the International Order Book of the London Stock Exchange and are 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, including on a sub-contract basis, testing, assembling and sales of various integrated circuit products.

As of June 30, 2003 and 2002, the Corporation had 2,431 and 2,043 employees, respectively.

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:

Classification of current and noncurrent assets and liabilities

Current assets are those expected to be converted to cash, sold or consumed within one year. Current liabilities are obligations due on demand within one year from the balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

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, mutual funds and credit linked notes with unfixed interest income 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 and credit linked notes with fixed interest income are stated at cost. Costs of bonds and credit linked notes 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 investments

Investments in shares of stock of companies with respect to which the Corporation exercises significant influence on their operating and financial decisions are accounted for under the 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. When the Corporation subscribes to additional investee shares at a percentage different from its existing equity interest, the resulting carrying amount of the investment differs from the amount of Corporation's proportionate share in the investee's net equity. The Corporation records such difference as an adjustment to capital surplus as well as the long-term investments accounts. If the balance in paid-in capital from long-term investments is insufficient to absorb the adjustment, the remainder is recorded as a reduction of retained earnings.

Other stock investments are accounted for under the cost method. Cash dividends are recognized as income in the year received but are accounted for as a 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 an increase in the number of shares of stock held on the ex-dividend date.

Any reclassification of a long-term investment in listed stocks to a short-term investment is made at the lower of cost or market value on the date of transfer. If the market price is lower than the book value, loss should be recognized and the market price should be used as the new cost basis.

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.

The Corporation accounts for its stock held by its subsidiaries as treasury stock. The recorded costs of such treasury stock are based upon the carrying values of the investments of subsidiaries as of January 1, 2002.

Investments in bonds are carried at amortized costs. Discounts are amortized over the remaining life of the bonds. Any amortization is then charged to interest income.

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, 3 to 20 years; machinery and equipment, 2 to 5 years; research and development equipment, 2 to 5 years; facility equipment, 3 to 15 years; transportation equipment, 5 years; office equipment, 3 to 5 years; equipment under capital lease, 5 years; miscellaneous equipment, 2 to 5 years. 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.

Properties covered by agreements qualifying as capital leases are carried at the lower of the leased equipment's market value or the present value of the minimum lease payments at the inception date of the lease, and are depreciated over the leased equipment's useful lives. The effective interest method is used to allocate each lease payment between principal and interest expense. The difference between the proceeds and the book value of the leaseback assets was recorded as unrealized loss on sales-leaseback, and is amortized over the leased equipment's service lives as depreciation expense.

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 the redemption period; test-run costs and technical service charge, 5 years; others, 2 to 7 years.

Convertible bonds

The capital stock account is credited with the par value of the Corporation's common shares into which the bonds are converted. The excess of the carrying value of the bonds and other assets and liabilities related to such convertible bonds as of the date of the conversion over the amounts credited into capital stock account as described above credited to the capital surplus account.

Treasury stock

The acquisition of treasury stock is accounted for under the 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 a 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.

Sales are determined using the fair value agreed to by the Corporation and customer. Since the receivables from sales are collectible within one year and such transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash received.

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 inter-period 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.

Any tax credit arising from the purchase of machinery, equipment and technology, research and development expenditures, personnel training and investments in important technology-based enterprise are recognized by the flow-through method.

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

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

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 on the balance sheet.

The notional amounts of the foreign currency option contracts entered into for hedging purposes are not recognized as either assets or liabilities on the contract dates. The premiums paid or received for the call or put options are amortized using the straight-line method over the terms of the contracts.

3. CASH AND CASH EQUIVALENTS

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Time deposits	\$ 6,888,380	\$12,605,120
Commercial paper purchased	297,885	249,569
Demand deposits	71,883	18,980
Checking accounts	6,790	652
Cash on hand	<u>120</u>	<u>320</u>
	<u>\$ 7,265,058</u>	<u>\$12,874,641</u>

4. SHORT-TERM INVESTMENTS

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Listed stocks	\$ 153,164	\$ 324,284
Equity		
Credit linked notes with unfixed interest income	1,371,389	-
Credit linked notes with fixed interest income	16,030	-
Mutual funds	10,000	182,650
Bonds purchased under resale agreements	<u>-</u>	<u>12,707</u>
	1,550,583	519,641
Allowance for decline in value	(<u>27,412</u>)	(<u>48,661</u>)
	<u>\$ 1,523,171</u>	<u>\$ 470,980</u>

The market values of mutual funds and credit linked notes with unfixed interest income as of June 30, 2003 and 2002 were \$1,304,450 thousand and \$173,397 thousand, respectively, based on net asset value of equity as of June 30. The market values of stocks on June 30, 2003 and 2002 are \$202,713 thousand and \$284,876 thousand, respectively, based on average closing prices of listed stocks in June. Bonds as of June 30, 2002 were resold for \$12,709 thousand as contracted.

5. INVENTORIES

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Finished goods	\$ 430,761	\$ 127,927
Work in process	3,219,248	1,266,703
Materials	<u>532,402</u>	<u>237,574</u>
	4,182,411	1,632,204
Allowance for losses	(<u>691,456</u>)	(<u>83,976</u>)
	<u>\$ 3,490,955</u>	<u>\$ 1,548,228</u>

6. LONG-TERM INVESTMENTS

	<u>June 30</u>			
	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>% of</u> <u>Ownership</u>	<u>Amount</u>	<u>% of</u> <u>Ownership</u>
<u>Investment in shares of stock</u>				
Equity method				
Quantum Vision Corp.	\$ 869,490	99.99	\$ 781,873	99.99
Li-Hsin Investment Corp.	356,143	99.78	433,565	99.78
Paramax Corp.	166,957	99.97	145,495	99.96
MaxEdge Electronics Corp.	114,307	13.31	127,572	12.50
Maxium Technologies, Inc.	84,707	30.37	77,099	32.27
Telmax Technologies Corp.	75,636	20.45	84,037	21.43
Syntronix Corp.	75,575	51.00	59,375	65.00
Ceon Computers Corp.	46,236	19.66	54,310	19.66
Deutron Electronics Corp.	27,227	10.50	-	-
Synage Technology Corp.	<u>10,054</u>	10.00	-	-
	<u>1,826,332</u>		<u>1,763,326</u>	
Cost method				
Listed stocks				
Optimax Technology Corp.	133,531	2.44	157,048	3.41
Powertech Technology Inc.	90,074	2.43	349,005	9.84
Power Quotient International Co., Ltd.	-	-	280,963	13.48
Unlisted stocks				
Eastern Broadband Telecommunications Co., Ltd.				
	120,000	0.18	120,000	0.18
Besteam Technology Inc.	95,863	10.30	99,500	10.43
Universal Venture Fund, Inc.	88,000	4.76	88,000	4.76
Power Memory International Co., Ltd.	58,500	6.57	52,500	7.22
Ardentec Corp.	55,000	2.48	55,000	2.48
eMemory Technology Inc.	40,444	9.63	40,444	9.63
Cascade Semiconductor Corp.	36,455	16.15	36,455	16.15
Webstorage Corp.	35,691	7.30	117,915	7.30
Great Taipei Broadband Co., Ltd.	25,000	1.67	25,000	1.67
TwinMOS Technologies Inc.	23,109	1.34	55,142	1.34

(Forward)

	June 30			
	2003		2002	
	Amount	% of Ownership	Amount	% of Ownership
Advanced Chip Engineering Technology Inc.	\$ 22,995	2.78	\$ 40,257	2.78
Emerging Memory & Logic Solution Incorporation	18,924	1.40	18,924	1.40
CDIB High Tech Investment Inc.	18,000	2.11	30,000	2.11
Venglobal Capital Fund L.P.	17,931	5.18	17,931	5.18
Billions of Operations Per Second, Inc. Series D - Preferred Shares	17,225	1.10	17,225	1.08
Billions of Operations Per Second, Inc. Series A - Preferred Shares	16,175	1.57	16,175	1.36
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	3.06	14,250	3.80
Area East Technology Corp.	13,000	19.97	13,000	18.57
Actrans System Inc.	10,000	2.35	-	-
Lightsonic Optoelectronics Inc.	8,050	1.16	8,050	1.42
E-Tech, Inc.	3,145	2.26	3,145	2.26
Phitech Corp.	2,660	1.27	24,621	1.27
Jade Pacific Corp.	1,313	1.35	22,500	1.35
Globalgate.com, Inc.	-	0.93	-	0.93
	<u>996,133</u>		<u>1,733,848</u>	
Prepayments				
HuaWei Technology International Ltd.	-		17,280	
<u>Investment in bonds</u>				
Veutron Corp. (named UMAX Data Systems Inc. before) - issued in 2002 (I)	89,450		89,150	
MaxEdge Electronics Corp. - issued in 2002 (II)	80,000		-	
MaxEdge Electronics Corp. - issued in 2002 (I)	60,000		-	
Veutron Corp. - issued in 2003 (I)	25,000		-	
Veutron Corp. - issued in 2002 (II)	20,000		-	
	<u>274,450</u>		<u>89,150</u>	
	<u>\$3,096,915</u>		<u>\$3,603,604</u>	

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

As of June 30, 2003 and 2002, the Corporation and its subsidiaries had a joint ownership of 41% and 42% in MaxEdge Electronics Corp., respectively and 46% in Ceon Computers Corp.; accordingly, these investments have been accounted for under the equity method.

The Corporation and its subsidiaries subscribed to the capital increase of Deutron Electronics Corp. in the third quarter of 2002, which led to a joint ownership of 23% as of June 30, 2003; accordingly, this investment has been accounted for under the equity method.

In the first quarter of 2003, the Corporation and its subsidiaries subscribed to the capital increase of Synage Technology Corp., which led to a joint ownership of 42% by the Corporation and its subsidiaries; accordingly, this investment has been accounted for under the equity method.

The investment in Power Quotient International Co., Ltd. was reclassified as a short-term investment in May 2003 since the Corporation resigned from its board of directors on April 29, 2003 and does not intend to hold the investment for a long term.

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

	For the Six Months Ended	
	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Quantum Vision Corp.	\$ 18,346	(\$ 30,142)
Li-Hsin Investment Corp.	(26,522)	(20,376)
Paramax Corp.	(10,670)	(3,200)
MaxEdge Electronics Corp.	(16,131)	(17,654)
Maxium Technologies, Inc.	2,792	6,709
Telmax Technologies Corp.	(587)	(2,736)
Syntronix Corp.	(13,558)	(4,170)
Ceon Computers Corp.	(1,138)	17
Deutron Electronics Corp.	5,360	-
Synage Technology Corp.	<u>54</u>	<u>-</u>
	(\$ <u>42,054</u>)	(\$ <u>71,552</u>)

The market values of the long-term investments in listed stocks were as follows:

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Cost method		
Optimax Technology Corp.	\$ 290,057	\$ -
Powertech Technology Inc.	167,300	-
Power Quotient International Co., Ltd.	<u>-</u>	<u>632,957</u>
	<u>\$ 457,357</u>	<u>\$ 632,957</u>

7. PROPERTIES

Accumulated depreciation on properties consisted of the following:

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Buildings	\$ 1,077,352	\$ 772,398
Machinery and equipment	21,788,436	16,448,018
Research and development equipment	60,402	51,568
Facility equipment	5,057,989	4,153,692
Transportation equipment	8,813	6,343
Office equipment	123,563	98,312
Equipment under capital lease	74,873	-
Miscellaneous equipment	<u>112,997</u>	<u>74,163</u>
	<u>\$28,304,425</u>	<u>\$21,604,494</u>

Total depreciation expenses for the six months ended June 30, 2003 and 2002 were \$4,068,584 thousand and \$2,389,499 thousand, respectively, and interest expenses, including amounts capitalized of \$26,990 thousand and \$112,784 thousand, for the six months ended June 30, 2003 and 2002, were \$364,339 thousand and \$240,214 thousand, respectively. The rates used in capitalization of the interests for the six months ended June 30, 2003 and 2002 were 4.20% to 4.35% and 4.25% to 4.50%, respectively.

The Corporation is currently constructing its second manufacturing plant ("FAB II") at a total related cost of approximately \$54,300,000 thousand. As of June 30, 2003, the cost of \$28,151,242 thousand had been incurred, and FAB II is in production starting from the fourth quarter of 2002.

Under an equipment purchase agreement in the amount of \$1,964,292 thousand, the Corporation is required to maintain specific financial ratios based on annual financial statements.

The Corporation had entered into a sales-leaseback agreement in December 2002 with a domestic leasing company covering certain equipment under terms that qualifies as capital lease. The lease is payable every quarter starting from June 2003 to December 2005. Lease payment on this contract is summarized as follows:

<u>Year</u>	<u>Amount</u>
2003	\$ 112,750
2004	201,725
2005	<u>171,188</u>
	485,663
Implicit interest	(<u>35,363</u>)
	<u>\$ 450,300</u>

The Corporation has paid all rent using post-dated checks at the inception date of the lease.

The details of properties pledged as collateral are shown in Note 20.

8. DEFERRED CHARGES - NET

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Technical know-how	\$ 1,342,276	\$ 1,513,984
Computer software system	388,618	241,995
Test-run costs	284,964	53,382
Issuance costs of the convertible bonds	163,268	125,330
Technical service charge	-	909
Other	<u>81,134</u>	<u>91,394</u>
	<u>\$ 2,260,260</u>	<u>\$ 2,026,994</u>

Technical know-how fees are amount paid by the Corporation to Mitsubishi Electric Corporation ("Mitsubishi-Japan") under several agreements pursuant to which Mitsubishi-Japan shall transfer to the Corporation certain technologies related to the manufacture of Dynamic Random Access Memory.

9. SHORT-TERM BANK BORROWINGS

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Working capital loans: 2003 - due in November 2003, interest at 1.70%-3.50%; 2002 - due in August 2002, interest at 3.00%-4.75%	\$ 2,016,000	\$ 500,000
Loans for imports of materials: Repayable by November 2003, interest at 0.75%-4.06%	<u>453,401</u>	<u>-</u>
	<u>\$ 2,469,401</u>	<u>\$ 500,000</u>

Unused credit lines for short-term borrowings as of June 30, 2003 were about \$1,209,619 thousand.

10. COMMERCIAL PAPER ISSUED

Commercial paper issued, guaranteed by financial institutions, bears annual interest rates of 2.05% and from 2.95% to 3.15%, and matures by July 30, 2003 and August 27, 2002, for those issued in 2003 and 2002, respectively.

11. CONVERTIBLE BONDS PAYABLE

In the second quarter of 2001, the Corporation issued a five-year unsecured, zero coupon convertible bonds (the "Bonds 2001"), with an aggregate principal amount of US\$200,000 thousand, and listed on the Luxembourg Stock Exchange. The Bonds 2001 are convertible into common shares or Global Depository Shares (GDS) of the Corporation at NT\$30 (adjustable, and at an exchange rate of US\$1 to NT\$32.933) per share from June 23, 2001 to April 24, 2006, and will mature on May 24, 2006. The Bonds 2001 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 2001 or the Corporation may redeem the bonds prior to the maturity date. On May 24, 2003, some of the holders of the Bonds 2001 exercised their put option, requiring the Corporation to spend US\$131,755 thousand for the repurchase of the outstanding bonds. As of July 17, 2003, US\$14,150 thousand principal amount

of the Bonds 2001 had been redeemed and cancelled from open market by the Corporation, and holders of the Bonds 2001 in the principal amount of US\$13,320 thousand have requested to convert such Bonds into 17,760 thousand common shares, all of which have been issued.

In the fourth quarter of 2002, the Corporation issued a five-year unsecured, zero coupon convertible bonds (the "Bonds 2002"), with an aggregate principal amount of US\$90,000 thousand, and listed on the Luxembourg Stock Exchange. The Bonds 2002 are convertible into common shares or Global Depository Shares (GDS) of the Corporation at NT\$14.136 (adjustable, and at an exchange rate of US\$1 to NT\$34.838) per share from January 9, 2003 to November 9, 2007, and will mature on December 10, 2007. The Bonds 2002 can also be repurchased, at the option of the holders, on December 10 of each year (commencing in 2003) prior to maturity at 100% of their principal amount. Under certain conditions, either the holders of the Bonds 2002 or the Corporation may redeem the bonds prior to the maturity date. Between July 1, 2003 and July 17, 2003, the conversion of the Bonds 2002 with principal amount of US\$66,896 thousand into 206,058 thousand common shares had been requested.

In the second quarter of 2003, the Corporation issued a five-year unsecured, zero coupon convertible bonds (the "Bonds 2003"), with an aggregate principal amount of US\$90,000 thousand, and listed on the Luxembourg Stock Exchange. The Bonds 2003 are convertible into common shares or Global Depository Shares (GDS) of the Corporation at NT\$14.61 (adjustable, and at an exchange rate of US\$1 to NT\$34.614) per share from July 25, 2003 to May 26, 2008, and will mature on June 25, 2008. The Bonds 2003 can also be repurchased, at the option of the holders, on June 25 of each year (commencing in 2004) prior to maturity at 100% of their principal amount. Under certain conditions, either the holders of the Bonds 2003 or the Corporation may redeem the bonds prior to the maturity date. On July 7, 2003, the Corporation issued more Bonds 2003 with aggregate principal amount of US\$22,000 thousand.

12. LONG-TERM BANK LOANS

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Long-term secured syndicated loans (1)		
New Taiwan dollars	\$ -	\$ 263,636
Long-term secured syndicated loans (2)		
U.S. dollars - US\$93,750 thousand in 2003 and US\$131,250 thousand in 2002	3,244,875	4,404,488
Long-term secured syndicated loans (3) (including commercial paper issued) - New Taiwan dollars	2,600,000	2,600,000
Long-term secured syndicated loans (4)		
New Taiwan dollars	7,000,000	1,000,000
Medium- to long-term loans		
New Taiwan dollars	1,453,320	554,171
Japanese yen - ¥88,182 thousand	-	24,867
U.S. dollars - US\$53 thousand	-	1,762
	<u>14,298,195</u>	<u>8,848,924</u>
Current portion	(3,754,603)	(1,958,701)
Unamortized discount of commercial paper issued	(<u>4,198</u>)	(<u>4,444</u>)
	<u>\$10,539,394</u>	<u>\$ 6,885,779</u>

Unused credit lines available for long-term bank loans as of June 30, 2003 were about \$250,000 thousand.

The loans are due in quarterly or semi-annual installments of varying amounts. They will be fully repaid by October 2009. They also bear interest rates ranging from 1.00% to 6.70% and from 1.00% to 7.94% for the six months ended June 30, 2003 and 2002, respectively.

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

The details of assets pledged as collateral are shown in Note 20.

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.

Pension costs based on actuarial calculation for the six months ended June 30, 2003 and 2002 were \$22,536 thousand and \$9,923 thousand, respectively.

The balances of the Fund were \$125,739 thousand and \$100,308 thousand as of June 30, 2003 and 2002, respectively.

14. SHAREHOLDERS' EQUITY

Capital surplus, pursuant to ROC Company Law, can only be used to offset a deficit or be transferred to capital as a stock dividend. Such transfer from capital surplus to capital as a stock dividend is limited to the excess of issue price over the par value of stock issued and should be distributed to shareholders based on their proportionate share of ownership.

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 shares 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 of 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.

The Corporation has received approvals from the SFC on May 28, 2001, June 28, 2002 and April 22, 2003 on its adoption of the employee stock option plans (“the Plans”). The Plans aggregately reserve 420,000 options, each representing 1,000 common shares, on a total of 420,000 thousand common shares reserved for issuance. These options generally vest over a period of two years, at a certain percentage each year, from two years after the date of grant, and can be exercised within four years from two years after the date of grant. As of July 17, 2003, 373,871 options had been granted under the Plans.

15. TREASURY STOCK

(Shares in Thousands)

Purpose of Purchase	Beginning Shares	Increase	Decrease	Ending Shares
<u>For the six months ended June 30, 2003</u>				
Held for subsequently transferring to employees	64,135	-	-	64,135
The parent’s shares of capital stock held by subsidiaries	<u>3,334</u>	<u>-</u>	<u>-</u>	<u>3,334</u>
	<u>67,469</u>	<u>-</u>	<u>-</u>	<u>67,469</u>
<u>For the six months ended June 30, 2002</u>				
Held for subsequently transferring to employees	45,149	45,377	26,391	64,135
The parent’s shares of capital stock held by subsidiaries	<u>3,334</u>	<u>270</u>	<u>-</u>	<u>3,604</u>
	<u>48,483</u>	<u>45,647</u>	<u>26,391</u>	<u>67,739</u>

As of June 30, 2003 and 2002, the Corporation accounted for its shares of capital stock held by subsidiaries as treasury stock in the amount of \$53,820 thousand and \$56,484 thousand and the carrying value of such stocks were \$51,011 thousand and \$66,819 thousand; the market value were \$51,011 thousand and \$67,000 thousand, 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 the combined balance of the retained earnings and specific capital surplus. However, the Corporation's shares of stock held by subsidiaries, although accounted for as described in the proceeding paragraph, are still entitled to shareholders' right and privilege.

16. INCOME TAX BENEFIT

a. For the six months ended June 30, 2003 and 2002, the Corporation did not have current income tax payable.

b. Income tax benefit (expense) for the six months ended June 30, 2003 and 2002 consisted of:

	For the Six Months Ended	
	June 30	
	2003	2002
Income tax currently payable	\$ -	\$ -
Net change in deferred income tax assets and liabilities		
Loss carryforwards	911,105	178,171
Investment tax credits	1,010,862	181,609
Temporary differences	(127,670)	(136,164)
Valuation allowance	(1,521,014)	138,100
Tax on interest income on short-term bills	(270)	(45)
	<u>\$ 273,013</u>	<u>\$ 361,671</u>

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

	June 30	
	2003	2002
Current		
Deferred income tax assets		
Investment tax credits	\$ 589,971	\$ 365,970
Loss carryforwards	1,440,230	261,158
Unrealized provision for loss on inventories	172,864	20,994
Other	94,178	18,875
Deferred income tax liabilities	(1,043)	(75)
	2,296,200	666,922
Valuation allowance	(2,296,200)	(584,428)
	<u>\$ -</u>	<u>\$ 82,494</u>

(Forward)

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Noncurrent		
Deferred income tax assets		
Investment tax credits	\$ 5,336,261	\$ 2,628,054
Loss carryforwards	2,967,750	3,332,213
Unrealized foreign exchange loss	120,974	82,228
Other	94,775	37,438
Deferred income tax liabilities		
Depreciation	(1,222,865)	(938,892)
	7,296,895	5,141,041
Valuation allowance	(4,810,408)	(2,781,441)
	<u>\$ 2,486,487</u>	<u>\$ 2,359,600</u>

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

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Shareholders' imputed tax credits	<u>\$ 13,456</u>	<u>\$ 4,244</u>

There was no tax creditable ratio for 2002 and 2001 because of the Corporation's accumulated deficit.

- e. The unappropriated retaining earnings as of June 30, 2003 and 2002 did not contain the unappropriated earnings generated on and before 1997.
- f. The effective tax rates for deferred income tax as of June 30, 2003 and 2002 were 25%.
- g. As of June 30, 2003, the tax credits and loss carryforwards were as follows:

<u>Regulation</u>	<u>Items</u>	<u>Total Creditable Amounts</u>	<u>Remaining Creditable Amounts</u>	<u>Expiry Year</u>
Income Tax Law	Loss carryforwards	\$1,440,230	\$1,440,230	2003
		328,823	328,823	2004
		1,403,200	1,403,200	2006
		313,401	313,401	2007
		<u>922,326</u>	<u>922,326</u>	2008
		<u>\$4,407,980</u>	<u>\$4,407,980</u>	
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 358,587	\$ 358,587	2003
		894,134	601,111	2004
		186,209	173,785	2005
		2,629,961	2,629,961	2006
		<u>141,299</u>	<u>141,299</u>	2007
		<u>\$4,210,190</u>	<u>\$3,904,743</u>	

(Forward)

<u>Regulation</u>	<u>Items</u>	<u>Total Creditable Amounts</u>	<u>Remaining Creditable Amounts</u>	<u>Expiry Year</u>
Statute for Upgrading Industries	Research and development expenditures	\$ 216,798	\$ 216,798	2003
		556,206	556,206	2004
		518,600	518,600	2005
		477,385	477,385	2006
		<u>200,613</u>	<u>200,613</u>	2007
		<u>\$1,969,602</u>	<u>\$1,969,602</u>	
Statute for Upgrading Industries	Personnel training expenditures	\$ 2,586	\$ 2,586	2003
		4,386	4,386	2004
		4,686	4,686	2005
		2,803	2,803	2006
		<u>907</u>	<u>907</u>	2007
		<u>\$ 15,368</u>	<u>\$ 15,368</u>	
Statute for Upgrading Industries	Investments in important technology-based enterprises	\$ 12,000	\$ 12,000	2003
		12,240	12,240	2004
		<u>12,279</u>	<u>12,279</u>	2006
		<u>\$ 36,519</u>	<u>\$ 36,519</u>	

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 1999 have been examined and cleared by the tax authorities.

17. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	<u>For the Six Months Ended June 30</u>					
	<u>2003</u>			<u>2002</u>		
	<u>Classified as Cost of Sales</u>	<u>Classified as Operating Expenses</u>	<u>Total</u>	<u>Classified as Cost of Sales</u>	<u>Classified as Operating Expenses</u>	<u>Total</u>
Labor cost						
Salary	\$ 667,239	\$ 191,418	\$ 858,657	\$ 313,218	\$ 239,520	\$ 552,738
Labor/health insurance	41,047	9,633	50,680	23,762	14,864	38,626
Pension	17,566	4,970	22,536	5,702	4,221	9,923
Others	37,160	6,709	43,869	22,971	11,622	34,593
Depreciation	4,001,540	65,793	4,067,333	2,351,810	37,638	2,389,448
Amortization	<u>100,535</u>	<u>554,602</u>	<u>655,137</u>	<u>42,423</u>	<u>483,374</u>	<u>525,797</u>
	<u>\$4,865,087</u>	<u>\$ 833,125</u>	<u>\$5,698,212</u>	<u>\$2,759,886</u>	<u>\$ 791,239</u>	<u>\$3,551,125</u>

18. EARNINGS (LOSS) PER SHARE (EPS)

A reconciliation of numerator and denominator of basic and diluted earning (loss) per share calculations is provided as follows:

	<u>Amounts (Numerator)</u>		Share (Denominator) (Thousand)	<u>EPS (Dollars)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
<u>For the six months ended June 30, 2003</u>					
Net loss	<u>(\$3,171,492)</u>	<u>(\$2,898,479)</u>			
Basic and diluted loss per share					
Loss available to common shareholders	<u>(\$3,171,492)</u>	<u>(\$2,898,479)</u>	<u>2,612,101</u>	<u>(\$ 1.21)</u>	<u>(\$ 1.11)</u>
<u>For the six months ended June 30, 2002</u>					
Net income (loss)	<u>(\$ 121,372)</u>	<u>\$ 240,299</u>			
Basic earnings (loss) per share					
Income (loss) available to common shareholders	<u>(\$ 121,372)</u>	<u>\$ 240,299</u>	<u>2,363,200</u>	<u>(\$ 0.05)</u>	<u>\$ 0.10</u>
Effect of dilutive securities					
- Convertible bonds	<u>-</u>	<u>-</u>	<u>253,366</u>		
- Stock option	<u>-</u>	<u>-</u>	<u>35,919</u>		
Diluted earnings (loss) per share					
Income (loss) available to common and potential common shareholders	<u>(\$ 121,372)</u>	<u>\$ 240,299</u>	<u>2,652,485</u>	<u>(\$ 0.05)</u>	<u>\$ 0.09</u>

19. RELATED PARTY TRANSACTIONS

a. Related parties:

	<u>Relationship</u>
Powertech Technology Inc. (Powertech)	Quantum Vision Corp., a subsidiary of the Corporation, is its director
Veutron Corp. (Veutron)	Same chairman
Mitsubishi Electric Corp. (Mitsubishi-Japan) (See note below)	Director (until April 1, 2003)
Mitsubishi Electric Taiwan Company (Mitsubishi-Taiwan) (See note below)	Subsidiary of Mitsubishi-Japan (until April 1, 2003)
Power Quotient International Co., Ltd. (Power) (See note below)	The Corporation is its director (until April 29, 2003)
Ceon Computers Corp. (Ceon)	An investee under equity method
Quantum Vision Corp. (Quantum Vision)	A subsidiary
Deutron Electronics Corp.	An investee under equity method
eMemory Technology Inc.	Same chairman

Note: The companies ceased to be the Corporation's related parties as of June 30, 2003; the transactions made as of and for the six months ended June 30, 2003 are disclosed only for reference.

b. Related party transactions:

For the period	For the Six Months Ended June 30			
	2003		2002	
	Amount	%	Amount	%
1) Net sales				
Deutron	\$ 1,236,167	17	\$ -	-
Mitsubishi-Taiwan	564,456	8	983,704	14
Power	442,429	6	906,993	13
Ceon	-	-	121,592	2
Other	<u>32,476</u>	-	<u>2,017</u>	-
	<u>\$ 2,275,528</u>	<u>31</u>	<u>\$ 2,014,306</u>	<u>29</u>
2) Properties				
Mitsubishi-Taiwan	\$ -	-	\$ 351,773	3
Other	<u>-</u>	-	<u>2,886</u>	-
	<u>\$ -</u>	<u>-</u>	<u>\$ 354,659</u>	<u>3</u>
3) Technical know-how and royalty				
Mitsubishi-Japan	\$ 954,303	90	\$ 432,063	78
eMemory	<u>16,667</u>	<u>2</u>	<u>-</u>	-
	<u>\$ 970,970</u>	<u>92</u>	<u>\$ 432,063</u>	<u>78</u>
4) Manufacturing expenses - subcontract costs, indirect materials, expensed properties, repairs and maintenance, etc.				
Powertech	\$ 255,929	3	\$ 1,018,185	19
Mitsubishi-Japan	14,664	-	3,680	-
Other	<u>209</u>	-	<u>5,671</u>	-
	<u>\$ 270,802</u>	<u>3</u>	<u>\$ 1,027,536</u>	<u>19</u>
5) General and administrative expenses				
Mitsubishi-Japan	\$ -	-	\$ 11,588	2
Other	<u>885</u>	-	<u>682</u>	-
	<u>\$ 885</u>	<u>-</u>	<u>\$ 12,270</u>	<u>2</u>

	<u>For the Six Months Ended June 30</u>			
	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
6) Interest income				
Powertech	\$ -	-	\$ 20,390	18
Other	<u>5,817</u>	<u>15</u>	<u>643</u>	<u>1</u>
	<u>\$ 5,817</u>	<u>15</u>	<u>\$ 21,033</u>	<u>19</u>
			<u>June 30</u>	
			<u>2003</u>	<u>2002</u>
<u>At end of period</u>				
1) Accounts receivable - net				
Deutron	\$ 314,528	15	\$ -	-
Power	52,832	3	36,552	3
Mitsubishi-Taiwan	48,510	2	177,293	13
Other	<u>12,375</u>	<u>1</u>	<u>6,687</u>	<u>-</u>
	<u>\$ 428,245</u>	<u>21</u>	<u>\$ 220,532</u>	<u>16</u>
2) Installment equipment receivable and other receivables				
Powertech	\$ 4	-	\$ 353,639	65
Other	<u>62</u>	<u>-</u>	<u>2,315</u>	<u>-</u>
	<u>\$ 66</u>	<u>-</u>	<u>\$ 355,954</u>	<u>65</u>
3) Accounts payable				
Powertech	\$ 140,578	8	\$ 404,743	32
Other	<u>-</u>	<u>-</u>	<u>945</u>	<u>-</u>
	<u>\$ 140,578</u>	<u>8</u>	<u>\$ 405,688</u>	<u>32</u>
4) Accrued expenses				
Mitsubishi-Japan	\$ 47,368	4	\$ 74,938	11
eMemory	17,500	2	-	-
Other	<u>19</u>	<u>-</u>	<u>268</u>	<u>-</u>
	<u>\$ 64,887</u>	<u>6</u>	<u>\$ 75,206</u>	<u>11</u>
5) Payable on equipment				
Mitsubishi-Taiwan	<u>-</u>	<u>-</u>	<u>\$ 5,796</u>	<u>-</u>

The Corporation also purchased (sold) the following long-term investments from (to) related parties for the six months ended June 30, 2003 and 2002:

1) Stocks

<u>Related Parties</u>	<u>Investee</u>	<u>Shares Purchased (Sold) (in Thousands)</u>	<u>Costs (Proceeds)</u>	<u>Loss</u>
<u>2002</u>				
Veutron	Besteam Technology Inc.	1,500	<u>\$ 57,000</u>	<u>\$ -</u>
Quantum Vision	Powertech Technology Inc.	(1,250)	<u>(\$ 20,000)</u>	<u>(\$ 48)</u>

2) Bonds

<u>Related Parties</u>	<u>Investee</u>	<u>Units</u>	<u>Amount</u>	<u>Rate</u>
<u>2003</u>				
Veutron	Veutron Bonds	5	<u>\$25,000</u>	3.50%
<u>2002</u>				
Veutron	Veutron Bonds	18	<u>\$89,100</u>	4.31%

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

The Corporation's subcontract activities with Powertech have been performed within the terms of the subcontract cooperation agreement from October 2000 to September 2002. Also, the Corporation sells equipment to Powertech. Receivables from such sales are payable in installments and bear an annual interest rate of 7%.

Except for the aforementioned transactions with Mitsubishi-Taiwan and Powertech, which are based on specifically negotiated terms and for which there are no comparable terms under other contracts, all transactions between the Corporation and other related parties are conducted based on normal commercial prices and terms.

20. PLEDGED OR MORTGAGED ASSETS

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

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Properties - net	\$17,992,289	\$12,624,072
Accounts receivable	381,711	-
Other assets - land	311,510	311,510
Pledged time deposits	<u>364,757</u>	<u>930,823</u>
	<u>\$19,050,267</u>	<u>\$13,866,405</u>

21. 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 several license and technology transfer agreements executed or amended with B Company, the Corporation shall pay royalties at agreed percentages of the sale price of certain specific licensed products starting from June 1998 to May 2007.
- c. Under a product development and license agreement with C 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.
- d. On March 25, 2003, the Corporation entered into a license and technology transfer agreement (0.12 μm DRAM technology) with B Company. Under the agreement, the Corporation shall pay B Company a certain percentage of royalties for any products manufactured and sold using such technology effective on January 1, 2003. This agreement is then transferred to D Company on April 1, 2003, a new company incorporated by B Company and E Company.
- e. On March 5, 2003, the Corporation entered into a purchase and sale agreement with F Company for product manufactured using from 0.15 μm to 0.09 μm DRAM technologies. In the agreement, the Corporation shall reserve certain percentage of production capacity for F Company.
- f. Under a product development and license agreement of Flash products with G Company made in June 2003, the Corporation should pay license fee and royalty at an agreed percentage of the sales of the licensed products until May 2008.
- g. The Corporation has a joint ownership with other parties on a parcel of land accounted for as other assets. Such land was used by all owners to secure their respective loans obtained from a bank. Due to one of the co-owners default on its 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 July 17, 2003, the public auction has not been conducted 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 a public auction. In addition, the Corporation has a right to seek indemnification from the defaulting co-owner if any loss results from such co-owner's default.
- h. Unused letters of credit amounted to approximately US\$4,805 thousand and ¥238,022 thousand as of June 30, 2003.
- 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 rent is \$56,760 thousand which is subject to adjustment by SBIP according to its rule.

22. DERIVATIVE FINANCIAL INSTRUMENTS

a. Outstanding contracts and credit risk:

1) Forward exchange contracts

(Amount in Thousands)

Items	June 30, 2003	
	Contract Amount (Nominal Amount)	Credit Risk
Forward exchange contracts	US\$355,000 (US\$ v.s. NT\$) JP¥22,800,000 (JP¥ v.s. US\$)	\$ 55,617 -

2) Foreign currency option contracts

Type	Buy/Sell	Option	June 30, 2003				
			Contract Amount	Book Value	Fair Value	Strike Price	Expiration Date
European	Buy	Call	US\$ 30,000	\$ 2,203	\$ 29,092	33.60-34.486 (US\$ v.s. NT\$)	Jul. 2003-Sept. 2003
European	Sell	Put	US\$ 35,000	(3,709)	(2,940)	34.059-34.486 (US\$ v.s. NT\$)	Jul. 2003-Jan.2004
European	Sell	Call	US\$ 130,750	(11,961)	(18,481)	119.50-129.00 (US\$ v.s. JP¥)	Jul. 2003-Dec.2003
European	Buy	Put	US\$ 5,000	362	450	119.00 (US\$ v.s. JP¥)	Jul. 2003

The Corporation is exposed to credit risk in the event of nonperformance of the 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 derivative financial instruments 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 June 30, 2003, the Corporation's future cash demand for the outstanding forward exchange contracts is as follows:

(Amount in Thousands)

Term	Forward Exchange Contracts	
	Inflow	Outflow
Within one year	JPY 22,800,000 US\$ 355,000	US\$ 192,094 NT\$ 12,233,057

The Corporation has sufficient operating capital to meet the above cash demand, and the exchange rate of foreign currency option contracts and forward exchange contracts have been fixed, 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 contracts or enters into the derivative financial transactions, entirely for hedging purpose other than trading. The Corporation enters into forward exchange contracts and foreign currency option contracts 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 risks 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 gain derived from settled forward exchange contracts and foreign currency option contracts is \$255,897 thousand for the six months ended June 30, 2003, which gain is presented under non-operating income and gain; and a payable of \$9,942 thousand as of June 30, 2003 generated from forward exchange contracts is presented under current liabilities.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

	<u>June 30, 2003</u>		<u>June 30, 2002</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	\$ 7,265,058	\$ 7,265,058	\$12,874,641	\$12,874,641
Notes and accounts receivable	2,081,884	2,081,884	1,364,729	1,364,729
Short-term and long-term investments	4,620,086	4,826,447	4,074,584	4,211,820
Pledged time deposits	364,757	364,757	930,823	930,823
Refundable deposits	21,794	21,794	21,622	21,622
Liabilities				
Short-term bank borrowings and commercial paper issued	2,769,115	2,769,115	1,098,805	1,098,805
Accounts payable and payable on equipment	11,386,041	11,386,041	12,541,712	12,541,712
Convertible bonds payable	7,640,772	8,706,291	6,264,608	5,900,509
Obligation under capital lease (including current portion)	450,300	450,300	-	-
Long-term bank loans (including current portion)	14,293,997	14,293,997	8,844,480	8,844,480
Guarantee deposits	3,734	3,734	1,393	1,393
<u>Derivative instruments</u>				
Foreign currency option contracts	(13,105)	8,121	-	-
Forward exchange contract	(9,942)	2,284	(116,813)	(95,025)
Cross currency swap	-	-	5,496	(953)

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, notes and accounts receivable, pledged time deposits, accounts payable, payable on equipment, short-term bank borrowings and commercial paper issued approximate their fair values.
- b. Fair value of short-term and long-term investments is based on quoted market prices or, if quoted market prices are unavailable, upon net worth or book value.
- 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. Fair value of convertible bonds payable is based on quoted market prices. Obligation under capital lease is based on forecasted cash flows discounted at present value, using discount rates which are interest rates for obtaining equipment under capital lease.
- d. Fair value of refundable deposits and guarantee deposits is based on their book value.
- e. Fair value of derivative financial instruments is the estimated net receivable (positive) or payable (negative) if those contracts are terminated on the relevant balance sheet date.

24. ADDITIONAL DISCLOSURES

Except for the following, the Corporation has no other significant transactions or any investees and investments in Mainland China that are required to be disclosed by the SFC:

- a. Marketable securities held: Please see Table 1 attached.
- b. Marketable securities acquired and disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 2 attached.
- c. Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 3 attached.
- d. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached.
- e. Names, locations, and related information of investees on which the Corporation exercises significant influence: Please see Table 5 attached.
- f. Derivative financial transactions: Please see Notes 22 and 23.

POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

MARKETABLE SECURITIES HELD

June 30, 2003

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

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2003				Note
				Shares (Thousand/Units) (Note 7)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
PSC	<u>Stock</u>							
	Quantum Vision Corp.	Subsidiary	Long-term investments	88,990	\$ 869,490	99.99	\$ 852,217	Notes 4
	Li-Hsin Investment Corp.	Subsidiary	Long-term investments	68,850	356,143	99.78	414,132	Notes 4
	Paramax Corp.	Subsidiary	Long-term investments	19,994	166,957	99.97	166,957	Notes 4
	MaxEdge Electronics Corp.	Investee	Long-term investments	13,061	114,307	13.31	114,307	Notes 4
	Maxium Technologies, Inc.	Investee	Long-term investments	8,200	84,707	30.37	84,524	Notes 4
	Telmax Technologies Corp.	Investee	Long-term investments	9,000	75,636	20.45	71,627	Notes 4
	Syntronix Corp.	Subsidiary	Long-term investments	10,200	75,575	51.00	75,575	Notes 4
	Ceon Computers Corp.	Investee	Long-term investments	5,700	46,236	19.66	44,976	Notes 4
	Deutron Electronics Corp.	Investee	Long-term investments	2,100	27,227	10.50	27,793	Notes 4
	Synage Technology Corp.	Investee	Long-term investments	1,000	10,054	10.00	10,054	Notes 4
	Optimax Technology Corp.	The Corporation is its director	Long-term investments	5,110	133,531	2.44	290,057	-
	Powertech Technology Inc.	Quantum Vision is its director	Long-term investments	5,975	90,074	2.43	167,300	-
	Eastern Broadband Telecommunications Co., Ltd.	-	Long-term investments	12,000	120,000	0.18	120,000	Note 2
	Besteam Technology Inc.	-	Long-term investments	3,718	95,863	10.30	95,863	Note 2
	Universal Venture Fund, Inc.	Same chairman	Long-term investments	8,000	88,000	4.76	65,513	Note 4
	Power Memory International Co., Ltd.	The Corporation is its director	Long-term investments	2,600	58,500	6.57	58,500	Note 2
	Ardentec Corp.	-	Long-term investments	5,050	55,000	2.48	45,516	Note 4
	eMemory Technology Inc.	Same chairman	Long-term investments	3,852	40,444	9.63	26,760	Note 4
	Cascade Semiconductor Corp.	-	Long-term investments	2,333	36,455	16.15	36,455	Note 2
	Webstorage Corp.	Same chairman	Long-term investments	4,378	35,691	7.30	33,594	Note 4
	Great Taipei Broadband Co., Ltd.	The Corporation is its director	Long-term investments	2,500	25,000	1.67	24,146	Note 4
	TwinMOS Technologies Inc.	-	Long-term investments	2,757	23,109	1.34	23,109	Note 2
	Advanced Chip Engineering Technology Inc.	-	Long-term investments	3,334	22,995	2.78	22,995	Note 2
	Emerging Memory & Logic Solution Incorporation	-	Long-term investments	279	18,924	1.40	18,924	Note 2
	CDIB High Tech Investment Inc.	The Corporation is its director	Long-term investments	1,800	18,000	2.11	18,158	Note 4
	Venglobal Capital Fund L.P.	-	Long-term investments	-	17,931	5.18	17,931	Note 2
	Billions of Operations Per Second, Inc. Series D - preferred shares	-	Long-term investments	658	17,225	1.10	17,225	Note 2
	Billions of Operations Per Second, Inc. Series A - preferred shares	-	Long-term investments	833	16,175	1.57	16,175	Note 2
	Dramexchange.com Corp.	-	Long-term investments	1,000	15,540	3.55	15,540	Note 2
	Venglobal International Fund	-	Long-term investments	1	15,258	2.83	15,258	Note 2

(Forward)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2003				Note	
				Shares (Thousand/Units) (Note 7)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value		
Li-Hsin	Terax Communication Technologies Inc.	Same chairman	Long-term investments	950	\$ 14,250	3.06	\$ 8,302	Note 4	
	Area East Technology Corp.	-	Long-term investments	1,300	13,000	19.97	13,088	Note 4	
	Actrans System Inc.	-	Long-term investments	1,000	10,000	2.35	4,679	Note 4	
	Lightsonic Optoelectronics Inc.	Same chairman	Long-term investments	700	8,050	1.16	4,585	Note 4	
	E-Tech, Inc.	The Corporation is its director	Long-term investments	349	3,145	2.26	3,145	Note 2	
	Phitech Corp.	-	Long-term investments	305	2,660	1.27	2,511	Note 4	
	Jade Pacific Corp.	-	Long-term investments	250	1,313	1.35	1,313	Note 2	
	Globalgate.com, Inc.	-	Long-term investments	500	-	0.93	-	Note 2	
	<u>Bonds</u>								
	Veutron Corp. - issued in 2002 (I)	Same chairman	Long-term investments	18	89,450	-	89,450	Note 2	
	MaxEdge Electronics Corp. - issued in 2002 (II)	Investee	Long-term investments	16	80,000	-	80,000	Note 2	
	MaxEdge Electronics Corp. - issued in 2002 (I)	Investee	Long-term investments	12	60,000	-	60,000	Note 2	
	Veutron Corp.- issued in 2003 (I)	Same chairman	Long-term investments	5	25,000	-	25,000	Note 2	
	Veutron Corp. - issued in 2002 (II)	Same chairman	Long-term investments	4	20,000	-	20,000	Note 2	
	<u>Stock</u>								
	Power Quotient International Co., Ltd.	-	Short-term investments	3,527	111,417	-	180,290	-	
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	1,561	31,105	-	15,532	-	
	NewSoft Technology Corp.	Same chairman	Short-term investments	336	7,312	-	3,773	-	
	Broadcom Corp.	-	Short-term investments	4	3,330	-	3,118	-	
	<u>Equity</u>								
	Credit Linked Notes with unfixed interest income issued by Yuanta Asset Management Limited	-	Short-term investments	-	1,371,389	-	1,300,320	-	
	Credit Linked Notes with fixed interest income issued by Yuanta Asset Management Limited	-	Short-term investments	-	16,030	-	16,030	Note 2	
	United New Century Fund	-	Short-term investments	1,000	10,000	-	4,130	Note 1	
	<u>Stock</u>								
	MaxEdge Electronics Corp.	Investee	Long-term investments	14,004	122,563	14.26	122,563	Note 2	
	Telmax Technologies Corp.	Investee	Long-term investments	10,000	80,452	22.73	80,452	Note 2	
	Ceon Computers Corp.	Investee	Long-term investments	3,300	26,860	11.38	26,860	Note 2	
	Optimax Technology Corp.	PSC is its director	Long-term investments	300	10,086	0.14	17,031	-	
	Turnkey Manufacturing Solutions, Inc.	-	Long-term investments	1,212	14,254	1.16	14,254	Note 2	
	Innovation Group, Inc.	-	Long-term investments	100	1,315	1.25	1,315	Note 2	
	eWave Technology	Same chairman	Long-term investments	900	9,000	18.00	9,000	Note 2	
Gatetech Technology Inc.	-	Long-term investments	165	5,784	0.35	5,784	Note 2		
Explore Technology Electronics Inc.	-	Long-term investments	500	1,042	4.17	1,042	Note 2		
Webstorage Corp.	Same chairman	Long-term investments	400	3,600	0.67	3,600	Note 2		
Synage Technology Corp.	Same chairman	Long-term investments	600	6,033	6.00	6,033	Note 2		
Aero Vision Avionics, Inc.	Same chairman	Long-term investments	1,000	8,000	2.00	8,000	Note 2		

(Forward)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2003				Note	
				Shares (Thousand/Units) (Note 7)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value		
Quantum Vision	Getsilicon.net Inc.	-	Long-term investments	400	\$ 3,071	2.20	\$ 3,071	Note 2	
	CurioBox Interactive Marketing Co., Ltd.	-	Long-term investments	171	-	2.44	-	Note 2	
	<u>Bonds</u>								
	Veutron Corp. - issued in 2002 (I)	Same chairman	Long-term investments	2	9,922	-	9,922	Note 2	
	Veutron Corp. - issued in 2002 (II)	Same chairman	Long-term investments	3	15,000	-	15,000	Note 2	
	Veutron Corp. - issued in 2003 (I)	Same chairman	Long-term investments	3	15,000	-	15,000	Note 2	
	Veutron Corp. - issued in 2003 (II)	Same chairman	Long-term investments	3	6,000	-	6,000	Note 2	
	MaxEdge Electronics Corp. - issued in 2002 (II)	Investee	Long-term investments	2	10,000	-	10,000	Note 2	
	<u>Stock</u>								
	Powerchip Semiconductor Corp.	Parent company	Short-term investments	3,334	95,561	-	51,011	-	
	NewSoft Technology Corp.	Same chairman	Short-term investments	1,083	28,519	-	12,290	-	
	Genuine C & C Inc.	Li-Hsin is its supervisor	Short-term investments	110	2,142	-	1,004	-	
	<u>Stock</u>								
	MaxEdge Electronics Corp.	Investee	Long-term investments	9,330	81,638	9.50	81,638	Note 2	
	Ceon Computers Corp.	Investee	Long-term investments	3,000	25,687	10.34	25,687	Note 2	
	Maxium Technologies, Inc.	Investee	Long-term investments	2,300	24,164	8.52	24,164	Note 2	
	Optimax Technology Corp.	PSC is its director	Long-term investments	747	20,978	0.36	42,407	-	
	AVAC Systems Inc.	Quantum Vision is its supervisor	Long-term investments	462	5,159	3.85	5,159	Note 2	
	Besteam Technology Inc.	-	Long-term investments	1,859	44,230	5.15	44,230	Note 2	
	Powertech Technology Inc.	Quantum Vision is its director	Long-term investments	2,184	25,577	0.89	61,152	-	
	Powervision Technologies, Inc.	Same chairman	Long-term investments	2,600	5,200	59.36	5,200	Note 2	
	Terax Communication Technologies Inc.	Same chairman	Long-term investments	2,407	33,055	7.76	33,055	Note 2	
	Aero Vision Avionics, Inc.	Same chairman	Long-term investments	1,500	12,750	3.00	12,750	Note 2	
	Syntronix Corp.	Same chairman	Long-term investments	500	4,085	2.50	4,085	Note 2	
	Actrans System Inc.	-	Long-term investments	600	6,000	1.41	6,000	Note 2	
	Zentel Electronics Corp.	Same chairman	Long-term investments	100	973	25.00	973	Note 2	
	Billions of Operations Per Second, Inc.	-	Long-term investments	200	17,237	-	17,237	Note 2	
	Webstorage Corp.	Same chairman	Long-term investments	5,637	48,696	9.40	48,696	Note 2	
	eMemory Technology Inc.	Same chairman	Long-term investments	700	16,800	1.75	16,800	Note 2	
	Deutron Electronics Corp.	Same chairman	Long-term investments	2,200	28,901	11.00	28,901	Note 2	
	Great Taipei Broadband Co., Ltd.	PSC is its director	Long-term investments	1,200	12,000	0.80	12,000	Note 2	
	Synage Technology Corp.	PSC is its director	Long-term investments	2,000	20,109	20.00	20,109	Note 2	
Universal Venture Fund, Inc.	Same chairman	Long-term investments	4,200	38,640	2.50	38,640	Note 2		
Elitegroup Computer System	-	Long-term investments	1	15,913	-	15,913	Note 2		
IC Media Corp.	-	Long-term investments	60	5,172	-	5,172	Note 2		
Emerging Memory & Logic Solution Incorporation	-	Long-term investments	102	6,892	-	6,892	Note 2		
Cascade Semiconductor Corp.	-	Long-term investments	667	10,371	-	10,371	Note 2		
Nobex Corp.	-	Long-term investments	40	3,444	-	3,444	Note 2		

(Forward)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2003				Note
				Shares (Thousand/Units) (Note 7)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Paramax	<u>Bonds</u>							
	Veutron Corp. - issued in 2002 (I)	Same chairman	Long-term investments	4	\$ 19,800	-	\$ 19,800	Note 2
	Veutron Corp. - issued in 2002 (II)	Same chairman	Long-term investments	5	25,000	-	25,000	Note 2
	Veutron Corp. - issued in 2003 (I)	Same chairman	Long-term investments	5	25,000	-	25,000	Note 2
	Veutron Corp. - issued in 2003 (II)	Same chairman	Long-term investments	13	26,000	-	26,000	Note 2
	MaxEdge Electronics Corp. - issued in 2002 (I)	Investee	Long-term investments	4	20,000	-	20,000	Note 2
	MaxEdge Electronics Corp. - issued in 2002 (II)	Investee	Long-term investments	1	5,000	-	5,000	Note 2
	<u>Stock</u>							
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	927	18,992	-	9,520	-
	Veutron Corp.	Same chairman	Short-term investments	699	4,048	-	6,042	-
	NewSoft Technology Corp.	Same chairman	Short-term investments	455	7,172	-	5,164	-
	<u>Bonds</u>							
	Convertible bonds issued by Optimax Technology Corp.	PSC is its director	Short-term investments	100	10,000	-	10,000	Note 2
	<u>Equity</u>							
	Sheng Hua 1699 Bond Fund	-	Short-term investments	1,739	20,052	-	20,470	Note 1
	Sheng Hua 5599 Bond Fund	-	Short-term investments	3,817	40,000	-	40,610	Note 1
	ABN AMRO Bond Fund	-	Short-term investments	1,411	20,127	-	20,260	Note 1
	Capital Cash Reserves Fund	-	Short-term investments	3,147	34,500	-	34,886	Note 1
	United Bond Fund	-	Short-term investments	817	10,000	-	10,150	Note 1
	Prudential Well Poll Fund	-	Short-term investments	1,700	20,142	-	20,299	Note 1
	Gallop Bond Fund	-	Short-term investments	1,964	20,166	-	20,329	Note 1
	<u>Stock</u>							
	MaxEdge Electronics Corp.	Investee	Long-term investments	3,774	33,020	3.84	33,020	Note 2
	Ceon Computers Corp.	Investee	Long-term investments	1,300	12,361	4.48	12,361	Note 2
	Maxium Technologies Inc.	Investee	Long-term investments	280	2,947	1.04	2,947	Note 2
	Optimax Technology Corp.	PSC is its director	Long-term investments	200	5,345	0.10	11,354	-
	Besteam Technology Inc.	-	Long-term investments	156	4,625	0.43	4,625	Note 2
	Powervision Technologies, Inc.	Same chairman of PSC	Long-term investments	600	1,200	2.74	1,200	Note 2
	Webstorage Corp.	Same chairman of PSC	Long-term investments	700	5,250	1.17	5,250	Note 2
	Aero Vision Avionics, Inc.	Same chairman of PSC	Long-term investments	500	4,375	1.00	4,375	Note 2
	Terax Communication Technologies Inc.	Same chairman of PSC	Long-term investments	400	4,200	1.29	4,200	Note 2
	Synage Technology Corp.	Investee	Long-term investments	600	6,033	6.00	6,033	Note 2
Universal Venture Fund, Inc.	-	Long-term investments	2,950	27,140	1.76	27,140	Note 2	
Elitegroup Computer System	-	Long-term investments	-	6,975	-	6,975	Note 2	
Cascade Semiconductor Corp.	-	Long-term investments	111	1,740	-	1,740	Note 2	
<u>Bonds</u>								
Veutron Corp. - issued in 2002 (II)	Same chairman of PSC	Long-term investments	2	10,000	-	10,000	Note 2	
Veutron Corp. - issued in 2003 (I)	Same chairman of PSC	Long-term investments	2	10,000	-	10,000	Note 2	

(Forward)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2003				Note
				Shares (Thousand/Units) (Note 7)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Syntronix	MaxEdge Electronics Corp. - issued in 2002 (II)	Investee	Long -term investments	1	\$ 5,000	-	\$ 5,000	Note 2
	Veutron Corp. - issued in 2003 (II)	Same chairman of PSC	Long -term investments	7	14,000	-	14,000	Note 2
	<u>Stock</u>							
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	293	5,824	-	3,009	-
	NewSoft Technology Corp.	Same chairman of PSC	Short-term investments	142	2,359	-	1,612	-
	Veutron Corp.	Same chairman of PSC	Short-term investments	50	298	-	432	-
	<u>Stock</u>							
	Powervision Technologies, Inc.	Syntronix is its director	Long-term investments	700	1,323	3.20	1,323	Note 2
	Deutron Electronics Corp.	Investee	Long-term investments	300	4,095	1.50	4,095	Note 2
	Actrans System Inc.	-	Long-term investments	300	3,000	0.70	3,000	Note 2
	Terax Communication Technologies Inc.	Same chairman	Long-term investments	300	4,500	0.97	4,500	Note 2
	<u>Bonds</u>							
	Veutron Corp. - issued in 2002(I)	Same chairman	Long-term investments	2	9,932	-	9,932	Note 2
	<u>Stock</u>							
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	1	8	-	4	-
<u>Equity</u>								
Capital Safe Income Bond Fund	-	Short-term investments	2,193	29,500	-	30,709	Note 1	
Sheng Hua 5599 Bond Fund	-	Short-term investments	2,096	21,872	-	22,294	Note 1	
Capital Cash Reserves Fund	-	Short-term investments	1,564	17,000	-	17,335	Note 1	

Note 1: The market value is based on net asset value of the fund as of June 30, 2003.

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: Marketable securities disclosed above are not pledged nor mortgaged as of June 30, 2003.

Note 6: The bond investments are acquired through a private market transaction with certain restrictions on the transferability of the bonds, under the Law of Security Exchange of the Republic of China.

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

POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

For the Six Months Ended June 30, 2003

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

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares (Thousand)	Amount	Shares (Thousand)	Amount	Shares (Thousand)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousand)	Amount
PSC	<u>Equity</u>													
	Credit Linked Notes with unfixed interest income issued by Yuanta Asset Management Limited	Short-term investments	-	-	-	\$ -	-	\$ 1,388,637	-	\$ 16,030	\$ 17,248	(\$ 1,201)	-	\$ 1,371,389
	Global Bond Fund	Short-term investments	-	-	226	173,999	-	-	226	187,714	173,999	13,715	-	-
	Credit Linked Notes with fixed interest income issued by Yuanta Asset Management Limited	Short-term investments	-	-	-	-	-	189,805	-	173,775	173,775	-	-	16,030
	Credit Linked Notes Issued by Barclays Bank	Short-term investments	-	-	-	522,900	-	-	-	522,900	522,900	-	-	-
	<u>Stock</u>													
	Power Quotient International Co., Ltd.	Short-term investments (Note)	-	-	8,087	255,413	-	-	4,560	152,649	143,996	8,653	3,527	111,417
Quantum Vision	<u>Stock</u> Optimax Technology Corp.	Long-term investments	-	-	2,863	80,401	-	-	2,116	101,144	59,423	41,721	747	20,978

Note: Reclassified from long-term investments to short-term investments in May 2003.

POWERCHIP SEMICONDUCTOR CORPORATION

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

For the Six Months Ended June 30, 2003

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

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
PSC	Deutron Electronics Corp. Mitsubishi-Taiwan (Note 1)	Investee Subsidiary of Mitsubishi-Japan (until April 1, 2003)	Sales	\$1,236,167	17	Note 5	-	-	\$ 314,528	15	-
			Sales	564,456	8	Note 3	Note 7	Note 7	48,510	2	-
	Power Quotient International Co., Ltd. (Note 1)	The Corporation is its director (until April 29, 2003)	Sales	442,429	6	Note 4	-	-	52,832	3	-
	Powertech Technology Inc.	Quantum Vision is its director	Note 2	255,929	3	Note 6	-	-	(140,578)	(8)	-

Note 1: The companies ceased to be PSC's related party as of June 30, 2003; the transactions made as of and for the six months ended June 30 are disclosed only for reference.

Note 2: Subcontract fees.

Note 3: Mainly paid on the 20th of the following month when the shipment is made before the 15th or on the 5th of the following two month when the shipment is made after the 15th.

Note 4: Mainly paid on the 14th day after shipment is made.

Note 5: Mainly paid on the last day of the month following the month the shipment is made and accepted.

Note 6: Mainly paid on the 60th day after final acceptance.

Note 7: Contract terms with no comparable counterparties.

POWERCHIP SEMICONDUCTOR CORPORATION

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

June 30, 2003

(Amounts in Thousands of 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	Deutron Electronics Corp.	Investee	\$ 314,528	9.60	\$ -	-	\$ 146,563	\$ 3,177

POWERCHIP SEMICONDUCTOR CORPORATION

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

For the Six Months Ended June 30, 2003

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of June 30, 2003			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				June 30, 2003	Dec. 31, 2002	Shares (Thousand)	Percentage of Ownership	Carrying Value			
PSC	Quantum Vision Corp.	Taipei, Taiwan	Investment	\$ 889,900	\$ 799,900	88,990	99.99%	\$ 869,490	\$ 18,348	\$ 18,346	-
	Li-Hsin Investment Corp.	Taipei, Taiwan	Investment	688,500	688,500	68,850	99.78%	356,143	(11,230)	(26,522)	-
	Paramax Corp.	Taipei, Taiwan	Investment	199,940	149,940	19,994	99.97%	166,957	(10,673)	(10,670)	-
	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	394,868	394,868	13,061	13.31%	114,307	(121,199)	(16,131)	-
	Maxium Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	82,000	71,000	8,200	30.37%	84,707	9,943	2,792	-
	Telmax Technologies Corp.	Taipei, Taiwan	Electronic components manufacturing	90,000	90,000	9,000	20.45%	75,636	(13,008)	(587)	-
	Syntronix Corp.	Taipei, Taiwan	Design of electronic related products	102,000	102,000	10,200	51.00%	75,575	(26,584)	(13,558)	-
	Ceon Computers Corp.	Taipei, Taiwan	Electronic components manufacturing	57,000	57,000	5,700	19.66%	46,236	(4,651)	(1,138)	-
	Deutron Electronics Corp.	Taipei, Taiwan	Electronic components manufacturing	21,300	21,300	2,100	10.50%	27,227	52,678	5,360	-
	Synage Technology Corp.	Taipei, Taiwan	Electronic components manufacturing	10,000	-	1,000	10.00%	10,054	545	54	-

