

Powerchip Semiconductor Corporation

**Financial Statements for the Years Ended
December 31, 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

February 16, 2004

The Board of Directors and Shareholders
Powerchip Semiconductor Corporation

We have audited the accompanying balance sheets of Powerchip Semiconductor Corporation as of December 31, 2003 and 2002, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. As mentioned in Note 6 to the financial statements, we did not audit the financial statements of some investees, the investments in which are reflected in the accompanying financial statements using the equity method of accounting. Such investments represent 2.74% (NT\$2,151,615 thousand) and 1.74% (NT\$1,194,691 thousand), respectively, of total assets as of December 31, 2003 and 2002, and investment income and loss represent 7.44% (NT\$6,487 thousand) and 6.44% (NT\$104,973 thousand), respectively, of loss before income tax for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the report of the other auditors.

We conducted our audits in accordance with Rules Governing 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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Powerchip Semiconductor Corporation as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in 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

DECEMBER 31, 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)	\$ 11,387,416	14	\$ 11,978,461	18	Short-term bank borrowings (Notes 9 and 20)	\$ 582,500	1	\$ 150,000	-
Short-term investments—net (Notes 2 and 4)	1,385,975	2	842,096	1	Commercial paper issued (Note 10)	-	-	99,818	-
Notes and accounts receivable (Notes 2, 19 and 20)					Accounts payable (Note 19)				
Related parties—net of allowance for doubtful accounts of \$3,766 thousand in 2003 and \$2,025 thousand in 2002	405,900	1	494,662	1	Related parties	282,691	-	128,270	-
Third parties—net of allowance for doubtful accounts of \$112,219 thousand in 2003 and \$81,191 thousand in 2002	2,414,763	3	909,792	1	Third parties	3,228,461	4	1,073,136	2
Other receivables (Note 22)	290,794	-	464,860	1	Accrued expenses (Note 19)	1,252,139	2	729,044	1
Inventories—net (Notes 2 and 5)	3,572,650	5	2,683,727	4	Payable on equipment (Note 19)				
Prepaid expenses	189,428	-	228,052	-	Related parties	-	-	295,556	-
Deferred income tax assets—current (Notes 2 and 16)	296,499	-	153,372	-	Third parties	14,254,043	18	14,035,514	21
Pledged time deposits (Note 20)	3,066,014	4	1,447,008	2	Convertible bonds payable (Notes 2 and 11)	6,098,541	8	9,615,460	14
Other current assets (Note 2)	2,399	-	2,396	-	Current portion of long-term bank loans (Notes 12 and 20)	4,330,842	5	1,861,195	3
Total current assets	23,011,838	29	19,204,426	28	Current portion of long-term obligation under capital lease (Notes 2 and 7)	185,233	2	150,333	-
					Current portion of long-term payable on equipment (Note 7)	1,080,768	-	995,408	1
LONG-TERM INVESTMENTS (Notes 2, 6 and 19)					Other current liabilities	16,117	-	16,560	-
Equity method	2,311,431	3	1,706,842	3	Total current liabilities	31,311,335	40	29,150,294	42
Cost method	899,564	1	1,527,773	2					
Prepayments	11,460	-	-	-	LONG-TERM LIABILITIES				
Bonds	274,600	-	249,300	-	Long-term bank loans—net of current portion (Notes 12 and 20)	8,590,166	11	8,963,937	13
Total long-term investments	3,497,055	4	3,483,915	5	Long-term payable on equipment—net of current portion (Note 7)	540,384	1	1,493,113	2
					Long-term obligation under capital lease—net of current portion (Notes 2 and 7)	165,000	-	350,000	1
PROPERTIES (Notes 2, 7, 19 and 20)					Total long-term liabilities	9,295,550	12	10,807,050	16
Cost									
Buildings	6,474,937	8	6,247,039	9	OTHER LIABILITIES				
Machinery and equipment	56,449,810	72	43,330,639	63	Accrued pension cost (Notes 2 and 13)	37,827	-	19,656	-
Research and development equipment	89,875	-	78,561	-	Guarantee deposits	3,451	-	3,492	-
Facility equipment	10,637,520	14	9,730,663	14	Total other liabilities	41,278	-	23,148	-
Transportation equipment	18,378	-	16,340	-					
Office equipment	275,200	-	238,152	1	Total liabilities	40,648,163	52	39,980,492	58
Equipment under capital lease	761,708	1	761,708	1					
Miscellaneous equipment	394,393	1	377,854	1	SHAREHOLDERS' EQUITY (Note 14)				
Accumulated depreciation	(32,409,324)	(41)	(24,278,318)	(36)	Capital stock, \$10 par value				
Construction in progress	381	-	185,674	-	Authorized—4,329,571 thousand shares in 2003 and 3,779,358 thousand shares in 2002				
Advance payments	4,886,798	6	4,553,807	7	Issued—3,387,637 thousand shares in 2003 and 2,679,571 thousand shares in 2002	33,876,372	43	26,795,710	39
Net properties	47,579,676	61	41,242,119	60	Capital surplus (Note 2)				
					Paid-in capital in excess of par value	3,695,090	4	4,405,161	7
OTHER ASSETS					Arising from long-term investments	14,519	-	-	-
Refundable deposits	22,075	-	21,655	-	Arising from conversion of bonds	1,352,405	2	279,068	-
Deferred charges—net (Notes 2, 8 and 19)	1,696,074	2	1,932,705	3	Unappropriated earnings (deficit)	13,083	-	(1,619,823)	(2)
Deferred income tax assets—noncurrent (Notes 2 and 16)	2,173,468	3	2,059,832	3	Cumulative translation adjustments	874	-	-	-
Land (Notes 20 and 21)	311,510	1	311,510	1	Treasury stock (Notes 2 and 15)	(1,002,690)	(1)	(1,359,418)	(2)
Spare parts—net	298,294	-	219,181	-	Total shareholders' equity	37,949,653	48	28,500,698	42
Others	7,826	-	5,847	-					
Total other assets	4,509,247	6	4,550,730	7	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 78,597,816	100	\$ 68,481,190	100
TOTAL ASSETS	\$ 78,597,816	100	\$ 68,481,190	100					

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

(With Deloitte & Touche report dated February 16, 2004)

English Translation of Financial Statements Originally Issued in Chinese

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 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	\$23,083,366		\$12,875,872	
SALES RETURNS AND ALLOWANCES	<u>110,430</u>		<u>106,123</u>	
NET SALES (Notes 2, 19 and 25)	22,972,936	100	12,769,749	100
COST OF SALES (Notes 17 and 19)	<u>20,789,307</u>	<u>90</u>	<u>11,522,956</u>	<u>90</u>
GROSS PROFIT	<u>2,183,629</u>	<u>10</u>	<u>1,246,793</u>	<u>10</u>
OPERATING EXPENSES (Note 17)				
Selling	175,778	1	75,957	1
General and administrative	705,894	3	1,435,196	11
Research and development (Note 19)	<u>1,108,722</u>	<u>5</u>	<u>1,073,589</u>	<u>8</u>
Total operating expenses	<u>1,990,394</u>	<u>9</u>	<u>2,584,742</u>	<u>20</u>
OPERATING INCOME (LOSS)	<u>193,235</u>	<u>1</u>	(<u>1,337,949</u>)	(<u>10</u>)
NONOPERATING INCOME AND GAIN				
Reversal of allowances for loss on inventories and spare parts (Note 2)	278,783	1	125,251	1
Reversal of provision for decline in value of short-term investments (Note 2)	120,561	1	-	-
Gain on sales of investments—net	80,955	1	151,839	1
Interest (Notes 2 and 19)	73,550	-	174,705	1
Dividend Income	30,130	-	7,846	-
Indemnity income	17,628	-	19,116	-
Foreign exchange gain—net (Notes 2 and 22)	10,598	-	12,690	-
Gain on disposal of properties (Note 2)	7,877	-	3,042	-
Other (Note 19)	<u>50,811</u>	<u>-</u>	<u>67,454</u>	<u>1</u>
Total nonoperating income and gain	<u>670,893</u>	<u>3</u>	<u>561,943</u>	<u>4</u>
NONOPERATING EXPENSES AND LOSSES				
Interest (Notes 2 and 7)	714,664	3	214,523	2
Issuance costs of the early redeemed convertible bonds (Note 2)	67,099	1	-	-
Impairment loss on long-term investments (Note 2)	57,137	-	196,522	1
Investment loss recognized by equity method—net (Notes 2 and 6)	23,676	-	207,281	2
Loss on disposal of properties (Note 2)	15,373	-	8,955	-
Loss from earthquake	-	-	86,598	1

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English Translation of Financial Statements Originally Issued in Chinese

	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Provision for decline in value of short-term investments (Note 2)	\$ -	-	\$ 65,697	-
Other	<u>73,360</u>	-	<u>75,357</u>	<u>1</u>
Total nonoperating expenses and losses	<u>951,309</u>	<u>4</u>	<u>854,933</u>	<u>7</u>
LOSS BEFORE INCOME TAX	(87,181)	-	(1,630,939)	(13)
INCOME TAX BENEFIT (Notes 2 and 16)	<u>256,161</u>	<u>1</u>	<u>132,612</u>	<u>1</u>
NET INCOME (LOSS)	<u>\$ 168,980</u>	<u>1</u>	<u>(\$ 1,498,327)</u>	<u>(12)</u>
	<u>2003</u>		<u>2002</u>	
	<u>Before</u>	<u>After</u>	<u>Before</u>	<u>After</u>
	<u>Income</u>	<u>Income</u>	<u>Income</u>	<u>Income</u>
	<u>Tax</u>	<u>Tax</u>	<u>Tax</u>	<u>Tax</u>
EARNINGS (LOSS) PER SHARE (Note 18)				
Basic (loss) earnings per share	(<u>\$ 0.03</u>)	<u>\$ 0.06</u>	(<u>\$ 0.66</u>)	(<u>\$ 0.60</u>)
Diluted (loss) earnings per share	(<u>\$ 0.03</u>)	<u>\$ 0.05</u>	(<u>\$ 0.66</u>)	(<u>\$ 0.60</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 treasury stock are shown as follows:

	<u>2003</u>		<u>2002</u>	
	<u>Before</u>	<u>After</u>	<u>Before</u>	<u>After</u>
	<u>Income</u>	<u>Income</u>	<u>Income</u>	<u>Income</u>
	<u>Tax</u>	<u>Tax</u>	<u>Tax</u>	<u>Tax</u>
NET INCOME (LOSS)	<u>\$ 185,449</u>		<u>(\$ 1,515,606)</u>	
	<u>2003</u>		<u>2002</u>	
	<u>Before</u>	<u>After</u>	<u>Before</u>	<u>After</u>
	<u>Income</u>	<u>Income</u>	<u>Income</u>	<u>Income</u>
	<u>Tax</u>	<u>Tax</u>	<u>Tax</u>	<u>Tax</u>
EARNINGS (LOSS) PER SHARE				
Basic and diluted (loss) earnings per share	(<u>\$ 0.02</u>)	<u>\$ 0.06</u>	(<u>\$ 0.66</u>)	(<u>\$ 0.61</u>)

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

(With Deloitte & Touche report dated February 16, 2004)

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POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 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	Paid-in capital in excess of par value	Gain on disposal of properties	From long-term investments	From conversion of bonds	Legal reserve			
BALANCE, JANUARY 1, 2002	2,311,811	\$ 23,118,112	\$ 8,545,503	\$ 99,280	\$ -	\$ -	\$ 475,932	(\$ 6,293,442)	(\$ 772,774)	\$ 25,172,611
Offset of deficit against paid-in capital in excess of par value and legal reserve	-	-	(5,718,230)	(99,280)	-	(5,817,510)	(475,932)	6,293,442	-	-
Issuance of capital stock, May 15, 2002—\$15 per share (certain portion issued as Global Depository Shares)	350,000	3,500,000	1,577,888	-	-	1,577,888	-	-	-	5,077,888
Conversion of bonds into capital stock	17,760	177,598	-	-	-	279,068	-	-	-	456,666
Adjustment for changes in shareholders' equities of equity-accounted investees	-	-	-	-	-	-	-	(21,989)	-	(21,989)
Net loss in 2002	-	-	-	-	-	-	-	(1,498,327)	-	(1,498,327)
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)	467,371	367,864
Treasury stock—parent's issued shares held by subsidiaries	-	-	-	-	-	-	-	-	(53,820)	(53,820)
BALANCE, DECEMBER 31, 2002	2,679,571	26,795,710	4,405,161	-	-	279,068	4,684,229	(1,619,823)	(1,359,418)	28,500,698
Offset of deficit against paid-in capital in excess of par value	-	-	(1,619,823)	-	-	(1,619,823)	-	1,619,823	-	-
Issuance of capital stock, September 15, 2003—\$14 per share (certain portion issued as Global Depository Shares)	250,000	2,500,000	920,830	-	-	920,830	-	-	-	3,420,830
Conversion of bonds into capital stock	474,527	4,745,272	-	-	-	1,079,966	-	-	-	5,825,238
Issuance of shares upon exercise of employee stock options	1,060	10,600	8,162	-	-	8,162	-	-	-	18,762
Retirement of treasury stock—17,521 thousand shares	(17,521)	(175,210)	(19,240)	-	(6,629)	(25,869)	-	(155,649)	356,728	-
Adjustment for changes in shareholders' equities of equity-accounted investees	-	-	-	-	14,519	14,519	-	(248)	-	15,145
Net income in 2003	-	-	-	-	-	-	-	168,980	-	168,980
BALANCE, DECEMBER 31, 2003	3,387,637	\$ 33,876,372	\$ 3,695,090	\$ -	\$ 14,519	\$ 1,352,405	\$ 5,062,014	\$ 13,083	(\$ 1,002,690)	\$ 37,949,653

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

(With Deloitte & Touche report dated February 16, 2004)

English Translation of Financial Statements Originally Issued in Chinese

POWERCHIP SEMICONDUCTOR CORPORATION

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In Thousands of New Taiwan Dollars)**

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 168,980	(\$ 1,498,327)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	8,350,856	5,133,492
Amortization	1,180,589	1,134,365
Provision (reversal of allowance) for decline in value of short-term investments	(120,561)	65,697
Provision for bad debts	32,769	7,728
Reversal of allowance for loss on inventories and spare parts	(278,783)	(125,251)
Investment loss recognized by equity method—net	23,676	207,281
Impairment loss on long-term investments	57,137	196,522
Cash dividends from long-term investments under equity method	1,658	12,248
Amortization of discount on long-term bond investments	(300)	(200)
Gain on sales of long-term investments—net	(160,288)	(85,803)
Loss on disposal of properties—net	7,496	5,913
Deferred income tax assets	(256,763)	(132,826)
Amortization of discount on commercial paper issued	14,426	24,095
Foreign exchange gain from convertible bonds payable	(135,248)	(52,995)
Foreign exchange gain from long-term bank loans	(77,049)	(26,715)
Issuance costs of the early redeemed convertible bonds	67,099	-
Changes in operating assets and liabilities		
Notes and accounts receivable	(1,448,978)	(621,979)
Other receivables	(15,276)	82,625
Inventories	(592,432)	(1,222,974)
Prepaid expenses	38,624	(19,528)
Forward contract receivable	189,342	(267,755)
Other current assets	(3)	62,167
Accounts payable	2,309,746	(67,938)
Accrued expenses	523,095	199,589
Other current liabilities	(443)	9,656
Accrued pension costs	<u>18,171</u>	<u>(453)</u>
Net cash provided by operating activities	<u>9,897,540</u>	<u>3,018,634</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in short-term investments	(183,792)	(612,869)
Collections on installment equipment receivable	-	763,908
Increase in pledged time deposits	(1,619,006)	(1,413,008)
Acquisition of		
Properties	(15,543,523)	(9,114,551)
Long-term investments	(633,086)	(602,436)
Deferred charges	(1,265,328)	(1,042,612)
Other assets	(1,979)	(5,847)

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English Translation of Financial Statements Originally Issued in Chinese

	<u>2003</u>	<u>2002</u>
Proceeds from disposal of		
Long-term investments	\$ 473,682	\$ 195,608
Properties	30,187	7,411
Decrease (increase) in refundable deposits	(420)	4,566
Increase in spare parts	(96,821)	(2,969)
Net cash used in investing activities	(18,840,086)	(11,822,799)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term bank borrowings	432,500	(770,000)
Decrease in commercial paper issued	(102,680)	(207,737)
Proceeds from:		
Issuance of convertible bonds	7,630,958	3,135,420
Long-term bank loans	4,691,131	4,200,000
Issuance of capital stock	3,420,830	5,077,888
Exercise of employee stock option	18,762	-
Sales of treasury stock	-	367,864
Repayments of long-term bank loans	(2,529,770)	(2,742,931)
Redemption of convertible bonds	(5,060,089)	-
Increase (decrease) in capital lease obligation	(150,100)	500,333
Increase (decrease) in guarantee deposits	(41)	2,377
Reacquisition of issued stock (treasury stock)	-	(1,000,195)
Net cash provided by financing activities	<u>8,351,501</u>	<u>8,563,019</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(591,045)	(241,146)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>11,978,461</u>	<u>12,219,607</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$11,387,416</u>	<u>\$11,978,461</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding amounts capitalized of \$29,597 thousand in 2003 and \$305,127 thousand in 2002)	<u>\$ 688,310</u>	<u>\$ 180,758</u>
Income tax paid	<u>\$ 5,512</u>	<u>\$ 15,812</u>
Noncash investing and financing activities		
Current portion of long-term liabilities	<u>\$ 5,596,843</u>	<u>\$ 3,006,936</u>
Transfer of long-term investments to short-term investments	<u>\$ 239,526</u>	<u>\$ 90,370</u>
Reclassification of deferred charges to properties	<u>\$ 126,969</u>	<u>\$ -</u>
Conversion of bonds	<u>\$ 5,825,238</u>	<u>\$ 456,666</u>
Treasury stock—parent’s issued shares held by subsidiaries	<u>\$ -</u>	<u>\$ 53,820</u>
Cash paid for acquisition of properties		
Total acquisition	\$ 14,599,127	\$ 23,388,262
Payable, beginning of year	16,819,591	2,545,880
Payable, end of year	(15,875,195)	(16,819,591)
	<u>\$15,543,523</u>	<u>\$ 9,114,551</u>

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

(With Deloitte & Touche report dated February 16, 2004)

(Concluded)

POWERCHIP SEMICONDUCTOR CORPORATION

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

1. GENERAL

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

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

As of December 31, 2003 and 2002, the Corporation had 2,790 and 2,233 employees, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (ROC). Under these guidelines and principles, the Corporation should reasonably estimate the amounts of allowance for doubtful receivables; allowance for loss on inventories and spare parts; depreciation of properties; and pension expenses. However, actual results could differ from those estimates because of the uncertainty of circumstances.

The Corporation's significant accounting policies are summarized as follows:

**Classification of Current and Noncurrent
Assets and Liabilities**

Current assets are those expected to be cashed or consumed within one year. Current liabilities are those expected to be paid off or settled within one year. All other assets and liabilities are classified as noncurrent assets and liabilities.

Cash equivalents

Commercial paper purchased with maturities of three months or less is classified as cash equivalents.

Short-term Investments

Short-term investments are mainly listed stocks, bonds purchased under resale agreements, credit-linked notes and mutual funds. 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. Other short-term investments are carried at the lower of aggregate costs or market value. Costs of such investments sold are determined by the moving average method.

An allowance for decline in value is provided when the aggregate carrying value of the investments exceeds the total market value. Any recovery of market value to the extent of the original carrying value is recognized as income.

The market value of the listed stocks is the average closing price for the last month of the accounting period; credit-linked notes with unfixed interest income and mutual funds are based on their net asset value at the end of each period.

Allowance for Doubtful Receivables

Allowance for doubtful receivables is provided based on aging of receivables and review of the collectibility of individual receivables.

Inventories

Inventories are stated at the lower of aggregate costs or market value. Finished goods and work in process are recorded at standard cost and adjusted to the approximate weighted-average cost at the end of each period. Market value represents net realizable value for finished goods and work in process, and replacement value for raw materials and supplies.

Long-term Investments

Stock investments in which the Corporation exercises significant influence on investees' operating and financial decisions are accounted for by the equity method. The difference between the investment cost and the Corporation's equity in the investee's net assets on the acquisition date is amortized on the straight-line method over five years. This amortization and the Corporation's equity in the investees' net income or net losses are recognized as investment income or loss. If an investee issues additional shares and the Corporation subscribes to these shares at a percentage different from its existing equity, the resulting increase in the Corporation's equity in the investee's net assets is recorded as an adjustment to capital surplus as well as the long-term investments accounts. Any decrease in the Corporation's equity in the investee's net assets is debited to capital surplus. If capital surplus from long-term investments is not enough for debiting purposes, the debit is made against unappropriated retained earnings.

Other stock investments are accounted for by 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 year the related investments are acquired. These investments are stated at cost less allowances (or less reductions, if investments are shown net of decline in value) for decline in market value of listed stocks or for decline in value of unlisted stocks which is considered irrecoverable; these allowances (or reductions) are charged to stockholder's equity and current income, respectively.

For both equity-accounted and cost-accounted long-term investments, stock dividends received are recognized only as an increase in the number of shares 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.

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 as shown in the subsidiaries' books as of January 1, 2002.

Investments in bonds are carried at amortized costs. Discounts are amortized over the remaining life of the bonds and 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 calculated using the straight-line method over service lives which are initially estimated as follows: buildings, 3 to 20 years; machinery and equipment, 2 to 5 years; research and development equipment, 2 to 5 years; facility equipment, 3 to 15 years; transportation equipment, 5 years; office equipment, 3 to 5 years; equipment under capital lease, 5 years; and miscellaneous equipment, 2 to 5 years. Properties still in use beyond their initially estimated service lives are further depreciated over the newly estimated service lives.

Upon sale or other 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 market value of the leased equipment or the present value of the minimum lease payments at the inception of the lease. Depreciation is calculated over the useful lives of the leased equipment. The effective interest method is used to allocate each lease payment between principal and interest expense. The difference between the proceeds and the book value of the leaseback assets is recorded as unrealized loss on sale-leaseback and is amortized over the service life of the leased equipment as depreciation expense.

Deferred Charges

Deferred charges are amortized using 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, from the issuance date to the expiration date of the redemption period; test-run costs and technical service charges, 5 years; and 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 bonds are converted. The carrying value of the bonds and other assets and liabilities related to such convertible bonds as of the conversion date in excess of the amounts credited to the capital stock account is credited to the capital surplus account. When the bond holder exercises the put option, the difference between payment and book value of the bonds and other assets and liabilities related to such convertible bonds is credited or charged to current income.

Treasury Stock

The reacquisition of issued stock is accounted for by the cost method. Under this method, the reacquisition cost is debited to the treasury stock account (or fair value is debited to the treasury stock account if the shares are donated). Treasury stock is shown as a deduction to arrive at shareholders' equity. If treasury shares are reissued at a price in excess of the acquisition cost, the excess is credited to paid-in capital from treasury stock. If the treasury shares are reissued at less than acquisition cost, the deficiency is treated first as a reduction of any paid-in capital related to previous reissuances. If the balance in paid-in capital from treasury stock is insufficient to absorb the deficiency, the remainder is recorded as a reduction of retained earnings.

When the treasury shares are retired, the capital stock and paid-in capital based on the existing equity are debited. If the treasury shares are retired at a price lower than its par value and paid-in capital, the deficiency is credited to paid-in capital from treasury stock. If the treasury shares are retired at a price in excess of its par value and paid-in capital, the excess is debited to paid-in capital from treasury stock. If the balance in paid-in capital from treasury stock is insufficient to absorb the deficiency, the remainder is recorded as a reduction of retained earnings.

Revenue Recognition

Sales are recognized when titles to products are transferred to customers, primarily upon shipment, since the major part of the earnings process is completed and revenue is realized or realizable. The Corporation does not recognize sales on transactions involving the delivery of materials to subcontractors since the ownership over the materials is not transferred.

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 to be 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 uses the 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 classified as current or noncurrent according to the classification of the related asset or liability for financial reporting. But if a deferred asset or liability cannot be related to an asset or liability in the financial statements, it is classified as current or noncurrent on the expected reversal date of the temporary difference.

Tax credits for certain purchases of machinery, equipment and technology, research and development expenditures, personnel training and investments in important technology-based enterprise are recognized by the flow-through method.

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

Income taxes (10%) on undistributed earnings are recorded as expenses in the year when the shareholders resolve to retain the earnings.

Foreign-currency Transactions

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

Derivative Financial Instruments

Forward exchange contracts and cross-currency swap contracts are used for hedging purposes and are recorded at spot rates on the contract starting dates. The foreign-currency amount of each contract multiplied by the difference between the spot rate 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 at prevailing exchange rates, the gains or losses on the contracts are computed by multiplying the foreign-currency amount by the difference between the contract starting date rate and the period-end spot rate and are credited or charged to income. The net contract receivable or payable is presented either as an asset or a liability in 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>December 31</u>	
	<u>2003</u>	<u>2002</u>
Time deposits	\$ 9,092,582	\$ 11,145,566
Commercial paper purchased	2,226,057	809,109
Demand deposits	36,413	22,359
Checking accounts	32,244	1,107
Cash on hand	<u>120</u>	<u>320</u>
	<u>\$ 11,387,416</u>	<u>\$ 11,978,461</u>

4. SHORT-TERM INVESTMENTS

	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
Listed stocks	\$ 311,381	\$ 255,758
Equity		
Credit-linked notes with unfixed interest income	1,043,677	-
Mutual funds	15,012	183,999
Credit-linked notes with fixed interest income	-	522,900
Bonds purchased under resale agreements	<u>15,905</u>	<u>-</u>
	1,385,975	962,657
Allowance for decline in value	<u>-</u>	<u>(120,561)</u>
	<u>\$ 1,385,975</u>	<u>\$ 842,096</u>

The market values of mutual funds and credit-linked notes with unfixed interest income as of December 31, 2003 and 2002 were \$1,017,104 thousand and \$186,061 thousand, respectively, based on their net asset value as of December 31. The market value of listed stocks on December 31, 2003 and 2002 were \$361,388 thousand and \$133,135 thousand, respectively, based on average closing price of listed stock in December. Bonds as of December 31, 2003 were contracted to be resold for \$15,974 thousand on March 17, 2004.

5. INVENTORIES

	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
Finished goods	\$ 508,133	\$ 330,431
Work in process	2,559,358	2,379,385
Materials	<u>653,492</u>	<u>420,839</u>
	3,720,983	3,130,655
Allowance for losses	<u>(148,333)</u>	<u>(446,928)</u>
	<u>\$ 3,572,650</u>	<u>\$ 2,683,727</u>

6. LONG-TERM INVESTMENTS

	December 31			
	2003		2002	
	<u>Amount</u>	<u>% of Ownership</u>	<u>Amount</u>	<u>% of Ownership</u>
<u>Investment in shares of stock</u>				
Equity method				
Quantum Vision Corp.	\$ 1,033,808	99.99	\$ 761,058	99.99
Li-Hsin Investment Corp.	444,357	99.81	381,713	99.78
Paramax Corp.	262,325	99.98	127,598	99.96
MaxEdge Electronics Corp.	115,242	13.18	130,438	13.31
Maxium Technologies, Inc.	96,438	30.37	70,611	32.27
Novax Technologies, Inc.	74,458	12.10	-	-
Telmax Technologies Corp.	72,765	20.45	75,392	21.43
Syntronix Corp.	68,511	51.00	89,133	51.00
Deutron Electronics Corp.	49,717	10.50	23,525	10.50
Zentel Electronics Corp.	44,574	47.00	-	-
Luxxon Technology Corp.	38,277	20.00	-	-
Synage Technology Corp.	10,959	10.00	-	-
Ceon Computers Corp.	-	-	47,374	19.66
	<u>2,311,431</u>		<u>1,706,842</u>	
Cost method				
Listed stocks				
Optimax Technology Corp.	117,132	2.07	133,531	2.44
Powertech Technology Inc.	85,784	2.29	360,301	9.70
Power Quotient International Co., Ltd.	-	-	255,413	10.60
Unlisted stocks				
Eastern Broadband Telecommunications Co., Ltd.	120,000	0.18	120,000	0.18
Besteam Technology Inc.	95,863	10.30	95,863	10.30
Universal Venture Fund, Inc.	88,000	4.76	88,000	4.76
Ardentec Corp.	60,580	2.45	55,000	2.48
Power Memory International Co., Ltd.	58,500	6.57	52,500	7.22
eMemory Technology Inc.	40,444	8.37	40,444	9.63
Cascade Semiconductor Corp.	36,455	16.15	36,455	16.15
Great Taipei Broadband Co., Ltd.	25,000	1.67	25,000	1.67
TwinMOS Technologies Inc.	23,109	1.34	23,109	1.34
A-DATA Technology Co., Ltd.	22,000	0.66	-	-
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.	16,590	5.18	17,931	5.18
Area East Technology Corp.	13,000	19.97	13,000	19.97
Advanced Chip Engineering Technology Inc.	11,709	2.78	22,995	2.78
Venglobal International Fund	11,217	2.83	15,258	2.83
Actrans System Inc.	10,000	2.35	10,000	2.35
Terax Communication Technologies Inc.	9,000	1.94	14,250	3.80
Lightsonic Optoelectronics Inc.	8,050	1.16	8,050	1.42
E-Tech. Inc.	3,145	2.26	3,145	2.26
DRAMeXchange Tech. Inc.	3,089	4.03	-	-
Phitech Corp.	2,660	1.27	2,660	1.27
Jade Pacific Corp.	1,313	1.35	1,313	1.35
Billions of Operations Per Second, Inc. Series A— preferred shares	-	1.41	16,175	1.57
Billions of Operations Per Second, Inc. Series D— preferred shares	-	1.12	17,225	1.10
Globalgate.com, Inc.	-	0.93	-	0.93
Webstorage Corp.	-	-	35,691	7.30
Dramexchange.com Corp.	-	-	15,540	3.55
	<u>899,564</u>		<u>1,527,773</u>	

(Continued)

	December 31			
	2003		2002	
	<u>Amount</u>	<u>% of</u> <u>Ownership</u>	<u>Amount</u>	<u>% of</u> <u>Ownership</u>
Prepayments				
E-Phocus, Inc. Series B-preferred shares	\$ 11,460		\$ -	
<u>Investment in bonds</u>				
Veutron Corp.—issued in 2002 (I)	89,600		89,300	
MaxEdge Electronics Corp.—issued in 2002 (II)	80,000		80,000	
MaxEdge Electronics Corp.—issued in 2002 (I)	60,000		60,000	
Veutron Corp.—issued in 2003 (I)	25,000		-	
Veutron Corp.—issued in 2002 (II)	<u>20,000</u>		<u>20,000</u>	
	<u>274,600</u>		<u>249,300</u>	
	<u>\$ 3,497,055</u>		<u>\$ 3,483,915</u>	

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

In the third quarter of 2003, the Corporation and its subsidiaries subscribed to the shares for capital increase of Zentel Electronics Corp., resulting in a joint ownership of 62% by the Corporation and its subsidiaries as of December 31, 2003. Thus, this investment was accounted for by the equity method. Zentel Electronics Corp. is engaged mainly in the design of electronic related products.

In the third quarter of 2003, the Corporation and its subsidiaries owned 21% of Webstorage Corp. Thus, this investment was accounted for by the equity method.

In the first quarter of 2003, the Corporation and its subsidiaries subscribed to the shares for capital increase of Synage Technology Corp., resulting in a joint ownership of 42% by the Corporation and its subsidiaries as of December 31, 2003. Thus, this investment was accounted for by the equity method.

In the third quarter of 2002, the Corporation and its subsidiaries subscribed to the capital increase of Deutron Electronics Corp., resulting in a joint ownership of 23% and 25% as of December 31, 2003 and 2002, respectively. Thus, this investment was accounted for by the equity method.

As of December 31, 2003 and 2002, the Corporation and its subsidiaries owned 43% and 41% of MaxEdge Electronics Corp., respectively. Thus, this investment was accounted for by the equity method.

In October 2003, Ceon Computers Corp. and Webstorage Corp. combined to form a new company, named “Novax Technologies, Inc.” as a result of their related capital restructuring. As of December 31, 2003, the Corporation and its subsidiaries owned 34% of Novax Technologies, Inc. Thus, this investment was accounted for by the equity method.

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

Investment income (losses) accounted for by the equity method were based on the audited financial statements of the investees. Except for the audits of Li-Hsin Investment Corp. in 2002 and MaxEdge Electronics Corp. and Zentel Electronics Corp. were performed by us, all others were audited by other auditors. Investment income (losses) are summarized as follows:

	For the Years Ended	
	December 31	
	<u>2003</u>	<u>2002</u>
Quantum Vision Corp.	\$ 62,804	(\$ 51,226)
Li-Hsin Investment Corp.	(39,183)	(57,050)
Paramax Corp.	(16,703)	(21,263)
MaxEdge Electronics Corp.	(27,363)	(45,258)
Maxium Technologies, Inc.	5,314	221
Novax Technologies, Inc.	3,716	-
Telmax Technologies Corp.	(3,340)	(14,865)
Syntronic Corp.	(20,558)	(13,674)
Deutron Electronics Corp.	28,098	2,753
Zentel Electronics Corp.	(2,800)	-
Luxxon Technology Corp.	(1,944)	-
Synage Technology Corp.	959	-
Ceon Computers Corp.	(5,233)	(6,919)
Webstorage Corp.	(7,443)	-
	<u>(\$ 23,676)</u>	<u>(\$ 207,281)</u>

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

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

	December 31	
	<u>2003</u>	<u>2002</u>
Cost method		
Optimax Technology Corp.	\$ 510,577	\$ 246,404
Powertech Technology Inc.	326,594	-
Power Quotient International Co., Ltd.	-	<u>574,177</u>
	<u>\$ 837,171</u>	<u>\$ 820,581</u>

7. PROPERTIES

Accumulated depreciation on properties consisted of the following:

	December 31	
	<u>2003</u>	<u>2002</u>
Buildings	\$ 1,233,633	\$ 922,704
Machinery and equipment	25,033,196	18,592,436
Research and development equipment	66,588	56,378
Facility equipment	5,641,770	4,496,613

(Continued)

	December 31	
	2003	2002
Transportation equipment	\$ 10,123	\$ 7,516
Office equipment	144,246	108,796
Equipment under capital lease	139,264	10,482
Miscellaneous equipment	<u>140,504</u>	<u>83,393</u>
	<u>\$32,409,324</u>	<u>\$24,278,318</u>

Total depreciation expenses in 2003 and 2002 were \$8,350,856 thousand and \$5,133,492 thousand, respectively. Interest expenses, including amounts capitalized of \$29,597 thousand and \$305,127 thousand, for years ended December 31, 2003 and 2002, were \$744,261 thousand and \$519,650 thousand, respectively. The rates used in capitalizing the interests were 4.20%-4.65% in 2003 and 4.25%-4.66% in 2002.

The Corporation is currently expanding its second manufacturing plant ("FAB 12A") for an estimated total cost of approximately \$54,300,000 thousand. As of December 31, 2003, a total cost of \$39,628,760 thousand had been incurred, and FAB 12A started production in the fourth quarter of 2002.

Under an equipment purchase agreement amounting to \$1,621,152 thousand, the Corporation should maintain certain financial ratios based on annual financial statements.

In December 2002, the Corporation entered into an equipment sale-leaseback agreement with a domestic leasing company under terms that qualify as capital lease. The lease is payable quarterly from June 2003 to December 2005. Lease payments on this contract are summarized as follows:

<u>Year</u>	<u>Amount</u>
2004	\$ 201,725
2005	<u>171,188</u>
	372,913
Implicit interest	(<u>22,680</u>)
	<u>\$ 350,233</u>

On the lease starting date, the Corporation prepaid all the rent by postdated checks.

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

8. DEFERRED CHARGES—NET

	December 31	
	2003	2002
Technical know-how	\$ 1,082,128	\$ 1,026,086
Test-run costs	252,083	317,844
Computer software system	176,133	320,031
Issuance costs of the convertible bonds	101,887	181,115
Others	<u>83,843</u>	<u>87,629</u>
	<u>\$1,696,074</u>	<u>\$1,932,705</u>

Technical know-how fees are amounts mainly paid by the Corporation to Mitsubishi Electric Corporation ("Mitsubishi—Japan") under several agreements for Mitsubishi—Japan's transfer to the Corporation of certain technologies on the manufacture of dynamic random access memory.

9. SHORT-TERM BANK BORROWINGS

	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
Working capital loans: 2003—due in January 2004, interest at 1.28%-2.10%; 2002—due in March 2003, interest at 2.25%-2.40%	<u>\$ 582,500</u>	<u>\$ 150,000</u>

Unused credit lines for short-term borrowings as of December 31, 2003 were about \$794,316 thousand.

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

10. COMMERCIAL PAPER ISSUED

Commercial paper issued, guaranteed by financial institutions, bear annual interest rates of 1.90%. It was issued in 2002, and maturity date was February 21, 2003.

11. CONVERTIBLE BONDS PAYABLE

In the second quarter of 2001, the Corporation issued five-year unsecured, zero-coupon convertible bonds ("Bonds 2001"), with an aggregate principal amount of US\$200,000 thousand. Bonds 2001 are listed on the Luxembourg Stock Exchange. They are convertible into the Corporation's common shares or Global Depository Shares (GDS) of the Corporation at NT\$30.00 per share (at an exchange rate of US\$1.00 to NT\$32.933; conversion rate is adjustable and the current rate is NT\$22.46 per share as of December 31, 2003) between June 23, 2001 and April 24, 2006 and will mature on May 24, 2006. At the holders' option, Bonds 2001 may also be repurchased on May 24 of each year (from 2002) before maturity at 100% of their principal amount. Under certain conditions, either the holders of Bonds 2001 or the Corporation may opt for early bond redemption. As of December 31, 2003, some of the holders of Bonds 2001 exercised their put option, requiring the Corporation to spend US\$131,755 thousand for the repurchase of the outstanding bonds. Also, the Corporation had redeemed and cancelled Bonds 2001 from the open market with principal amount of US\$14,150 thousand, and holders of Bonds 2001 with principal amount of US\$13,320 thousand had requested to convert these bonds into 17,760 thousand common shares, which had all been issued.

In the fourth quarter of 2002, the Corporation issued five-year unsecured, zero-coupon convertible bonds ("Bonds 2002"), with an aggregate principal amount of US\$90,000 thousand. Bonds 2002 are listed on the Luxembourg Stock Exchange. They are convertible into the Corporation's common shares or GDS at NT\$14.136 per share (at an exchange rate of US\$1.00 to NT\$34.838; conversion rate is adjustable and the current rate is NT\$11.14 per share as of December 31, 2003) between January 9, 2003 and November 9, 2007 and will mature on December 10, 2007. At the holders' option, Bonds 2002 may also be repurchased on December 10 of each year (from 2003) before maturity at 100% of their principal amount. Under certain conditions, either the holders of Bonds 2002 or the Corporation may opt for early bond redemption. As of December 31, 2003, holders of Bonds 2002 with principal amount of US\$89,500 thousand had requested to convert these bonds into 275,732 thousand common shares, which had all been issued. On February 6, 2004, the Corporation redeemed Bonds 2002 with principal amount of US\$500 thousand.

In the second quarter of 2003, the Corporation issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2003A”), with an aggregate principal amount of US\$112,000 thousand. Bonds 2003A are listed on the Luxembourg Stock Exchange. They are convertible into the Corporation’s common shares or GDS at NT\$14.61 per share (at an exchange rate of US\$1.00 to NT\$34.614; conversion rate is adjustable and the current rate is NT\$14.39 per share as of December 31, 2003) between July 25, 2003 and May 26, 2008 and will mature on June 25, 2008. At the holders’ option, Bonds 2003A may also be repurchased on June 25 of each year (from 2004) before maturity at 100% of their principal amount. Under certain conditions, either the holders of the Bonds 2003A or the Corporation may opt for early bond redemption. As of December 31, 2003, holders of Bonds 2003A with principal amount of US\$83,770 thousand had requested to convert these bonds into 198,795 thousand common shares, which had all been issued. Between January 1, 2004 and February 16, 2004, the conversion of Bonds 2003A with principal amount of US\$13,640 thousand into 32,810 thousand common shares had been requested.

In the third quarter of 2003, the Corporation issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2003B”), with an aggregate principal amount of US\$110,000 thousand. Bonds 2003B are listed on the Luxembourg Stock Exchange. They are convertible into the Corporation’s common shares or GDS at NT\$17.94 per share (at an exchange rate of US\$1.00 to NT\$34.129; conversion rate is adjustable and the current rate is NT\$17.94 per share as of December 31, 2003) between October 15, 2003 and August 15, 2008 and will mature on September 15, 2008. At the holders’ option, Bonds 2003B may also be repurchased on September 15 of each year (from 2004) before maturity at 100% of their principal amount. Under certain conditions, either the holders of the Bonds 2003B or the Corporation may opt for early bond redemption. Between January 1, 2004 and February 16, 2004, the conversion of Bonds 2003B with principal amount of US\$4,438 thousand into 8,443 thousand common shares had been requested.

12. LONG-TERM BANK LOANS

	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
Long-term secured syndicated loans (1)		
U.S. dollars—US\$75,000 thousand in 2003 and US\$112,500 thousand in 2002	\$ 2,548,350	\$ 3,909,713
Long-term secured syndicated loans (2) (including commercial paper issued)—New Taiwan Dollars	2,600,000	2,600,000
Long-term secured syndicated loans (3)—New Taiwan dollars	6,125,000	3,500,000
Medium to long-term loans		
New Taiwan dollars (including commercial paper issued)	1,650,000	806,640
¥44,091 thousand	-	12,905
US\$26 thousand	-	912
	<u>12,923,350</u>	<u>10,830,170</u>
Current portion	(4,330,842)	(1,861,195)
Unamortized discount of commercial paper issued	(<u>2,342</u>)	(<u>5,038</u>)
	<u>\$ 8,590,166</u>	<u>\$ 8,963,937</u>

Unused credit lines available for long-term bank loans as of December 31, 2003 were about \$5,550,000 thousand.

The loans are payable quarterly or semiannually at varying amounts. They will be fully repaid by October 2009. They bear interest rates ranging from 1.00% to 6.70% and from 1.00% to 7.94% for the years ended December 31, 2003 and 2002, respectively.

The long-term secured loans were obtained from bank syndicates. The loan agreements require, among others, the maintenance of certain financial ratios based on annual financial statements. Among those specific ratios, the Corporation has failed to meet liability ratio, current ratio and net tangible assets requirement as of December 31, 2003 and is in the process of negotiation with the banks on release of such non-compliance.

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

13. PENSION PLAN

The Corporation has a defined benefit pension plan for 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 contributes monthly to a pension fund (the "Fund") amounts equal to 2% of salaries and wages paid. The Fund is administered by a pension fund committee (the "Committee") and the contributions to the Fund are deposited in the Central Trust of China under the Committee's name.

Certain pension information is as follows:

	For the Years Ended	
	December 31	
	<u>2003</u>	<u>2002</u>
a. Pension cost		
Service cost	\$ 39,303	\$ 20,851
Interest cost	6,267	3,588
Projected return on plan assets	(4,336)	(4,137)
Amortization	<u>3,838</u>	<u>(456)</u>
	<u>\$ 45,072</u>	<u>\$ 19,846</u>
b. Reconciliation of the fund status of the plan and accrued pension cost:		
	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
Benefit obligations		
Vested benefit obligation	\$ 1,148	\$ 89
Unvested benefit obligation	<u>140,967</u>	<u>105,714</u>
Accumulated benefit obligation	142,115	105,803
Effect of salary increase	<u>73,666</u>	<u>73,685</u>
Projected benefit obligation	215,781	179,488
Fair value of plan assets (including projected interest)	(<u>141,369</u>)	(<u>113,283</u>)
Funded status	74,412	66,205
Unrecognized prior service cost	(50,859)	(54,250)
Unrecognized net transition obligation	(9,394)	(9,919)
Unrecognized net gain	26,298	19,659
Additional liability	<u>-</u>	<u>-</u>
Accrued pension cost	<u>\$ 40,457</u>	<u>\$ 21,695</u>
c. Vested benefit	<u>\$ 1,185</u>	<u>\$ 99</u>
d. Actuarial assumptions:		
Discount rate used in determining present values	3.50%	3.50%
Future salary increase rate	2.50%	3.00%
Expected rate of return on plan assets	3.50%	3.50%

	For the Years Ended	
	December 31	
	<u>2003</u>	<u>2002</u>
e. Contributions to pension fund	<u>\$ 26,310</u>	<u>\$ 19,713</u>
f. Payments of fund	<u>\$ -</u>	<u>\$ -</u>

14. SHAREHOLDERS' EQUITY

Under the ROC Company Law, capital surplus may only be used to offset a deficit or be transferred to capital as a stock dividend. Such transfer as stock dividend is limited to the issue price in excess of the par value of stock issued, and distribution is based on respective equities of shareholders.

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

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

These appropriations and the disposition of the earnings should be approved by the shareholders in the following year and given effect to in the financial statements of that year.

Under the regulations promulgated by the Securities and Futures Commission (SFC), a special reserve equivalent to the debit balance of any account under shareholders' equity section in the balance sheets, other than the deficit and treasury stock, should be made from unappropriated retained earnings. The balance of the special reserve should be adjusted according to 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, of which at least 50% should be in the form of stock.

The ROC Company Law provides that legal reserve should be appropriated until the reserve equals the aggregate par value of the Corporation's issued capital stock. Such reserve may be used to offset a deficit. 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, which took effect on January 1, 1998, resident shareholders (including corporate shareholders) are allowed a tax credit for the income tax paid by the Corporation on earnings generated since 1998. An Imputation Credit Account (ICA) is maintained by the Corporation to monitor the balances of the income tax paid and the tax credit allocated to each shareholder. The maximum credit available for allocation to each shareholder cannot exceed the ICA balance on the dividend distribution date.

As of February 16, 2004, earnings appropriation for 2003 has not been approved by the board of directors. The information associated with such appropriation is available at Market Observation System website.

On May 28, 2001, June 28, 2002 and April 22, 2003, the SFC approved the Corporation's employee stock option plans. Under the plans, 420,000 options are available for distribution, each representing 1,000 common shares, on a total of 420,000 thousand common shares available for issuance. These options generally vest over a period of two years, at a certain percentage each year, from two years after the date of grant. They may be exercised within four years from two years after the date of grant. At the end of 2003, 1,060 employee stock options were requested to be exercised. As of February 16, 2004, the Corporation had granted 359,615 options.

Information with respect to stock option plans is as follows:

	Outstanding Option Rights			Weighted Average of Exercise Price (NT\$)
	Number of Option Rights Available	Number of Option Rights Granted	Range of Exercise Price (NT\$)	
Amount authorized in 2001	150,000	-		
Granted	(145,410)	145,410	\$17.70	\$17.70
Retired	<u>-</u>	(<u>4,258</u>)		
Balance, December 31, 2001	4,590	141,152		
Amount authorized in 2002	150,000	-		
Granted	(152,503)	152,503	\$10.75-\$22.90	\$10.92
Retired	(<u>2,080</u>)	(<u>15,873</u>)		
Balance, December 31, 2002	7	277,782		
Amount authorized in 2003	120,000	-		
Granted	(116,603)	116,603	\$7.95-\$17.70	\$8.13
Retired	(7)	(25,200)		
Exercised	<u>-</u>	(<u>1,060</u>)	\$17.7	\$17.7
Balance, December 31, 2003	<u>3,397</u>	<u>368,125</u>		

15. TREASURY STOCK

(Shares in Thousand)

Purpose of Purchase	Beginning Shares	Increase	Decrease	Ending Shares
<u>Year ended December 31, 2003</u>				
For subsequent transfer to employees	64,135	-	17,521	46,614
Parent's issued shares held by subsidiaries	<u>3,334</u>	<u>-</u>	<u>-</u>	<u>3,334</u>
	<u>67,469</u>	<u>-</u>	<u>17,521</u>	<u>49,948</u>
<u>Year ended December 31, 2002</u>				
For subsequent transfer to employees	45,149	45,377	26,391	64,135
Parent's issued shares held by subsidiaries	<u>3,334</u>	<u>270</u>	<u>270</u>	<u>3,334</u>
	<u>48,483</u>	<u>45,647</u>	<u>26,661</u>	<u>67,469</u>

As of December 31, 2003 and 2002, the Corporation accounted for its issued shares amounting to \$53,820 thousand held by subsidiaries as treasury stock. Both the carrying values and market values are \$53,041 thousand and \$36,541 thousand, respectively.

Under the regulation of the Securities and Future Commission, a corporation should acquire no more than 10% of all its issued shares. The corporation should not pledge treasury shares and should not exercise shareholders' rights on these shares before their transfer. In addition, the aggregate reacquisition cost should not exceed the combined balance of the retained earnings and specific capital surplus. However, the subsidiaries holding the corporation's issued shares retain shareholders' rights and privileges on these shares.

16. INCOME TAX BENEFIT

a. For the years ended December 31, 2003 and 2002, the Corporation did not have current income tax payable.

b. Income tax benefit for the years ended December 31, 2003 and 2002 consisted of:

	<u>2003</u>	<u>2002</u>
Income tax currently payable	\$ -	\$ -
Net change in deferred income tax assets and liabilities		
Loss carryforwards	(999,071)	81,675
Investment tax credits	1,271,582	2,102,955
Temporary differences	(404,146)	29,821
Valuation allowance	388,398	(2,081,625)
Tax on interest income on short-term bills	(602)	(214)
	<u>\$ 256,161</u>	<u>\$ 132,612</u>

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

	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
Current		
Deferred income tax assets		
Investment tax credits	\$ 1,173,943	\$ 589,971
Loss carryforwards	328,823	1,440,230
Unrealized provision for loss on inventories	37,083	111,732
Other	76,275	29,749
Deferred income tax liabilities	(976)	(240)
	1,615,148	2,171,442
Valuation allowance	(1,318,649)	(2,018,070)
	<u>\$ 296,499</u>	<u>\$ 153,372</u>
Noncurrent		
Deferred income tax assets		
Investment tax credits	\$ 5,013,009	\$ 4,325,399
Loss carryforwards	2,168,981	2,056,645
Unrealized foreign exchange loss	173,523	156,780
Other	107,712	78,814
Deferred income tax liabilities		
Depreciation	(1,411,210)	(990,282)
	6,052,015	5,627,356
Valuation allowance	(3,878,547)	(3,567,524)
	<u>\$ 2,173,468</u>	<u>\$ 2,059,832</u>

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

	December 31	
	2003	2002
Shareholders' imputed tax credits	<u>\$ 25,809</u>	<u>\$ 10,090</u>

The expected creditable ratio for 2003 was 33.33%. There was no tax creditable ratio for 2002 because of the Corporation's accumulated deficit.

The imputation credits allocated to the shareholders are based on its balance as of the date of dividend distribution. The expected creditable ratio for 2003 may be adjusted when the distribution of the imputation credits are made.

- e. The unappropriated retaining earnings as of December 31, 2003 and 2002 had no unappropriated earnings generated on and before 1997.
- f. The effective tax rate for deferred income taxes as of December 31, 2003 and 2002 was 25%.
- g. As of December 31, 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	\$ 328,823	\$ 328,823	2004
		1,403,200	1,403,200	2006
		313,401	313,401	2007
		<u>452,380</u>	<u>452,380</u>	2008
		<u>\$2,497,804</u>	<u>\$2,497,804</u>	
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 894,134	\$ 601,111	2004
		186,787	174,363	2005
		2,958,443	2,958,443	2006
		<u>525,160</u>	<u>525,160</u>	2007
		<u>\$4,564,524</u>	<u>\$4,259,077</u>	
Statute for Upgrading Industries	Research and development expenditures	\$ 556,206	\$ 556,206	2004
		518,600	518,600	2005
		477,385	477,385	2006
		<u>336,232</u>	<u>336,232</u>	2007
		<u>\$1,888,423</u>	<u>\$1,888,423</u>	
Statute for Upgrading Industries	Personnel training expenditures	\$ 4,386	\$ 4,386	2004
		4,686	4,686	2005
		2,803	2,803	2006
		<u>3,058</u>	<u>3,058</u>	2007
		<u>\$ 14,933</u>	<u>\$ 14,933</u>	

(Continued)

<u>Regulation</u>	<u>Items</u>	<u>Total Creditable Amounts</u>	<u>Remaining Creditable Amounts</u>	<u>Expiry Year</u>
Statute for Upgrading Industries	Investments in important technology-based enterprises	\$ 12,240	\$ 12,240	2004
		<u>12,279</u>	<u>12,279</u>	2006
		<u>\$ 24,519</u>	<u>\$ 24,519</u>	

h. Income from the following projects is exempt from income tax:

Tax-Exemption Period

1996 Original investment in the first manufacturing plant	2000-2004
1997 Expansion of the first manufacturing plant	2001-2005

i. Income tax returns through 1999 had been examined and cleared by the tax authorities.

17. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	<u>For the Years Ended December 31</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	\$ 1,345,500	\$ 395,379	\$ 1,740,879	\$ 687,863	\$ 485,936	\$ 1,173,799
Labor/health insurance	90,066	21,432	111,498	52,921	30,886	83,807
Pension	35,030	10,042	45,072	11,693	8,153	19,846
Others	83,829	15,231	99,060	52,016	25,103	77,119
Depreciation	8,214,292	134,064	8,348,356	5,003,509	128,512	5,132,021
Amortization	<u>205,826</u>	<u>928,720</u>	<u>1,134,546</u>	<u>98,908</u>	<u>990,597</u>	<u>1,089,505</u>
	<u>\$ 9,974,543</u>	<u>\$ 1,504,868</u>	<u>\$ 11,479,411</u>	<u>\$ 5,906,910</u>	<u>\$ 1,669,187</u>	<u>\$ 7,576,097</u>

18. EARNINGS (LOSS) PER SHARE

The numerators and denominators used in calculating basic and diluted earnings (loss) per share (E/LPS) were as follows:

	<u>Amounts (Numerator)</u>		<u>Share (Denominator) (Thousand)</u>	<u>E/LPS (Dollars)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
<u>Year ended December 31, 2003</u>					
Net income (loss)	(\$ 87,181)	\$ 168,980			
Basic E/LPS					
Income (loss) of common shareholders	(87,181)	168,980	2,880,793	(\$ 0.03)	\$ 0.06
Effect of dilutive securities					
—Convertible bonds	-	-	347,254		
—Stock options	-	-	<u>54,249</u>		
Diluted E/LPS					
Income (loss) of common and potential common shareholders	(\$ 87,181)	\$ 168,980	<u>3,282,296</u>	(\$ 0.03)	\$ 0.05

(Continued)

	<u>Amounts (Numerator)</u>		<u>Share (Denominator) (Thousand)</u>	<u>E/LPS (Dollars)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
<u>Year ended December 31, 2002</u>					
Net loss	(\$ 1,630,939)	(\$ 1,498,327)			
Basic and diluted LPS					
Loss of common shareholders	(\$ 1,630,939)	(\$ 1,498,327)	2,487,718	(\$ 0.66)	(\$ 0.60)

19. RELATED-PARTY TRANSACTIONS

a. Related parties

<u>Related Parties</u>	<u>Relationship</u>
Powertech Technology Inc. (Powertech)	Quantum Vision Corp., subsidiary of the Corporation, is its director
Veutron Corp. (Veutron)	Same chairman
Mitsubishi Electric Corp. (Mitsubishi—Japan) (Note 1)	Director (until April 1, 2003)
Mitsubishi Electric Taiwan Company (Mitsubishi—Taiwan) (Note 1)	Subsidiary of Mitsubishi—Japan (until April 1, 2003)
Power Quotient International Co., Ltd. (Power) (Note 1)	The Corporation is its director (until April 29, 2003)
Novax Technologies, Inc. (Novax) (Note 2)	Equity-accounted investee
Quantum Vision Corp. (Quantum)	A subsidiary
Deutron Electronics Corp. (Deutron)	Equity-accounted investee
eMemory Technology Inc. (eMemory)	Same chairman
Syntronix Corp. (Syntronix)	A subsidiary
MaxEdge Electronics Corp. (MaxEdge)	Equity-accounted investee
Others	Related parties with whom the Corporation has substantial influence but without any material transactions. Please see Note 24.

Note 1: The Company ceased to be the Corporation's related parties as of December 31, 2003; the transactions made as of and for the year ended December 31, 2003 are disclosed only for reference.

Note 2: A new company formed as a result of capital restructuring of Ceon Computers Corp. ("Ceon") and Webstorage Corp. ("Webstorage") in October 2003. The transactions of Ceon and Webstorage were included under Novax. for reference.

b. Related-party transactions:

	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>For the year</u>				
1) Net sales				
Deutron	\$ 5,515,048	24	\$ 682,759	5
Power	1,526,034	7	1,410,598	11
Mitsubishi—Taiwan	612,459	3	1,695,841	13
Novax	131,397	1	154,941	1
eMemory	35,000	-	-	-
MaxEdge	20,042	-	-	-
Others	<u>169</u>	<u>-</u>	<u>1,396</u>	<u>-</u>
	<u>\$ 7,840,149</u>	<u>35</u>	<u>\$ 3,945,535</u>	<u>30</u>
2) Properties				
Mitsubishi—Taiwan	\$ 197,196	1	\$ 631,773	3
Veutron	80,000	1	-	-
Others	<u>-</u>	<u>-</u>	<u>1,475</u>	<u>-</u>
	<u>\$ 277,196</u>	<u>2</u>	<u>\$ 633,248</u>	<u>3</u>
3) Technical know-how and royalty				
Mitsubishi—Japan	\$ 1,274,323	84	\$ 537,791	73
eMemory	<u>35,000</u>	<u>2</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,309,323</u>	<u>86</u>	<u>\$ 537,791</u>	<u>73</u>
4) Manufacturing expenses—subcontract costs, indirect materials, expensed properties, repairs and maintenance, etc.				
Powertech	\$ 803,491	5	\$ 1,564,115	14
Mitsubishi—Japan	15,001	-	21,077	-
Others	<u>1,818</u>	<u>-</u>	<u>7,569</u>	<u>-</u>
	<u>\$ 820,310</u>	<u>5</u>	<u>\$ 1,592,761</u>	<u>14</u>
5) Research and Development expenses				
Syntronix	\$ 24,362	2	\$ 8	-
Mitsubishi—Japan	2,492	-	12,644	1
Others	<u>1,757</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 28,611</u>	<u>2</u>	<u>\$ 12,652</u>	<u>1</u>

(Continued)

	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
6) Interest income				
Powertech	\$ -	-	\$ 26,253	15
Others	<u>11,595</u>	<u>16</u>	<u>3,060</u>	<u>2</u>
	<u>\$ 11,595</u>	<u>16</u>	<u>\$ 29,313</u>	<u>17</u>
7) Other Income				
Powertech	\$ 11,401	23	\$ 13,962	21
Others	<u>173</u>	<u>-</u>	<u>10,678</u>	<u>16</u>
	<u>\$ 11,574</u>	<u>23</u>	<u>\$ 24,640</u>	<u>37</u>
<u>At end of year</u>				
1) Notes and accounts receivable—net				
Deutron	\$ 239,922	9	\$ 200,364	14
Power	87,111	3	22,000	2
Novax	78,577	3	-	-
Mitsubishi—Taiwan	58	-	272,172	19
Others	<u>232</u>	<u>-</u>	<u>126</u>	<u>-</u>
	<u>\$ 405,900</u>	<u>15</u>	<u>\$ 494,662</u>	<u>35</u>
2) Accounts payable				
Powertech	\$ 282,691	8	\$ 106,903	9
Mitsubishi—Taiwan	-	-	21,353	2
Others	<u>-</u>	<u>-</u>	<u>14</u>	<u>-</u>
	<u>\$ 282,691</u>	<u>8</u>	<u>\$ 128,270</u>	<u>11</u>
3) Payable on equipment				
Mitsubishi—Taiwan	<u>\$ -</u>	<u>-</u>	<u>\$ 295,556</u>	<u>2</u>
4) Accrued expenses				
Mitsubishi—Japan	\$ 324,867	26	\$ 82,820	11
Others	<u>1,770</u>	<u>-</u>	<u>477</u>	<u>-</u>
	<u>\$ 326,637</u>	<u>26</u>	<u>\$ 83,297</u>	<u>11</u>

The Corporation also purchased (sold) the following long-term investments from (to) related parties in 2003 and 2002:

1) Stocks

<u>Related Parties</u>	<u>Investee</u>	<u>Shares Purchased (Sold) (in Thousands)</u>	<u>Costs (Proceeds)</u>	<u>Profit (Loss)</u>
<u>2003</u>				
Quantum	Terax Communication Technologies Inc.	(350)	(\$ 7,677)	\$ 2,427
<u>2002</u>				
Veutron	Besteam Technology Inc.	1,500	\$ 57,000	\$ -
Quantum	Powertech	(1,250)	(\$ 19,940)	(\$ 48)

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	\$ 25,000	3.50%
<u>2002</u>				
Veutron	Veutron Bonds	18	\$ 89,100	3.95%
MaxEdge	MaxEdge Bonds	16	80,000	4.48%
MaxEdge	MaxEdgeBonds	12	60,000	4.48%
Veutron	Veutron Bonds	4	<u>20,000</u>	3.50%
			<u>\$ 249,100</u>	

Under several sale agreements, the Corporation should sell DRAM products with the Mitsubishi brand to Mitsubishi—Japan through Mitsubishi—Taiwan within the terms of the agreements.

Under a subcontract corporation agreement, the Corporation performed certain activities with Powertech from October 2000 to September 2002. The Corporation also sold equipment to Powertech. Receivables from these sales are payable in installments and bear an annual interest rate of 7%.

The payment term of the sales made to Deutron was revised in August 2003 which is to be paid on the 45th day after the month of shipment. The payment term of the sales made to Novax is the same as Deutron.

On December 2, 2003, the board of directors approved the acquisition of Veutron's buildings for proposed price of \$160,000 thousand based on independent appraisal reports. As of December 31, 2003, \$80,000 thousand was paid and the Corporation is currently in the process of obtaining Science-Based Industrial Park Administration's (SBIP) approval and transferring ownership registration.

Except for the above transactions, 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 were made at normal commercial prices and terms.

20. PLEDGED OR MORTGAGED ASSETS

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

	December 31	
	2003	2002
Properties—net	\$ 17,417,893	\$ 17,462,761
Pledged time deposits	3,066,014	1,447,008
Accounts receivable	347,782	-
Other assets—land	<u>311,510</u>	<u>311,510</u>
	<u>\$ 21,143,199</u>	<u>\$ 19,221,279</u>

21. COMMITMENTS AND CONTINGENCIES

- a. Under a patent license agreement made with A Company in February 1999, the Corporation should pay royalty for 10 years from January 1, 1998 at an agreed percentage of the selling prices of the licensed products.
- b. Under several license and technology transfer agreements executed or amended with B Company, the Corporation should pay royalties at agreed percentages of the selling prices of certain licensed products from June 1998 to May 2007.
- c. Under a product development and license agreement made with C Company in July 2001, the Corporation shall pay royalty at an agreed percentage of the selling prices 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 should pay B Company, effective January 1, 2003, a certain amount of license fee and royalty at an agreed percentage of the selling prices of any products manufactured and sold using such technology. On April 1, 2003, this agreement was transferred to D 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 on products using DRAM technologies (0.15 μm to 0.09 μm) in their manufacture. Under the agreement, the Corporation should reserve a 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 a certain amount of license fee and royalty at an agreed percentage of the selling prices of the licensed products until May 2008.
- g. In August 2003, the Corporation entered into a license and technology transfer agreement (0.11 μm , 0.10 μm and 0.09 μm DRAM technology) with F Company. Under the agreement, the Corporation should pay F Company, a certain amount of license fee over 5 years after technology transfer and royalties at an agreed percentage of the selling prices of the licensed products.
- h. Under a patent license agreement made with H Company in October 2003, the Corporation shall pay a specific amount of royalty annually for five years from 2003.
- i. Under a product design and license agreement of DDR II products with D Company made in December 2003, the Corporation should pay a certain amount of license fee.

- j. The Corporation has a joint ownership with other parties on a parcel of land accounted for as other asset. This land was used by all owners to secure against their several and individual loans to a bank. One of owners other than the Corporation defaulted his payment obligation, and his portion of ownership was subject to foreclosure sale by the District Court of Hsinchu. An auction was conducted on January 6, 2004 and a subsidiary of the Corporation, Li-Hsin Investment Corporation and two other companies together obtained the bid of the sale. It is believed that the bid price is enough to cover defaulted liabilities, including the principal, interests, default interests incurred, taxes and litigation costs. The Corporation believes that the above settlement of the defaulted liabilities will result no damage to the Corporation's interest in the land.
- k. Unused letters of credit amounted to approximately US\$11,638 thousand and ¥453,857 thousand as of December 31, 2003.
- l. The Corporation has leased two parcels of land from the Science-Based Industrial Park Administration (SBIP) under renewable 20-year agreements from April 1995 and October 1998. The current minimum annual rent is \$56,760 thousand, which is subject to adjustment by SBIP.

22. DERIVATIVE FINANCIAL INSTRUMENTS

- a. Outstanding contracts and credit risk:

- 1) Forward exchange contracts:

			Amounts in Thousands	
			December 31, 2003	
<u>Items</u>			<u>Contract Amount (Nominal Amount)</u>	<u>Credit Risk</u>
			NT\$	
Forward exchange contracts			US\$358,000 (US\$ vs. NT\$)	\$ 4,785
			JPY22,500,000 (JPY vs. US\$)	116,650

- 2) Foreign-currency option contracts

								Amounts in Thousands	
								December 31, 2003	
<u>Type</u>	<u>Buy/Sell</u>	<u>Option</u>	<u>Contract Amount</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>Strike Price</u>	<u>Expiry Date</u>		
European	Sell	Call	US\$ 15,000	(\$ 1,305)	(\$ 2)	120.5 (US\$ vs. JPY)	March 2004		

The Corporation is exposed to credit risk from counter-parties' default on contracts. To minimize this risk, the Corporation transacts only with financial institutions with good credit ratings. Thus, no material losses on the above contracts are anticipated.

- b. Market risk—the Corporation uses derivative financial instruments to hedge the effect of exchange rate fluctuation on its net foreign currency-denominated assets or liabilities. Thus, gain or loss arising from exchange rate fluctuations will be approximately offset by fluctuations on the hedged items. The potential market risk is insignificant.

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

As of December 31, 2003, the Corporation's future cash demand for the outstanding forward exchange contracts was as follows:

<u>Term</u>	Amounts in Thousands	
	Forward Exchange Contracts	
	<u>Inflow</u>	<u>Outflow</u>
Within one year	JPY22,500,000	US\$ 207,218
	US\$ 358,000	NT\$ 12,133,508

The Corporation has sufficient operating capital to meet the above cash demand, and the exchange rate for foreign currency option contracts and forward exchange contracts are fixed. Thus, the fund-raising and cash flow risks are not material.

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

The Corporation enters into derivative transactions solely for hedging purposes. 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 the derivative transactions is to hedge market risks. The Corporation uses hedging instruments with high correlations with the fair values of the hedged items and periodically evaluates the effectiveness of the instruments.

- e. Other information

The realized exchange gain on settled forward exchange contracts and foreign-currency option contracts was \$423,785 thousand in 2003. Such gain is presented under nonoperating income; and a receivable of \$111,101 thousand as of December 31, 2003 generated from forward exchange contracts is presented under current assets.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

	<u>December 31, 2003</u>		<u>December 31, 2002</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
<u>Nonderivative instruments</u>				
Assets				
Cash and cash equivalents	\$ 11,387,416	\$ 11,387,416	\$ 11,978,461	\$ 11,978,461
Notes and accounts receivable	2,820,663	2,820,663	1,404,454	1,404,454
Short-term and long-term investments	4,880,030	5,523,300	4,326,011	4,625,915
Other Receivables	290,794	290,794	464,860	464,860
Pledged time deposits	3,066,014	3,066,014	1,447,008	1,447,008
Refundable deposits	22,075	22,075	21,655	21,655
Liabilities				
Short-term bank borrowings and commercial paper issued	582,500	582,500	249,818	249,818
Accounts payable and payable on equipment	19,386,347	19,386,347	18,020,997	18,020,997
Convertible bonds payable	6,098,541	6,585,251	9,615,460	9,318,402

(Continued)

	<u>December 31, 2003</u>		<u>December 31, 2002</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Obligation under capital lease (including current portion)	\$ 350,233	\$ 350,233	\$ 500,333	\$ 500,333
Long-term bank loans (including current portion)	12,921,008	12,921,008	10,825,132	10,825,132
Guarantee deposits	3,451	3,451	3,492	3,492
<u>Derivative instruments</u>				
Forward exchange contracts	111,101	121,435	300,443	319,379
Foreign-currency option contracts	(1,305)	(2)	987	46,377

The methods and assumptions used 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, other receivables, 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, on 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 borrowings with similar types (similar maturity dates). The fair value of long-term bank loans all bearing floating interest rates is equivalent to their book value. Fair value of convertible bonds payable is based on quoted market prices. The fair value of obligations under capital lease is determined using the present value of forecasted cash flows discounted at interest rates for obtaining the equipments 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 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, for which disclosure is required by the Securities and Futures Commission:

- a. Marketable securities held: 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: Table 2 (attached).
- c. Acquisition of individual real estates at costs of at least NT\$100 million or 20% of the paid-in capital: Table 3 (attached).
- d. Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 4 (attached).
- e. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 5 (attached).

- f. Names, locations, and related information of investees on which the Corporation exercises significant influence: Table 6 (attached).
- g. Derivative financial transactions: Please see Notes 22 and 23.

25. SEGMENT FINANCIAL INFORMATION

- a. Industry: The Corporation is only engaged in the manufacture and sale of semi-conductor products.
- b. Geographic information: The Corporation operates only in the Republic of China.
- c. Export sales: The export sales in 2003 was \$2,945,624 thousand.
- d. Customers accounting for more than 10% of net sales:

<u>Customer</u>	<u>For the Years Ended December 31</u>			
	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
A	\$ 5,515,048	24	\$ 682,759	5
B	3,062,194	13	1,953,691	15
C	2,892,276	13	1,175,604	9
D	1,645,876	7	1,313,661	10
E	1,526,034	7	1,410,598	11
F	1,265,915	6	1,685,789	13
G	612,459	3	1,695,841	13

TABLE 1

POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

MARKETABLE SECURITIES HELD

DECEMBER 31, 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	December 31, 2003				Note
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Powerchip Semiconductor Corporation	Stock							
	Quantum Vision Corp.	Subsidiary	Long-term investments	99,990	\$ 1,033,808	99.99	\$ 1,044,851	-
	Li-Hsin Investment Corp.	Subsidiary	Long-term investments	78,850	444,357	99.81	495,995	-
	Paramax Corp.	Subsidiary	Long-term investments	29,994	262,325	99.98	262,325	-
	MaxEdge Electronics Corp.	Investee	Long-term investments	14,259	115,242	13.18	112,940	-
	Maxium Technologies, Inc.	Investee	Long-term investments	9,111	96,438	30.37	95,145	-
	Novax Technologies, Inc.	Investee	Long-term investments	6,050	74,458	12.10	74,191	-
	Telmax Technologies Corp.	Investee	Long-term investments	9,000	72,765	20.45	71,501	-
	Syntronix Corp.	Subsidiary	Long-term investments	10,200	68,511	51.00	72,952	-
	Deutron Electronics Corp.	Investee	Long-term investments	2,100	49,717	10.50	53,242	-
	Zentel Electronics Corp.	Subsidiary	Long-term investments	4,700	44,574	47.00	44,517	-
	Luxxon Technology Corp.	Investee	Long-term investments	4,000	38,277	20.00	38,277	-
	Synage Technology Corp.	Investee	Long-term investments	1,000	10,959	10.00	11,087	-
	Optimax Technology Corp.	Corporation is its director	Long-term investments	5,110	117,132	2.07	510,577	-
	Powertech Technology Inc.	Quantum Vision is its director	Long-term investments	5,975	85,784	2.29	326,594	-
	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	68,361	Note 3
	Universal Venture Fund, Inc.	Same chairman	Long-term investments	8,000	88,000	4.76	67,525	Note 3
	Ardentec Corp.	-	Long-term investments	5,608	60,580	2.45	63,590	Note 3
	Power Memory International Co., Ltd.	Corporation is its director	Long-term investments	2,600	58,500	6.57	59,067	Note 3
	eMemory Technology Inc.	Same chairman	Long-term investments	3,852	40,444	8.37	25,851	Note 3
	Cascade Semiconductor Corp.	-	Long-term investments	2,333	36,455	16.15	36,455	Note 2
	Great Taipei Broadband Co., Ltd.	Corporation is its director	Long-term investments	2,500	25,000	1.67	23,446	Note 3
	TwinMOS Technologies Inc.	-	Long-term investments	2,757	23,109	1.34	25,125	Note 3
	A-Data Technology Inc.	-	Long-term investments	300	22,000	0.66	22,000	Note 2
	Emerging Memory & Logic Solution Incorporation	-	Long-term investments	279	18,924	1.40	18,924	Note 2
	CDIB High Tech Investment Inc.	Corporation is its director	Long-term investments	1,800	18,000	2.11	18,509	Note 3
	Venglobal Capital Fund L.P.	-	Long-term investments	-	16,590	5.18	16,590	Note 2
	Area East Technology Corp.	Corporation is its director	Long-term investments	1,300	13,000	19.97	13,897	Note 3
	Advanced Chip Engineering Technology Inc.	-	Long-term investments	3,334	11,709	2.78	9,582	Note 3
	Venglobal International Fund	-	Long-term investments	1	11,217	2.83	11,217	Note 2
	Actrans System Inc.	-	Long-term investments	1,000	10,000	2.35	6,039	Note 3
	Terax Communication Technologies Inc.	Same chairman	Long-term investments	600	9,000	1.94	4,348	Note 3
	Lightsonic Optoelectronics Inc.	Same chairman	Long-term investments	700	8,050	1.16	8,050	Note 2
	E-Tech, Inc.	Corporation is its director	Long-term investments	349	3,145	2.26	3,145	Note 2
	Dramexchange Technology Inc.	-	Long-term investments	330	3,089	4.03	3,421	Note 3
	Phitech Corp.	-	Long-term investments	305	2,660	1.27	2,125	Note 3

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2003				Note
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Jade Pacific Corp.	-	Long-term investments	250	\$ 1,313	1.35	\$ 1,313	Note 2
	Billions of Operations Per Second, Inc. Series A—preferred shares	-	Long-term investments	833	-	1.41	-	Note 2
	Billions of Operations Per Second, Inc. Series D—preferred shares	-	Long-term investments	658	-	1.12	-	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	89,600	-	89,600	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>							
	China Development Financial Holding Corp.	-	Short-term investments	10,000	161,114	-	157,400	-
	Power Quotient International Co., Ltd.	-	Short-term investments	3,527	92,848	-	143,851	-
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	1,561	31,104	-	34,295	-
	AU Optronics Corp.	-	Short-term investments	250	9,888	-	10,140	-
	Chi Mei Optoelectronics Corp.	-	Short-term investments	250	9,647	-	9,218	-
	NewSoft Technology Corp.	Same chairman	Short-term investments	180	3,768	-	2,470	-
	Broadcom Corp.	-	Short-term investments	3	3,012	-	4,014	-
	<u>Equity</u>							
	Credit Linked Notes issued by Yuanta Asset Management Limited, with unfixed interest income	-	Short-term investments	-	1,043,677	-	1,007,444	Note 1
	United New Century Fund	-	Short-term investments	1,000	10,000	-	4,630	Note 1
	Fuhwa Classical Fund	-	Short-term investment	500	5,012	-	5,030	Note 1
	Bonds purchased under resale agreements issued by Yuanta Asset Management Limited	-	Short-term investments	-	15,905	-	15,974	Note 4
Li-Hsin	<u>Stock</u>							
	MaxEdge Electronics Corp.	Investee	Long-term investments	16,188	130,640	14.97	128,261	-
	Telmax Technologies Corp.	Investee	Long-term investments	10,000	79,283	22.73	79,446	-
	Novax Technologies, Inc.	Investee	Long-term investments	2,291	25,156	4.58	28,092	-
	Optimax Technology Corp.	Corporation is its director	Long-term investments	300	8,847	0.12	29,563	-
	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
	Gatetech Technology Inc.	-	Long-term investments	165	5,784	0.32	5,784	Note 2
	Explore Technology Electronics Inc.	-	Long-term investments	500	1,042	4.17	1,042	Note 2
	Synage Technology Corp.	Investee	Long-term investments	600	6,652	6.00	6,652	-
	Maxium Technologies, Inc.	Investee	Long-term investments	138	1,388	0.46	1,441	-
	Aero Vision Avionics, Inc.	Same chairman	Long-term investments	1,000	8,000	1.85	8,000	Note 2
	Getsilicon.net Inc.	-	Long-term investments	400	3,071	2.20	3,071	Note 2

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2003				Note
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Quantum Vision	<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	-	53,041	-
	NewSoft Technology Corp.	Same chairman	Short-term investments	1,126	28,519	-	15,438	-
	AU Optronics Corp.	-	Short-term investments	100	3,955	-	4,056	-
	Chi Mei Optoelectronics Corp.	-	Short-term investments	100	3,865	-	3,687	-
	<u>Equity</u>							
	Sheng Hua 5599 Bond Fund	-	Short-term investments	560	6,000	-	6,012	-
	<u>Stock</u>							
	MaxEdge Electronics Corp.	Investee	Long-term investments	11,185	90,121	10.34	88,604	-
	Maxium Technologies, Inc.	Investee	Long-term investments	2,756	29,183	9.18	28,759	-
	Optimax Technology Corp.	Corporation is its director	Long-term investments	747	18,402	0.30	74,648	-
	AVAC Systems Inc.	-	Long-term investments	462	5,159	3.85	5,159	Note 2
	Besteam Technology Inc.	-	Long-term investments	1,959	47,630	5.43	47,630	Note 2
	Powertech Technology Inc.	Quantum Vision is its director	Long-term investments	2,293	25,577	0.88	125,332	-
	Powervision Technologies, Inc.	Same chairman	Long-term investments	520	5,200	11.87	5,200	Note 2
	Terax Communication Technologies Inc.	Same chairman	Long-term investments	2,757	40,755	8.89	40,755	Note 2
	Aero Vision Avionics, Inc.	Same chairman	Long-term investments	1,500	12,750	2.78	12,750	Note 2
	Syntronix Corp.	Investee	Long-term investments	500	3,914	2.50	4,110	-
	Actrans System Inc.	-	Long-term investments	600	6,000	1.41	6,000	Note 2
	Zentel Electronics Corp.	Investee	Long-term investments	1,100	10,419	11.00	10,424	-
	Billions of Operations Per Second, Inc.	-	Long-term investments	200	17,237	0.33	17,237	Note 2
	eMemory Technology Inc.	Same chairman	Long-term investments	1,280	26,085	2.78	26,085	Note 2
	Deutron Electronics Corp.	Investee	Long-term investments	2,200	55,363	11.00	55,778	-
	Great Taipei Broadband Co., Ltd.	Corporation is its director	Long-term investments	1,500	14,700	1.00	14,700	Note 2
	Synage Technology Corp.	Investee	Long-term investments	2,000	22,173	20.00	22,173	-
	Universal Venture Fund, Inc.	Same chairman	Long-term investments	6,550	59,790	3.90	59,790	Note 2
	A-Data Technology Corp.	-	Long-term investments	100	7,334	0.22	7,334	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	0.56	6,892	Note 2
	Novax Technologies, Inc.	Investee	Long-term investments	6,450	82,514	12.90	79,096	-
	Luxxon Technology Corp.	Investee	Long-term investments	1,800	17,225	9.00	17,225	-
	Impact Technology Co., Ltd.	-	Long-term investments	600	9,600	2.78	9,600	Note 2
	SAMHOP Electronics Corp.	-	Long-term investments	200	2,700	0.53	2,700	Note 2
Cascade Semiconductor Corp.	-	Long-term investments	667	10,371	3.91	10,371	Note 2	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2003				Note
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Nobex Corp.	-	Long-term investments	50	\$ 3,444	-	\$ 3,444	Note 2
	MAXXAN Corp.	-	Long-term investments	403	8,451	-	8,451	Note 2
	<u>Bonds</u>							
	Veutron Corp.—issued in 2002 (I)	Same chairman	Long-term investments	4	19,911	-	19,911	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	-	20,365	-
	NewSoft Technology Corp.	Same chairman	Short-term investments	473	7,172	-	6,487	-
	Yageo Technology Corp.	-	Short-term investments	140	2,410	-	2,094	-
	AU Optronics Corp.	-	Short-term investments	100	3,964	-	4,056	-
	Chi Mei Optoelectronics Corp.	-	Short-term investments	100	3,864	-	3,687	-
	China Development Financial Holding Corp.	-	Short-term investments	4,000	64,069	-	62,956	-
	<u>Equity</u>							
	Capital Cash Reserves Fund	-	Short-term investments	3,147	34,500	-	35,248	Note 1
	KGI Victory Fund	-	Short-term investments	1,469	15,119	-	15,180	Note 1
Paramax	<u>Stock</u>							
	MaxEdge Electronics Corp.	Investee	Long-term investments	4,820	38,737	4.45	38,132	-
	Maxium Technologies Inc.	Investee	Long-term investments	311	2,688	1.04	3,258	-
	Optimax Technology Corp.	Corporation is its director	Long-term investments	200	4,689	0.08	19,709	-
	Besteam Technology Inc.	-	Long-term investments	151	4,625	0.42	4,625	Note 2
	Powervision Technologies, Inc.	Corporation and investee have same chairman	Long-term investments	120	1,200	2.74	1,200	Note 2
	Aero Vision Avionics, Inc.	Corporation and investee have same chairman	Long-term investments	1,290	10,695	2.39	10,695	Note 2
	Terax Communication Technologies Inc.	Corporation and investee have same chairman	Long-term investments	400	4,200	1.29	4,200	Note 2
	Synage Technology Corp.	Investee	Long-term investments	600	6,652	6.00	6,652	-
	Universal Venture Fund, Inc.	Corporation and investee have same chairman	Long-term investments	2,950	27,140	1.76	27,140	Note 2
	Novax Technologies, Inc.	Investee	Long-term investments	1,997	26,157	3.99	24,464	-
	Telmax Technologies Corp.	-	Long-term investments	600	5,666	1.36	4,754	-
	Luxxon Technology Corp.	Investee	Long-term investments	600	5,742	3.00	5,742	-
	Impact Technology Co., Ltd.	-	Long-term investments	400	6,400	1.85	6,400	Note 2
	Elitegroup Computer System	-	Long-term investments	-	6,975	-	6,975	Note 2
	Cascade Semiconductor Corp.	-	Long-term investments	111	1,740	0.65	1,740	Note 2

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2003				Note
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Syntronix	<u>Bonds</u> Veutron Corp.—issued in 2002 (II)	Corporation and investee have same chairman	Long-term investments	2	\$ 10,000	-	\$ 10,000	Note 2
	Veutron Corp.—issued in 2003 (I)	Corporation and investee have same chairman	Long-term investments	2	10,000	-	10,000	Note 2
	MaxEdge Electronics Corp.—issued in 2002 (II)	Investee	Long-term investments	1	5,000	-	5,000	Note 2
	Veutron Corp.—issued in 2003 (II)	Corporation and investee have same chairman	Long-term investments	7	14,000	-	14,000	Note 2
	<u>Stock</u> Shinkong Financial Holding Co., Ltd.	-	Short-term investments	293	5,824	-	6,437	-
	AU Optronics Corp.	-	Short-term investments	100	3,954	-	4,056	-
	Chi Mei Optoelectronics Corp.	-	Short-term investments	100	3,859	-	3,687	-
	<u>Equity</u> Sheng Hua 5599 Bond Fund	-	Short-term investments	760	9,000	-	9,039	-
	<u>Stock</u> Powervision Technologies, Inc.	Syntronix is its director	Long-term investments	140	1,400	3.20	1,400	Note 2
	Deutron Electronics Corp.	Investee	Long-term investments	300	3,349	1.50	3,349	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
	Zentel Electronics Corp.	Investee	Long-term investments	400	4,000	4.00	4,000	Note 2
	<u>Bonds</u> Veutron Corp.—issued in 2002(I)	Same chairman	Long-term investments	2	9,954	-	9,954	Note 2
	<u>Stock</u> Shinkong Financial Holding Co., Ltd.	-	Short-term investments	1	8	-	9	-
	<u>Equity</u> Capital Safe Income Bond Fund	-	Short-term investments	1,051	14,144	-	14,880	Note 1
	Sheng Hua 5599 Bond Fund	-	Short-term investments	2,096	21,872	-	22,515	Note 1
Capital Cash Reserves Fund	-	Short-term investments	1,564	17,000	-	17,515	Note 1	
Zentel	<u>Stock</u> Zentel Japan Corp.	Subsidiary	Long-term investments	1,898	21,185	99.89	21,185	-
	<u>Equity</u> PCA Wellpool Fund	-	Short-term investments	295	3,500	-	3,553	Note 1

Note 1: The market value is based on net asset value of the fund as of December 31, 2003.

Note 2: The market values are based on carrying value as of December 31, 2003.

Note 3: The net asset value is based on unaudited financial data as of December 31, 2003.

Note 4: The market value is based on the contracted resale price.

Note 5: The above marketable securities had not been pledged or mortgaged as of December 31, 2003.

Note 6: Under the Securities and Exchange Law of the Republic of China, the bond investments were acquired through private market transactions with certain restrictions on the transferability of the bonds.

Note 7: Prepayments of Long-term investments of Li-Hsin, Quantum Vision and the Corporation are excluded.

Note 8: In thousands, except for bond investments which are 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 YEAR ENDED DECEMBER 31, 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 (Thousands)	Amount	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
Powerchip Semiconductor Corporation	<u>Stock</u>													
	Powertech Technologies Inc.	Long-term investments	-	-	23,902	\$ 360,301	299	\$ -	18,226	\$ 368,330	\$ 274,517	\$ 93,813	5,975	\$ 85,784
	Quantum Vision Corp.	Long-term investments	-	Subsidiary	79,990	761,058	20,000	200,000	-	-	-	-	99,990	1,033,808
	Li- Hsin Investment Corp.	Long-term investments	-	Subsidiary	68,850	381,713	10,000	100,000	-	-	-	-	78,850	444,357
	Paramax Corp.	Long-term investments	-	Subsidiary	14,994	127,598	15,000	150,000	-	-	-	-	29,994	262,325
	Power Quotient International Co., Ltd.	Short-term investments (Note 2)	-	-	8,087	255,413	705	-	5,265	177,705	162,565	15,140	3,527	92,848
	China Development Financial Holding Corp.	Short-term investments	-	-	-	-	10,000	161,114	-	-	-	-	10,000	161,114
	<u>Equity</u>													
	Credit Linked Notes issued by Yuanta Asset Management Limited, with unfixed interest income	Short-term investments	-	-	-	-	-	1,388,637	-	345,743	344,960	783	-	1,043,677
Global Bond Fund	Short-term investments	-	-	226	173,999	-	-	226	187,714	173,999	13,715	-	-	
Credit Linked Notes Issued by Barclays Bank	Short-term investments	-	-	-	522,900	-	-	-	522,900	522,900	-	-	-	
Quantum Vision	<u>Stock</u>													
Optimax Technology Corp.	Long-term investments	-	-	2,863	80,401	105	-	2,221	112,596	61,999	50,597	747	18,402	

Note 1: The ending balance included the recognition of the investment income (loss) by the equity method and the adjustment for changes in investees' equities.

Note 2: Reclassified from long-term investments to short-term investments in May 2003.

TABLE 3**POWERCHIP SEMICONDUCTOR CORPORATION****ACQUISITION OF INDIVIDUAL REAL ESTATES AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2003****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

Company Name	Property	Transaction Date	Transaction Amount	Payment Status	Counter-party	Nature of Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date	Amount			
Powerchip Semiconductor Corporation	Prepayments of Building	December 2, 2003	\$160,000	\$80,000 paid	Veutron Corp.	-	-	-	-	\$ -	Appraisal report	Development & Design Center	None

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 YEAR ENDED DECEMBER 31, 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	
Powerchip Semiconductor Corporation	Deutron Electronics Corp. Mitsubishi—Taiwan (Note 1)	Investee	Sales	\$ 5,515,048	24	Note 6	-	-	\$ 239,922	9	-
		Subsidiary of Mitsubishi—Japan (until April 1, 2003)	Sales	612,459	3	Note 4	Note 8	Note 8	58	-	-
	Power Quotient International Co., Ltd. (Note 1)	The Corporation is its director (until April 29, 2003)	Sales	1,526,034	7	Note 5	-	-	87,111	3	-
	Novax Technologies, Inc. (Note 2) Powertech Technology Inc.	Investee Quantum Vision is its director	Sales Note 3	131,397 803,491	1 5	Note 6 Note 7	- Note 8	- Note 8	78,577 (282,691)	3 (8)	-

Note 1: The companies ceased to be the Corporation's related party as of December 31, 2003; the transactions made as of and for the year ended December 31, 2003 are disclosed only for reference.

Note 2: Novax was formed as a result of capital restructuring of Ceon and Webstorage in October 2003. The transactions of Ceon and Webstorage were included under Novax.

Note 3: Subcontract fees.

Note 4: Mainly paid on the 20th of the following month for shipments made by the 15th or on the 5th of second month for shipments made after the 15th.

Note 5: Mainly paid on the 14th day after shipment.

Note 6: Mainly paid on the 45th day after the month of the shipment is made.

Note 7: Mainly paid on the 60th day after the month of the shipment is made.

Note 8: Based on contract terms.

POWERCHIP SEMICONDUCTOR CORPORATION

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 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		
Powerchip Semiconductor Corporation	Deutron Electronics Corp.	Investee	\$239,922	25.05	\$ -	-	\$242,347	\$2,425

POWERCHIP SEMICONDUCTOR CORPORATION

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 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 December 31, 2003			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				Dec. 31, 2003	Dec. 31, 2002	Shares (Thousands)	Percentage of Ownership	Carrying Value			
Powerchip Semiconductor Corporation	Quantum Vision Corp.	Taipei, Taiwan	Investment	\$ 999,900	\$ 799,900	99,990	99.99%	\$ 1,033,808	\$ 73,882	\$ 62,804	-
	Li-Hsin Investment Corp.	Taipei, Taiwan	Investment	788,500	688,500	78,850	99.81%	444,357	(30,278)	(39,183)	-
	Paramax Corp.	Taipei, Taiwan	Investment	299,940	149,940	29,994	99.98%	262,325	(16,707)	(16,703)	-
	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	406,844	394,868	14,259	13.18%	115,242	(205,632)	(27,363)	-
	Maxium Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	91,111	71,000	9,111	30.37%	96,438	14,647	5,314	-
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	70,389	-	6,050	12.10%	74,458	35,271	3,716	Note
	Telmax Technologies Corp.	Taipei, Taiwan	Electronic components manufacturing	90,000	90,000	9,000	20.45%	72,765	(13,369)	(3,340)	-
	Syntronix Corp.	Hsin-Chu, Taiwan	Design of electronic related products	102,000	102,000	10,200	51.00%	68,511	(31,601)	(20,558)	-
	Deutron Electronics Corp.	Taipei, Taiwan	Electronic components manufacturing	21,300	21,300	2,100	10.50%	49,717	295,054	28,098	-
	Zentel electronics Corp.	Taipei, Taiwan	Design of electronic related products	47,000	-	4,700	47.00%	44,574	(6,044)	(2,800)	-
	Luxxon Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	40,000	-	4,000	20.00%	38,277	(8,616)	(1,944)	-
	Synage Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	10,000	-	1,000	10.00%	10,959	10,865	959	-
	Ceon Computers Corp.	Taipei, Taiwan	Electronic component manufacturing	-	57,000	-	-	-	(19,015)	(5,233)	Note
Webstorage Corp.	Taipei, Taiwan	Wholesale of Softwares	-	117,915	-	-	-	(77,234)	(7,443)	Note	

Note: Novax was formed as a result of capital restructuring of Ceon Computers Corp. and Webstorage Corp. in October 2003.