

Powerchip Semiconductor Corporation

**Financial Statements for the Six Months Ended
June 30, 2004 and 2003**

Together with Independent Auditors' Report

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

English Translation of a Report Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

July 23, 2004

The Board of Directors and Shareholders
Powerchip Semiconductor Corporation

We have audited the accompanying balance sheets of Powerchip Semiconductor Corporation as of June 30, 2004 and 2003, and the related statements of income, changes in shareholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with 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 provide a reasonable basis for our opinion.

As mentioned in Note 6 to the financial statements, the carrying values of the entire investments accounted for under the equity method of NT\$2,973,670 thousand and NT\$1,826,332 thousand and the related investment income and loss of NT\$75,980 thousand and NT\$42,054 thousand as of and for the six months ended June 30, 2004 and 2003, respectively, were based on the investees' unaudited financial statements in the same period.

In our opinion, except for any adjustments of the June 30, 2004 and 2003 financial statements that might have been made had we audited the investees' financial statements mentioned in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Powerchip Semiconductor Corporation as of June 30, 2004 and 2003 and the results of its operations and its cash flows for the six months then ended, in conformity with the guidelines governing the preparation of financial statements 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

JUNE 30, 2004 AND 2003

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

ASSETS	2004		2003	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 3)	\$ 28,882,493	27	\$ 7,265,058	12
Short-term investments—net (Notes 2 and 4)	1,582,834	2	1,523,171	2
Notes and accounts receivable (Notes 2, 20 and 21)				
Related parties—net of allowance for doubtful accounts of \$12,347 thousand in 2004 and \$3,399 thousand in 2003	1,302,089	1	428,245	1
Third parties—net of allowance for doubtful accounts of \$114,891 thousand in 2004 and \$118,564 thousand in 2003	3,949,304	4	1,653,639	2
Other receivables (Note 23)	187,160	-	148,245	-
Inventories—net (Notes 2 and 5)	3,897,738	4	3,490,955	6
Prepaid expenses	102,393	-	90,208	-
Deferred income tax assets—current (Notes 2 and 17)	288,779	-	-	-
Pledged time deposits (Note 21)	2,534,477	2	364,757	1
Other current assets (Note 2)	14,166	-	5,424	-
Total current assets	<u>42,741,433</u>	<u>40</u>	<u>14,969,702</u>	<u>24</u>
LONG-TERM INVESTMENTS (Notes 2, 6 and 20)				
Equity method	2,973,670	3	1,826,332	3
Cost method	1,060,272	1	996,133	2
Prepayments	35,409	-	-	-
Bonds	274,750	-	274,450	-
Total long-term investments	<u>4,344,101</u>	<u>4</u>	<u>3,096,915</u>	<u>5</u>
PROPERTIES (Notes 2, 7, 20 and 21)				
Cost				
Buildings	6,424,508	6	6,341,512	10
Machinery and equipment	69,326,308	65	49,798,661	79
Research and development equipment	307,751	-	85,262	-
Facility equipment	11,184,234	11	9,929,894	16
Transportation equipment	18,334	-	18,378	-
Office equipment	285,081	-	250,753	-
Equipment under capital lease	761,708	1	761,708	1
Miscellaneous equipment	424,393	-	388,092	1
Accumulated depreciation	(37,576,330)	(35)	(28,304,425)	(45)
Construction in progress	122,509	-	244,172	-
Advance payments	4,279,019	4	351,553	1
Net properties	<u>55,557,515</u>	<u>52</u>	<u>39,865,560</u>	<u>63</u>
OTHER ASSETS				
Refundable deposits	22,824	-	21,794	-
Deferred charges—net (Notes 2, 8 and 20)	2,243,123	2	2,260,260	4
Deferred income tax assets—noncurrent (Notes 2 and 17)	1,394,603	1	2,486,487	4
Land (Note 21)	311,510	-	311,510	-
Spare parts—net	362,459	1	245,312	-
Others	7,826	-	5,847	-
Total other assets	<u>4,342,345</u>	<u>4</u>	<u>5,331,210</u>	<u>8</u>
TOTAL ASSETS	<u>\$ 106,985,394</u>	<u>100</u>	<u>\$ 63,263,387</u>	<u>100</u>

LIABILITIES AND SHAREHOLDERS' EQUITY	2004		2003	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term bank borrowings (Note 9)	\$ -	-	\$ 2,469,401	4
Commercial paper issued (Note 10)	-	-	299,714	-
Accounts payable (Note 20)				
Related parties	385,223	-	140,578	-
Third parties	3,604,181	4	1,555,151	3
Accrued expenses (Note 20)	1,208,638	1	1,039,189	2
Payable on equipment (Note 20)				
Related parties	473	-	-	-
Third parties	18,132,521	17	7,726,020	12
Convertible bonds payable (Notes 2 and 11)	1,596,780	2	7,640,772	12
Current portion of long-term bank loans (Notes 12 and 21)	4,458,229	4	3,754,603	6
Current portion of long-term obligation under capital lease (Notes 2 and 7)	172,670	-	195,300	-
Current portion of long-term payable on equipment (Note 7)	1,052,882	1	982,146	2
Other current liabilities	26,548	-	46,178	-
Total current liabilities	<u>30,638,145</u>	<u>29</u>	<u>25,849,052</u>	<u>41</u>
LONG-TERM LIABILITIES				
Convertible bonds payable (Notes 2 and 11)	5,066,250	5	-	-
Long-term bank loans—net of current portion (Notes 12 and 21)	9,841,344	9	10,539,394	17
Long-term payable on equipment—net of current portion (Note 7)	-	-	982,146	2
Long-term obligation under capital lease—net of current portion (Notes 2 and 7)	82,500	-	255,000	-
Total long-term liabilities	<u>14,990,094</u>	<u>14</u>	<u>11,776,540</u>	<u>19</u>
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 13)	45,445	-	29,640	-
Guarantee deposits	3,854	-	3,734	-
Total other liabilities	<u>49,299</u>	<u>-</u>	<u>33,374</u>	<u>-</u>
Total liabilities	<u>45,677,538</u>	<u>43</u>	<u>37,658,966</u>	<u>60</u>
SHAREHOLDERS' EQUITY (Notes 14 and 15)				
Capital stock—\$10 par value				
Authorized—4,329,571 thousand shares in 2004 and 3,779,358 thousand shares in 2003				
Issued—4,090,513 thousand shares in 2004 and 2,679,571 thousand shares in 2003	40,905,134	38	26,795,710	42
Capital surplus (Notes 2 and 14)				
Paid-in capital in excess of par value	9,603,638	9	2,785,338	4
Arising from long-term investments	11,041	-	1,800	-
Arising from treasury stock	20,058	-	-	-
Arising from conversion of bonds	3,075,664	3	279,068	1
Appropriation for legal reserve	1,308	-	-	-
Unappropriated earnings (deficit)	8,597,300	8	(2,898,479)	(5)
Cumulative translation adjustments (Note 2)	874	-	402	-
Treasury stock (Notes 2 and 16)	(907,161)	(1)	(1,359,418)	(2)
Total shareholders' equity	<u>61,307,856</u>	<u>57</u>	<u>25,604,421</u>	<u>40</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 106,985,394</u>	<u>100</u>	<u>\$ 63,263,387</u>	<u>100</u>

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

(With Deloitte & Touche report dated July 23, 2004)

English Translation of Financial Statements Originally Issued in Chinese

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003

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

	2004		2003	
	Amount	%	Amount	%
GROSS SALES	\$25,172,132		\$ 7,094,708	
SALES RETURNS AND ALLOWANCES	<u>326,082</u>		<u>25,931</u>	
NET SALES (Notes 2 and 20)	24,846,050	100	7,068,777	100
COST OF SALES (Notes 18 and 20)	<u>14,382,063</u>	<u>58</u>	<u>8,611,383</u>	<u>122</u>
GROSS PROFIT (LOSS)	<u>10,463,987</u>	<u>42</u>	(<u>1,542,606</u>)	(<u>22</u>)
OPERATING EXPENSES (Notes 18 and 20)				
Selling	124,516	-	105,857	1
General and administrative	458,571	2	339,755	5
Research and development	<u>447,077</u>	<u>2</u>	<u>632,667</u>	<u>9</u>
Total operating expenses	<u>1,030,164</u>	<u>4</u>	<u>1,078,279</u>	<u>15</u>
OPERATING INCOME (LOSS)	<u>9,433,823</u>	<u>38</u>	(<u>2,620,885</u>)	(<u>37</u>)
NONOPERATING INCOME AND GAIN				
Gain on sales of investments—net	293,946	1	204	-
Foreign exchange gain—net (Notes 2 and 23)	124,893	1	58,986	1
Investment income recognized by equity method—net (Notes 2 and 6)	75,980	-	-	-
Interest (Notes 2 and 23)	37,561	-	39,577	1
Gain on disposal of properties (Note 2)	3,179	-	-	-
Reversal of allowance for decline in value of short-term investments (Note 2)	-	-	93,150	1
Other	<u>26,198</u>	<u>-</u>	<u>20,726</u>	<u>-</u>
Total nonoperating income and gain	<u>561,757</u>	<u>2</u>	<u>212,643</u>	<u>3</u>
NONOPERATING EXPENSES AND LOSSES				
Interest (Notes 2 and 7)	259,768	1	337,349	5
Provision for decline in value of short-term investments (Note 2)	242,884	1	-	-
Loss on disposal of properties (Note 2)	47,252	-	3,238	-
Provision for losses on inventories and spare parts (Note 2)	23,671	-	254,832	4
Impairment loss on long-term investments (Note 2)	7,357	-	-	-

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	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Issuance costs of the early redeemed convertible bonds (Note 2)	\$ 305	-	\$ 67,099	1
Investment loss recognized by equity method—net (Notes 2 and 6)	-	-	42,054	-
Other	<u>38,753</u>	<u>-</u>	<u>58,678</u>	<u>1</u>
Total nonoperating expenses and losses	<u>619,990</u>	<u>2</u>	<u>763,250</u>	<u>11</u>
INCOME (LOSS) BEFORE INCOME TAX	9,375,590	38	(3,171,492)	(45)
INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 17)	(<u>787,799</u>)	(<u>3</u>)	<u>273,013</u>	<u>4</u>
NET INCOME (LOSS)	<u>\$ 8,587,791</u>	<u>35</u>	(<u>\$ 2,898,479</u>)	(<u>41</u>)

	<u>2004</u>		<u>2003</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>	<u>Before Income Tax</u>	<u>After Income Tax</u>
EARNINGS (LOSS) PER SHARE (Note 19)				
Basic earnings (loss) per share	<u>\$ 2.66</u>	<u>\$ 2.43</u>	(<u>\$ 1.21</u>)	(<u>\$ 1.11</u>)
Diluted earnings (loss) per share	<u>\$ 2.38</u>	<u>\$ 2.18</u>	(<u>\$ 1.21</u>)	(<u>\$ 1.11</u>)

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

	<u>2004</u>	<u>2003</u>
NET INCOME (LOSS)	<u>\$ 8,621,376</u>	(<u>\$ 2,884,041</u>)

	<u>2004</u>		<u>2003</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>	<u>Before Income Tax</u>	<u>After Income Tax</u>
EARNINGS (LOSS) PER SHARE				
Basic earnings (loss) per share	<u>\$ 2.66</u>	<u>\$ 2.44</u>	(<u>\$ 1.21</u>)	(<u>\$ 1.10</u>)
Diluted earnings (loss) per share	<u>\$ 2.38</u>	<u>\$ 2.18</u>	(<u>\$ 1.21</u>)	(<u>\$ 1.10</u>)

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

(With Deloitte & Touche report dated July 23, 2004)

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English Translation of Financial Statements Originally Issued in Chinese

POWERCHIP SEMICONDUCTOR CORPORATION

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003**

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

	<u>Capital Stock Issued</u>		<u>Capital Surplus (Notes 2 and 14)</u>				<u>Retained Earnings (Deficit)</u>			<u>Cumulative Translation Adjustments (Note 2)</u>	<u>Treasury Stock (Notes 2 and 16)</u>	<u>Total Shareholders' Equity (Note 14)</u>	
	<u>Shares (thousands)</u>	<u>Amount</u>	<u>Paid-in capital in excess of par value</u>	<u>From long-term investments</u>	<u>From treasury stock</u>	<u>From conversion of bonds</u>	<u>Total</u>	<u>Legal reserve</u>	<u>Unappropriated earnings (deficit)</u>				<u>Total</u>
BALANCE, JANUARY 1, 2003	3,387,637	\$ 33,876,372	\$ 3,695,090	\$ 14,519	\$ -	\$ 1,352,405	\$ 5,062,014	\$ -	\$ 13,083	\$ 13,083	\$ 874	(\$1,002,690)	\$ 37,949,653
Appropriation for legal reserve	-	-	-	-	-	-	-	1,308	(1,308)	-	-	-	-
Issuance of capital stock, June 17, 2004—\$24 per share (certain portion issued as Global Depository Shares)	400,000	4,000,000	5,581,532	-	-	-	5,581,532	-	-	-	-	-	9,581,532
Conversion of bonds into capital stock	258,876	2,588,762	-	-	-	1,723,259	1,723,259	-	-	-	-	-	4,312,021
Issuance of shares upon exercise of employee stock options	44,000	440,000	327,016	-	-	-	327,016	-	-	-	-	-	767,016
Sales of treasury sock—4,692 thousand shares at average of \$24.14 per share	-	-	-	-	20,058	-	20,058	-	(2,337)	(2,337)	-	95,529	113,250
Adjustment for changes in shareholders' equities of equity-accounted investees	-	-	-	(3,478)	-	-	(3,478)	-	71	71	-	-	(3,407)
Net income for the six months ended June 30, 2004	-	-	-	-	-	-	-	-	8,587,791	8,587,791	-	-	8,587,791
BALANCE, JUNE 30, 2004	4,090,513	\$ 40,905,134	\$ 9,603,638	\$ 11,041	\$ 20,058	\$ 3,075,664	\$ 12,710,401	\$ 1,308	\$ 8,597,300	\$ 8,598,608	\$ 874	(\$ 907,161)	\$ 61,307,856
BALANCE, JANUARY 1, 2003	2,679,571	\$ 26,795,710	\$ 4,405,161	\$ -	\$ -	\$ 279,068	\$ 4,684,229	\$ -	(\$1,619,823)	(\$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	1,619,823	-	-	-
Adjustment for changes in shareholders' equities of equity-accounted investees	-	-	-	1,800	-	-	1,800	-	-	-	402	-	2,202
Net loss for the six months ended June 30, 2003	-	-	-	-	-	-	-	-	(2,898,479)	(2,898,479)	-	-	(2,898,479)
BALANCE, JUNE 30, 2003	2,679,571	\$ 26,795,710	\$ 2,785,338	\$ 1,800	\$ -	\$ 279,068	\$ 3,066,206	\$ -	(\$2,898,479)	(\$2,898,479)	\$ 402	(\$1,359,418)	\$ 25,604,421

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

(With Deloitte & Touche report dated July 23, 2004)

English Translation of Financial Statements Originally Issued in Chinese

POWERCHIP SEMICONDUCTOR CORPORATION

**STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(In Thousands of New Taiwan Dollars)**

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 8,587,791	(\$ 2,898,479)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	5,201,134	4,068,584
Amortization	442,868	681,971
Provision (reversal of allowance) for decline in value of short-term investments	242,884	(93,150)
Provision for bad debts	11,253	38,747
Provision for losses on inventories and spare parts	23,671	254,832
Investment (income) loss recognized by equity method—net	(75,980)	42,054
Impairment loss on long-term investments	7,357	-
Cash dividends from long-term investments under equity method	8,400	1,658
Amortization of discount on long-term bond investments	(150)	(150)
Gain on sales of long-term investments—net	(6,305)	(92,377)
Loss on disposal of properties—net	44,073	3,238
Deferred income tax assets	786,585	(273,283)
Amortization of discount on commercial paper issued	5,026	7,705
Foreign exchange gain from convertible bonds payable	(65,089)	(28,063)
Foreign exchange gain from long-term bank loans	(44,573)	(14,087)
Issuance costs of the early redeemed convertible bonds	305	67,099
Changes in operating assets and liabilities:		
Notes and accounts receivable	(2,441,983)	(716,177)
Other receivables	11,248	16,173
Inventories	(348,216)	(1,051,751)
Prepaid expenses	87,035	137,844
Forward contract receivable	92,386	-
Other current assets	(11,767)	(3,028)
Accounts payable	478,252	494,323
Accrued expenses	(43,501)	310,145
Other current liabilities	10,431	19,676
Accrued pension costs	7,618	9,984
Forward contract payable	-	310,384
Net cash provided by operating activities	<u>13,010,753</u>	<u>1,293,872</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in short-term investments	(403,288)	(348,399)
Acquisition of:		
Properties	(9,916,065)	(9,816,156)
Long-term investments	(885,035)	(180,000)
Deferred charges	(1,061,488)	(1,086,807)
Decrease in pledged time deposits	531,537	1,082,251

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	<u>2004</u>	<u>2003</u>
Proceeds from disposal of		
Long-term investments	\$ 64,805	\$ 378,491
Properties	3,700	-
Increase in spare parts	(64,708)	(36,440)
Increase in refundable deposits	(749)	(139)
Net cash used in investing activities	(<u>11,731,291</u>)	(<u>10,007,199</u>)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term bank borrowings	(582,500)	2,319,401
Increase in commercial paper issued	-	197,949
Proceeds from:		
Issuance of capital stock	9,581,532	-
Issuance of convertible bonds	5,029,500	3,115,260
Long-term bank loans	3,805,000	4,195,082
Exercise of employee stock option	767,016	-
Sales of treasury stock	113,250	-
Repayments of long-term bank loans	(2,386,888)	(717,888)
Redemption of convertible bonds	(16,635)	(5,060,089)
Decrease in capital lease obligation	(95,063)	(50,033)
Increase in guarantee deposits	<u>403</u>	<u>242</u>
Net cash provided by financing activities	<u>16,215,615</u>	<u>3,999,924</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,495,077	(4,713,403)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>11,387,416</u>	<u>11,978,461</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$28,882,493</u>	<u>\$ 7,265,058</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding amounts capitalized of \$71,331 thousand in 2004 and \$26,990 thousand in 2003)	<u>\$ 278,129</u>	<u>\$ 294,397</u>
Income tax paid	<u>\$ 3,930</u>	<u>\$ 2,287</u>
Noncash investing and financing activities		
Current portion of long-term liabilities	<u>\$ 5,683,781</u>	<u>\$ 4,932,049</u>
Transfer of long-term investments to short-term investments	<u>\$ 36,455</u>	<u>\$ 239,526</u>
Conversion of bonds	<u>\$ 4,312,021</u>	<u>\$ -</u>
Cash paid for acquisition of properties		
Total acquisition	\$ 13,226,746	\$ 2,686,877
Payable, beginning of period	15,875,195	16,819,591
Payable, end of period	(<u>19,185,876</u>)	(<u>9,690,312</u>)
	<u>\$ 9,916,065</u>	<u>\$ 9,816,156</u>

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

(With Deloitte & Touche report dated July 23, 2004)

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POWERCHIP SEMICONDUCTOR CORPORATION

**NOTES TO FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(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 June 30, 2004 and 2003, the Corporation had 3,257 and 2,431 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, 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.

Employee Stock Option

Compensatory employee stock option plans that are granted or amended on or after January 1, 2004 must be accounted for in accordance to the interpretations issued by Accounting Research and Development Foundation. The Corporation adopted the intrinsic value method and any compensation cost is charged to expense over the employee vesting period as specified in the stock option plans.

Treasury Stock

The reacquisition of issued stock is accounted for by the cost method. Under this method, the reacquisition cost is debited to the treasury stock account (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 period'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 period of conversion or settlement. At period 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.

Interest rate swap (IRS) contracts are recorded through memorandum entries on the contract dates since there is no exchange of notional principles. For IRS contracts used for nontrading purposes, interest received or paid upon each settlement is recorded as adjustment to interest income or expense of the hedged item.

3. CASH AND CASH EQUIVALENTS

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Time deposits	\$ 26,888,474	\$ 6,888,380
Commercial paper purchased	1,659,185	297,885
Checking accounts	214,246	6,790
Demand deposits	120,468	71,883
Cash on hand	<u>120</u>	<u>120</u>
	<u>\$ 28,882,493</u>	<u>\$ 7,265,058</u>

4. SHORT-TERM INVESTMENTS

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Listed stocks	\$ 1,172,854	\$ 153,164
Equity		
Credit linked notes with unfixed interest income	198,525	1,371,389
Mutual funds	15,012	10,000
Credit linked notes with fixed interest income	-	16,030
Bonds purchased under resale agreements	<u>439,327</u>	<u>-</u>
	1,825,718	1,550,583
Allowance for decline in value	(<u>242,884</u>)	(<u>27,412</u>)
	<u>\$ 1,582,834</u>	<u>\$ 1,523,171</u>

The market values of mutual funds and credit-linked notes with unfixed interest income as of June 30, 2004 and 2003 were \$237,191 thousand and \$1,304,450 thousand, respectively, based on their net asset value as of June 30. The market value of listed stocks on June 30, 2004 and 2003 were \$906,315 thousand and \$202,713 thousand, respectively, based on average closing price of listed stocks in June. Bonds as of June 30, 2004 were contracted to be resold for \$440,170 thousand before July 30, 2004.

Due to application for initial listing of stock filed by the Corporation's investee, the listed stocks with carrying amount of \$33,283 thousand as of June 30, 2004 had been placed to securities depository institution.

5. INVENTORIES

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Finished goods	\$ 351,503	\$ 430,761
Work in process	2,949,541	3,219,248
Materials	<u>683,879</u>	<u>532,402</u>
	3,984,923	4,182,411
Allowance for losses	(<u>87,185</u>)	(<u>691,456</u>)
	<u>\$ 3,897,738</u>	<u>\$ 3,490,955</u>

6. LONG-TERM INVESTMENTS

	<u>June 30</u>			
	<u>2004</u>		<u>2003</u>	
	<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.	\$ 1,238,091	99.99	\$ 869,490	99.99
Li-Hsin Investment Corp.	547,863	99.83	356,143	99.78
Paramax Corp.	357,729	99.99	166,957	99.97
MaxEdge Electronics Corp.	103,013	13.18	114,307	13.31
Maxium Technologies, Inc.	95,945	30.37	84,707	30.37
Deutron Electronics Corp.	95,877	10.29	27,227	10.50
Telmax Technologies Corp.	90,934	21.21	75,636	20.45
Deutron Japan Corp.	90,020	43.34	-	-
Luxxon Technology Corp.	87,637	18.80	-	-
Novax Technologies Inc.	81,405	12.10	-	-
Syntronix Corp.	80,767	51.00	75,575	51.00
Zentel Electronics Corp.	36,471	47.00	-	-
Tekmax Development Corp.	31,100	14.00	-	-
Silicon Optronics, Inc.	15,968	17.00	-	-
Synage Technology Corp.	10,930	10.00	10,054	10.00
PowerGate Optical, Inc.	9,920	10.00	-	-
Ceon Computers Corp.	-	-	<u>46,236</u>	19.66
	<u>2,973,670</u>		<u>1,826,332</u>	
Cost method				
Listed stocks				
Optimax Technology Corp.	117,132	2.07	133,531	2.44
Powertech Technology Inc.	85,784	2.29	90,074	2.43
Unlisted stocks				
PowerWorld Capital Management Corp.	140,000	9.09	-	-
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

(Continued)

	June 30			
	2004		2003	
	Amount	% of Ownership	Amount	% of Ownership
Ardentec Corp.	\$ 60,580	2.17	\$ 55,000	2.48
eMemory Technology Inc.	40,444	8.37	40,444	9.63
Advanced Chip Engineering Technology Inc.	39,352	2.94	22,995	2.78
Actrans System Inc.	28,760	8.28	10,000	2.35
Great Taipei Broadband Co., Ltd.	25,000	1.67	25,000	1.67
CHIPSIP Technology Co., Ltd.	25,000	12.50	-	-
TwinMOS Technologies Inc.	23,109	1.34	23,109	1.34
A-DATA Technologies Co., Ltd.	22,000	0.66	-	-
Lightsonic Optoelectronics Inc.	19,050	1.83	8,050	1.16
Emerging Memory & Logic Solution Incorporation	18,924	4.75	18,924	1.40
EUDAR Technology Inc.	16,800	2.20	-	-
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
e-Phocus, Inc. Series B-preferred shares	11,460	3.92	-	-
Venglobal International Fund	11,217	2.83	15,258	2.83
CDIB High Tech Investment Inc.	9,000	2.11	18,000	2.11
Terax Communication Technologies Inc.	9,000	1.62	14,250	3.06
Taiwan Liposome Co., Ltd.	9,000	2.39	-	-
Miluku Entertainment Corp.	5,000	1.80	-	-
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
Power Memory International Co., Ltd.	-	-	58,500	6.57
Billions of Operations Per Second, Inc. Series D—Preferred Shares	-	1.12	17,225	1.10
Billions of Operations Per Second, Inc. Series A—Preferred Shares	-	1.41	16,175	1.57
Globalgate.com, Inc.	-	0.93	-	0.93
Cascade Semiconductor Corp.	-	-	36,455	16.15
Webstorage Corp.	-	-	35,691	7.30
Dramexchange.com Corp.	-	-	15,540	3.55
	<u>1,060,272</u>		<u>996,133</u>	
Prepayments				
MaxEdge Electronics Corp.	21,549		-	
Tekmax Development Corp.	13,860		-	
	<u>35,409</u>		<u>-</u>	
Investment in bonds				
Veutron Corp.—issued in 2002 (I)	89,750		89,450	
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		25,000	
Veutron Corp.—issued in 2002 (II)	20,000		20,000	
	<u>274,750</u>		<u>274,450</u>	
	<u>\$4,344,101</u>		<u>\$3,096,915</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.

As of June 30, 2004 and 2003, the Corporation and its subsidiaries owned 45% and 42% of Synage Technology Corp., respectively. Thus, this investment was accounted for by the equity method.

As of June 30, 2004 and 2003, the Corporation and its subsidiaries both owned 23% of Deutron Electronics Corp. Thus, this investment was accounted for by the equity method.

As of June 30, 2004 and 2003, 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 June 30, 2004, the Corporation and its subsidiaries owned 34% of Novax Technologies, Inc. Thus, this investment was accounted for by the equity method.

In the first quarter of 2004, the Corporation and its subsidiaries subscribed to the shares for capital increase of Tekmax Development Corp. and PowerGate Optical, Inc., resulting in a joint ownership of 28% and 30%, respectively, by the Corporation and its subsidiaries. Thus, those investments was accounted for by the equity method.

In the second quarter of 2004, the Corporation and its subsidiaries subscribed to the shares for capital increase of Luxxon Technology Corp. and Silicon Optronics, Inc., resulting in a joint ownership of 30% by the Corporation and its subsidiaries. Thus, those investments were accounted for by the equity method.

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

	For the Six Months Ended	
	June 30	
	2004	2003
Quantum Vision Corp.	\$ 32,491	\$ 18,346
Li-Hsin Investment Corp.	(5,975)	(26,522)
Paramax Corp.	(3,829)	(10,670)
MaxEdge Electronics Corp.	(12,229)	(16,131)
Maxium Technologies, Inc.	(493)	2,792
Deutron Electronics Corp.	54,823	5,360
Telmax Technologies Corp.	2,716	(587)
Luxxon Technology Corp.	(4,918)	-
Novax Technologies, Inc.	6,947	-
Syntronix Corp.	12,275	(13,558)
Zentel Electronics Corp.	(8,103)	-
Tekmax Development Corp.	3,393	-
Silicon Optronics, Inc.	(1,032)	-
Synage Technology Corp.	(29)	54
Powergate Optical, Inc.	(57)	-
Ceon Computers Corp.	-	(1,138)
	<u>\$ 75,980</u>	<u>(\$ 42,054)</u>

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

	June 30	
	2004	2003
Cost method		
Optimax Technology Corp.	\$ 576,283	\$ 290,057
Powertech Technology Inc.	<u>346,431</u>	<u>167,300</u>
	<u>\$ 922,714</u>	<u>\$ 457,357</u>

7. PROPERTIES

Accumulated depreciation on properties consisted of the following:

	June 30	
	2004	2003
Buildings	\$ 1,383,912	\$ 1,077,352
Machinery and equipment	29,269,144	21,788,436
Research and development equipment	126,326	60,402
Facility equipment	6,245,125	5,057,989
Transportation equipment	10,709	8,813
Office equipment	168,014	123,563
Equipment under capital lease	203,655	74,873
Miscellaneous equipment	<u>169,445</u>	<u>112,997</u>
	<u>\$37,576,330</u>	<u>\$28,304,425</u>

Total depreciation expenses for the six months ended June 30, 2004 and 2003 were \$5,201,134 thousand and \$4,068,584 thousand, respectively. Interest expenses, including amounts capitalized of \$71,331 thousand and \$26,990 thousand, for the six months ended June 30, 2004 and 2003, were \$331,099 thousand and \$364,339 thousand, respectively. The rates used in capitalizing the interests for the six months ended June 30, 2004 and 2003 were 4.27% to 4.62% and 4.20% to 4.35%, respectively.

The Corporation is currently expanding its second manufacturing plant ("FAB 12A") for an estimated total cost of approximately \$60,000,000 thousand. As of June 30, 2004, the cost of \$51,620,207 thousand had been incurred, and FAB 12A started production in the fourth quarter of 2002.

The Corporation is currently constructing its third manufacturing plant ("FAB 12B"). The estimated cost for the building and fixtures is \$1,680,000 thousand. As of June 30, 2004, the cost of \$154,714 thousand had been incurred.

Under an equipment purchase agreement amounting to \$1,052,882 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	\$ 96,975
2005	<u>171,188</u>
	268,163
Implicit interest	(<u>12,993</u>)
	<u>\$ 255,170</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 21.

8. DEFERRED CHARGES—NET

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Technical know-how	\$ 1,729,035	\$ 1,342,276
Test-run costs	219,203	284,964
Computer software system	137,100	388,618
Issuance costs of the convertible bonds	62,859	163,268
Other	<u>94,926</u>	<u>81,134</u>
	<u>\$ 2,243,123</u>	<u>\$ 2,260,260</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>June 30</u>
	<u>2003</u>
Working capital loans: Due in November 2003, interest at 1.70%-3.50%	\$ 2,016,000
Loans for imports of materials: Repayable by November 2003, interest at 0.75%-4.06%	<u>453,401</u>
	<u>\$ 2,469,401</u>

Unused credit lines for short-term borrowings as of June 30, 2004 were about \$3,072,264 thousand.

10. COMMERCIAL PAPER ISSUED

Commercial paper issued in 2003, guaranteed by financial institutions, bears annual interest rates of 2.05% and matures by July 30, 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\$22.18 per share as of June 30, 2004) 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 June 30, 2004, some of the holders of Bonds 2001 exercised their put option, requiring the Corporation to spend US\$131,775 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\$26,470 thousand had requested to convert these bonds into 37,042 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) 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 June 30, 2004, 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. Also, the Corporation redeemed the remaining 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\$14.21 per share as of June 30, 2004) 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 June 30, 2004, holders of Bonds 2003A with principal amount of US\$111,650 thousand had requested to convert these bonds into 265,880 thousand common shares, which had all been issued. Between July 1, 2004 and July 23, 2004, the conversion of Bonds 2003A with principal amount of US\$70 thousand into 171 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\$17.71 per share as of June 30, 2004) 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. As of June 30, 2004, holders of Bonds 2003B with principal amount of US\$90,678 thousand had requested to convert these bonds into 172,510 thousand common shares, which had all been issued. Between July 1, 2004 and July 23, 2004, the conversion of Bonds 2003B with principal amount of US\$750 thousand into 1,445 thousand common shares had been requested.

In the second quarter of 2004, the Corporation issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2004A”), with an aggregate principal amount of US\$150,000 thousand. Bonds 2004A are listed on the Luxembourg Stock Exchange. They are convertible into the Corporation’s common shares or GDS at NT\$33.88 per share (at an exchange rate of US\$1.00 to NT\$33.53; conversion rate is adjustable and the current rate is NT\$33.88 per share as of June 30, 2004) between July 18, 2004 and May 18, 2009 and will mature on June 17, 2009. At the holders’ option, Bonds 2004A may also be repurchased on June 17 of each year (from 2006) before maturity at 100% of their principal amount. Under certain conditions, either the holders of the Bonds 2004A or the Corporation may opt for early bond redemption. As of July 17, 2004, the Corporation additionally issued an aggregate principal amount of US\$8,050 thousand in accordance with the issuance terms.

12. LONG-TERM BANK LOANS

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Long-term secured syndicated loans (1) U.S. dollars—US\$56,250 thousand in 2004 and US\$93,750 thousand in 2003	\$ 1,899,844	\$ 3,244,875
Long-term secured syndicated loans (2) (including commercial paper issued)—New Taiwan dollars	2,080,000	2,600,000
Long-term secured syndicated loans (3) New Taiwan dollars	5,250,000	7,000,000
Long-term secured syndicated loans (4) New Taiwan dollars	3,200,000	-
Medium to long-term loans New Taiwan dollars	<u>1,871,667</u>	<u>1,453,320</u>
	14,301,511	14,298,195
Current portion	(4,458,229)	(3,754,603)
Unamortized discount of commercial paper issued	<u>(1,938)</u>	<u>(4,198)</u>
	<u>\$ 9,841,344</u>	<u>\$ 10,539,394</u>

Unused credit lines available for long-term bank loans as of June 30, 2004 were about \$2,850,000 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 2.00% to 6.70% and from 1.00% to 6.70% for the six months ended June 30, 2004 and 2003, respectively.

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

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 has got the release of such incompliance from banks.

The details of assets pledged as collateral are shown in Note 21.

13. PENSION PLAN

The Corporation has a defined benefit pension plan for all retirement plan covering all regular employees, which provides benefits based on length of service and average salaries and wages for the final six months of employment. The Corporation 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.

Pension costs based on actuarial calculation for the six months ended June 30, 2004 and 2003 were \$24,074 thousand and \$22,536 thousand, respectively.

The balances of the Fund were \$157,614 thousand and \$125,739 thousand as of June 30, 2004 and 2003, respectively.

14. SHAREHOLDERS' EQUITY

Under the ROC Company Law, capital surplus can only be used to offset a deficit or be transferred to capital as a stock dividend after offsetting any prior years losses. 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.

15. EMPLOYEE STOCK OPTION

On May 28, 2001, June 28, 2002 and April 22, 2003, the SFC approved the Corporation's employee stock option plans (hereafter referred as "2001 Plan", "2002 Plan", and "2003 Plan" respectively). The 2001 Plan, 2002 Plan and 2003 Plan have reserved 150 thousand, 150 thousand and 120 thousand of option, respectively, each representing 1,000 shares of common stock, with total of 420,000 thousand shares for issuance. These options generally vest over a period of two years, at a certain percentage each year, from two years after the date of grant. They may be exercised within four years from two years after the date of grant. As of June 30, 2004, 45,060 option has been exercised. Information with respect to stock option rights plan is as follows:

Six months ended June 30 2004

	<u>2003 Plan</u>		<u>2002 Plan</u>		<u>2001 Plan</u>	
	<u>Number of Outstanding Stock Option Rights</u>	<u>Weighted-average Exercise Prices (NT\$/Per Share)</u>	<u>Number of Outstanding Stock Option Rights</u>	<u>Weighted-average Exercise Price (NT\$/Per Share)</u>	<u>Number of Outstanding Stock Option Rights</u>	<u>Weighted-average Exercise Prices (NT\$/Per Share)</u>
Beginning Balance	112,406	\$ 8.13	135,123	\$10.75	120,596	\$17.45
Options granted	970	23.87	-	-	-	-
Options exercised	-	-	-	-	(44,000)	17.43
Options cancelled	(<u>1,596</u>)	7.95	(<u>1,175</u>)	10.75	(<u>606</u>)	17.40
Ending balance	<u>111,780</u>		<u>133,948</u>		<u>75,990</u>	

Six months ended June 30, 2003

	<u>2003 Plan</u>		<u>2002 Plan</u>		<u>2001 Plan</u>	
	<u>Number of Outstanding Stock Option Rights</u>	<u>Weighted-average Exercise Prices (NT\$/Per Share)</u>	<u>Number of Outstanding Stock Option Rights</u>	<u>Weighted-average Exercise Price (NT\$/Per Share)</u>	<u>Number of Outstanding Stock Option Rights</u>	<u>Weighted-average Exercise Prices (NT\$/Per Share)</u>
Beginning Balance	-	\$ -	145,803	\$10.75	131,979	\$17.76
Options granted	115,003	8.03	-	-	-	-
Options exercised	-	-	-	-	-	-
Options cancelled	(<u>2,184</u>)	7.95	(<u>8,390</u>)	10.75	(<u>8,312</u>)	17.92
Ending balance	<u>112,819</u>		<u>137,413</u>		<u>123,667</u>	

As of June 30, 2004, the information about the outstanding stock options is as follows:

<u>Exercise Price</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding (Per Option)</u>	<u>Weighted Average Remaining Contractual Life (in Years)</u>	<u>Weighted Average Exercise Price (Per Share)</u>	<u>Number Exercisable (Per Option)</u>	<u>Weighted Average Exercise Price (Per Share)</u>
\$17.40	74,425	3.07	\$17.40	14,905	\$17.40
22.20	765	3.74	22.20	260	22.20
18.60	800	3.88	18.60	300	18.60
10.75	133,948	4.24	10.75	-	-
7.95	108,010	4.83	7.95	-	-
15.20	1,200	5.00	15.20	-	-
17.70	280	5.09	17.70	-	-
14.40	1,020	5.29	14.40	-	-
14.50	300	5.40	14.50	-	-
17.80	550	5.52	17.80	-	-
28.20	220	5.74	28.20	-	-
35.80	<u>200</u>	5.81	35.80	-	-
	<u>321,718</u>			<u>15,465</u>	

The Corporation uses the intrinsic value method to evaluate compensation cost for employee stock options granted from January 1, 2004 subsequently. The compensation cost recognized for the six months ended June 30, 2004 was zero since the stock options were granted at an exercise price equal to the closing price of the Corporation's common shares on the measurement dates. If the Corporation has applied the fair value based method to evaluate compensation cost for employee stock options granted, the assumptions and pro forma results of the Corporation for the six months ended June 30, 2004 is as follows:

Method:	Black-Scholes model
Assumptions:	
Risk-free interest rate	3.00%-3.86%
Expected life (in years)	6
Expected stock price volatility	86.61%-90.10%
Expected dividend yield	-
Fair value per option (NT\$)	\$ 13.54-26.37
Net income:	
Net income as reported	\$8,587,791
Pro forma net income	\$8,586,235
Earnings per share(EPS) (NT\$):	
Basic EPS as reported	\$2.43
Pro forma basic EPS	\$2.43
Diluted EPS as reported	\$2.18
Pro forma diluted EPS	\$2.18

16. TREASURY STOCK

(Shares in Thousands)

<u>Purpose of Purchase</u>	<u>Beginning Shares</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Shares</u>
<u>Six months ended June 30, 2004</u>				
For subsequent transfer to employees	46,614	-	4,692	41,922
Parent's issued shares held by subsidiaries	<u>3,334</u>	<u>-</u>	<u>-</u>	<u>3,334</u>
	<u>49,948</u>	<u>-</u>	<u>4,692</u>	<u>45,256</u>
<u>Six months ended June 30, 2003</u>				
For subsequent transfer to employees	64,135	-	-	64,135
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>-</u>	<u>67,469</u>

For the six months ended June 30, 2004, 200 thousand and 4,492 thousand shares of treasury stock have been transferred to employees at prices of \$8.7 per share and \$24.8 per share, respectively.

As of June 30, 2004 and 2003, the Corporation accounted for its issued shares amounting to \$53,820 thousand held by subsidiaries as treasury stock. The carrying values of such stock were \$87,461 thousand and \$51,011 thousand; the market values were \$87,461 thousand and \$51,011 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.

17 INCOME TAX BENEFIT

- a. For the six months ended June 30, 2003, the Corporation did not have current income tax payable. A reconciliation of income tax currently payable for the six months ended June 30, 2004 is shown below:

	<u>For the Six Months Ended June 30, 2004</u>
Tax on pretax income at statutory rate (25%)	\$ 2,343,897
Permanent differences	
Tax-exempt income	(571,443)
Others	813
Temporary differences	(<u>464,923</u>)
Income tax currently payable	<u>\$ 1,308,344</u>

b. Income tax benefit (expense) for the six months ended June 30, 2004 and 2003 consisted of:

	For the Six Months Ended June 30	
	<u>2004</u>	<u>2003</u>
Income tax currently payable	(\$ 1,308,344)	\$ -
Loss carryforwards	328,823	-
Tax credits	979,521	-
Net change in deferred income tax assets and liabilities		
Loss carryforwards	(300,624)	911,105
Investment tax credits	374,480	1,010,862
Temporary differences	(466,320)	(127,670)
Valuation allowance	(394,121)	(1,521,014)
Tax on interest income on short-term bills	(1,214)	(270)
	<u>(\$ 787,799)</u>	<u>\$ 273,013</u>

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

	June 30	
	<u>2004</u>	<u>2003</u>
Current		
Deferred income tax assets		
Investment tax credits	\$ 194,422	\$ 589,971
Loss carryforwards	-	1,440,230
Unrealized provision for loss on inventories	21,796	172,864
Other	73,219	94,178
Deferred income tax liabilities	(658)	(1,043)
	288,779	2,296,200
Valuation allowance	-	(2,296,200)
	<u>\$ 288,779</u>	<u>\$ -</u>
Noncurrent		
Deferred income tax assets		
Investment tax credits	\$ 6,367,010	\$ 5,336,261
Loss carryforwards	2,197,180	2,967,750
Unrealized foreign exchange loss	13,617	120,974
Other	112,002	94,775
Deferred income tax liabilities		
Depreciation	(1,702,581)	(1,222,865)
Other	(1,308)	-
	6,985,920	7,296,895
Valuation allowance	(5,591,317)	(4,810,408)
	<u>\$ 1,394,603</u>	<u>\$ 2,486,487</u>

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

	June 30	
	<u>2004</u>	<u>2003</u>
Shareholders' imputed tax credits	<u>\$ 37,460</u>	<u>\$ 13,456</u>

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

- e. The unappropriated retaining earnings as of June 30, 2004 and 2003 had no unappropriated earnings generated on and before 1997.
- f. The effective tax rates for deferred income tax as of June 30, 2004 and 2003 were 25%.
- g. As of June 30, 2004, 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	\$ -	2004
		1,403,200	1,403,200	2006
		313,401	313,401	2007
		<u>480,579</u>	<u>480,579</u>	2008
		<u>\$ 2,526,003</u>	<u>\$ 2,197,180</u>	
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 894,134	\$ -	2004
		186,790	174,366	2005
		2,945,234	2,945,234	2006
		1,758,265	1,758,265	2007
		<u>20</u>	<u>20</u>	2008
		<u>\$ 5,784,443</u>	<u>\$ 4,877,885</u>	
Statute for Upgrading Industries	Research and development expenditures	\$ 556,206	\$ 177,796	2004
		518,600	518,600	2005
		477,385	477,385	2006
		322,877	322,877	2007
		<u>132,120</u>	<u>132,120</u>	2008
		<u>\$ 2,007,188</u>	<u>\$ 1,628,778</u>	
Statute for Upgrading Industries	Personnel training expenditures	\$ 4,386	\$ 4,386	2004
		4,686	4,686	2005
		2,803	2,803	2006
		3,058	3,058	2007
		<u>2,001</u>	<u>2,001</u>	2008
		<u>\$ 16,934</u>	<u>\$ 16,934</u>	
Statute for Upgrading Industries	Investments in important technology- based enterprises	\$ 12,240	\$ 12,240	2004
		12,279	12,279	2006
		<u>13,316</u>	<u>13,316</u>	2007
		<u>\$ 37,835</u>	<u>\$ 37,835</u>	

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

	<u>Tax-exemption Period</u>
Statute for Establishment and Administration of Science Parks	
1996 original investment in the first manufacturing plant	2000-2004
2000 expansion of the first manufacturing plant	2004-2007
Statute for Upgrading Industries	
1997 expansion of the first manufacturing plant	2001-2005
1998 expansion of the first manufacturing plant	2004-2008
1999 expansion of the first manufacturing plant	2004-2008

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

18. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	<u>For the Six Months Ended June 30</u>					
	<u>2004</u>			<u>2003</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	\$ 1,045,606	\$ 293,207	\$ 1,338,813	\$ 667,239	\$ 191,418	\$ 858,657
Labor/health insurance	54,408	12,814	67,222	41,047	9,633	50,680
Pension	18,905	5,169	24,074	17,566	4,970	22,536
Others	56,933	10,315	67,248	37,160	6,709	43,869
Depreciation	5,119,183	80,592	5,199,775	4,001,540	65,793	4,067,333
Amortization	100,685	326,053	426,738	100,535	554,602	655,137
	<u>\$6,395,720</u>	<u>\$ 728,150</u>	<u>\$7,123,870</u>	<u>\$4,865,087</u>	<u>\$ 833,125</u>	<u>\$5,698,212</u>

19. EARNINGS (LOSS) PER SHARE (EPS)

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>For the six months ended June 30, 2004</u>					
Net income	<u>\$9,375,590</u>	<u>\$8,587,791</u>			
Basic EPS					
Income of common shareholders	\$9,375,590	\$8,587,791	3,529,020	<u>\$ 2.66</u>	<u>\$ 2.43</u>
Effect of dilutive securities					
—Convertible bonds	-	-	229,177		
—Stock options	-	-	<u>184,471</u>		
Diluted EPS					
Income of common and potential common shareholders	<u>\$9,375,590</u>	<u>\$8,587,791</u>	<u>3,942,668</u>	<u>\$ 2.38</u>	<u>\$ 2.18</u>
<u>For the six months ended June 30, 2003</u>					
Net loss	<u>(\$3,171,492)</u>	<u>(\$2,898,479)</u>			
Basic and diluted LPS					
Loss of common shareholders	<u>(\$3,171,492)</u>	<u>(\$2,898,479)</u>	<u>2,612,101</u>	<u>(\$ 1.21)</u>	<u>(\$ 1.11)</u>

20. 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) (See note below)	Director (until April 1, 2003)
Mitsubishi Electric Taiwan Company (Mitsubishi—Taiwan) (See note below)	Subsidiary of Mitsubishi—Japan (until April 1, 2003)
Power Quotient International Co., Ltd. (Power) (See note below)	The Corporation is its director (until April 29, 2003)
Novax Technologies ,Inc. (Novax)	Equity-accounted investee
Deutron Electronics Corp. (Deutron)	Equity-accounted investee
eMemory Technology Inc. (eMemory)	Same chairman
Syntronix Corp. (Syntronix)	A subsidiary
Renesas Tech Corp. (Renesas)	Director
Others	Related parties with whom the Corporation has substantial influence but without any material transactions. Please see Note 25.

Note: The companies ceased to be the Corporation's related parties as of June 30, 2004; the transactions made as of and for the six months ended June 30, 2004 are disclosed only for reference.

b. Related party transactions:

	<u>For the Six Months Ended June 30</u>			
	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>For the period</u>				
1) Net sales				
Deutron	\$ 5,863,881	24	\$ 1,236,167	17
Novax	1,722,551	7	-	-
Power	1,022,527	4	442,429	6
Syntronix	116,516	-	-	-
Mitsubishi—Taiwan	-	-	564,456	8
Other	<u>79</u>	<u>-</u>	<u>32,476</u>	<u>-</u>
	<u>\$ 8,725,554</u>	<u>35</u>	<u>\$ 2,275,528</u>	<u>31</u>
2) Purchase				
Renesas	<u>\$ 12,089</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>

(Continued)

	For the Six Months Ended June 30			
	2004		2003	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
3) Properties				
Mitsubishi—Taiwan	\$ 206,450	2	\$ -	-
Veutron	63,000	-	-	-
Other	<u>450</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 269,900</u>	<u>2</u>	<u>\$ -</u>	<u>-</u>
4) Technical know-how and royalty				
Mitsubishi—Japan	\$ 1,106,604	81	\$ 954,303	90
Renesas	96,890	7	-	-
eMemory	<u>-</u>	<u>-</u>	<u>16,667</u>	<u>2</u>
	<u>\$ 1,203,494</u>	<u>88</u>	<u>\$ 970,970</u>	<u>92</u>
5) Manufacturing expenses—subcontract costs, indirect materials, expensed properties, repairs and maintenance, etc.				
Powertech	\$ 751,073	6	\$ 255,929	3
Mitsubishi—Japan	63,100	1	14,664	-
Other	<u>660</u>	<u>-</u>	<u>209</u>	<u>-</u>
	<u>\$ 814,833</u>	<u>7</u>	<u>\$ 270,802</u>	<u>3</u>
6) Research and development expense				
Syntonix	\$ 30,043	7	\$ -	-
Mitsubishi—Japan	-	-	1,915	-
Other	<u>4,721</u>	<u>1</u>	<u>235</u>	<u>-</u>
	<u>\$ 34,764</u>	<u>8</u>	<u>\$ 2,150</u>	<u>-</u>
			June 30	
			2004	2003
			<u>Amount</u>	<u>Amount</u>
<u>At end of period</u>			<u>%</u>	<u>%</u>
1) Accounts receivable—net				
Deutron	\$ 763,832	14	\$ 314,528	15
Novax	401,559	8	-	-
Power	90,894	2	52,832	3
Syntronix	32,244	1	-	-
Mitsubishi—Taiwan	-	-	48,510	2
Other	<u>13,560</u>	<u>-</u>	<u>12,375</u>	<u>1</u>
	<u>\$ 1,302,089</u>	<u>25</u>	<u>\$ 428,245</u>	<u>21</u>

(Continued)

	June 30			
	2004		2003	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
2) Accounts payable				
Powertech	\$ 385,223	10	\$ 140,578	8
3) Accrued expenses				
Mitsubishi—Japan	\$ 9,412	1	\$ 47,368	4
Renesas	1,989	-	-	-
eMemory	-	-	17,500	2
Other	<u>588</u>	<u>-</u>	<u>19</u>	<u>-</u>
	<u>\$ 11,989</u>	<u>1</u>	<u>\$ 64,887</u>	<u>6</u>
4) Payable on equipment				
Novax	<u>\$ 473</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>

The Corporation also purchased (sold) the following long-term investments from (to) related parties for the period ended June 30, 2004 and 2003:

1) Stock

<u>Related Parties</u>	<u>Investee</u>	<u>Shares</u> <u>(Thousands)</u>	<u>Costs</u> <u>(Proceeds)</u>	<u>Profit</u> <u>(Loss)</u>
<u>2004</u>				
Veutron	PowerWorld Capital Management Corp.	8,000	\$ 140,000	\$ -
Power	Power Memory International Co., Ltd.	(2,600)	(\$64,805)	\$ 6,305

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%

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 within the terms of the agreement.

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. The payment term of the sales made to Syntrox is to be paid on 30th day after the month of shipment.

On December 2, 2003, the board of directors approved the acquisition of Veutron's buildings for agreed price of \$143,000 thousand based on independent appraisal reports. As of June 30, 2004, the entire acquisition price has been paid off and the ownership transfer was completed.

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.

21. PLEDGED OR MORTGAGED ASSETS

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

	June 30	
	2004	2003
Properties—net	\$25,849,889	\$17,992,289
Pledged time deposits	2,534,477	364,757
Accounts receivable	331,589	381,711
Other assets—land	<u>311,510</u>	<u>311,510</u>
	<u>\$29,027,465</u>	<u>\$19,050,267</u>

22. 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 a certain amount of license fee and 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. Unused letters of credit amounted to approximately US\$456,854 thousand and JP¥1,793,471 thousand as of June 30, 2004.
- k. 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 \$58,224 thousand, which is subject to adjustment by SBIP.

23. DERIVATIVE FINANCIAL INSTRUMENTS

- a. Outstanding contracts and credit risk:

- 1) Forward exchange contracts

Amounts in Thousands

<u>Items</u>	<u>June 30, 2004</u>	
	<u>Contract Amount (Nominal Amount)</u>	<u>Credit Risk</u>
Buy	US\$118,000 (NT\$ v.s. US\$)	\$ 72,741
	JP¥15,200,000 (US\$ v.s. JP¥)	7,543
Sell	US\$180,000 (US\$ v.s. NT\$)	-

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, the potential credit risk is insignificant.

- 2) Interest rate swaps

The Company entered into interest rate swap contracts to manage related interest rates on its long-term loans. Net interest income on these transactions for the six months ended June 30, 2004 was 1,034 thousand. Outstanding contracts as of June 30, 2004 were as follows:

<u>Contract Date</u>	<u>Period</u>	<u>Contract Amount (Nominal) (in Thousand)</u>
May 27, 2004	May 31, 2004 to March 24, 2009	\$ 800,000
May 27, 2004	May 31, 2004 to March 24, 2009	800,000
May 28, 2004	June 1, 2004 to March 24, 2009	800,000
June 1, 2004	June 3, 2004 to March 24, 2009	800,000
June 2, 2004	June 4, 2004 to March 24, 2009	800,000
June 4, 2004	June 8, 2004 to March 24, 2009	800,000
June 14, 2004	June 16, 2004 to March 24, 2009	800,000
June 15, 2004	June 17, 2004 to March 24, 2009	200,000
June 30, 2004	July 2, 2004 to May 20, 2007	600,000
June 30, 2004	July 2, 2004 to May 20, 2007	600,000
June 30, 2004	July 2, 2004 to May 20, 2007	600,000

- b. Market risk—the Corporation uses derivative financial instruments to hedge the effect of exchange rate and interest rate fluctuations on its net foreign currency-denominated assets or liabilities and its long-term loans. Thus, gain or loss arising from exchange rate and interest 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 June 30, 2004, the Corporation's future cash demand for the outstanding forward exchange contracts is as follows:

<u>Term</u>	Amounts in Thousands			
	Forward Exchange Contracts			
	Inflow		Outflow	
Within one year	JP¥ 15,200,000	US\$ 140,463	US\$ 118,000	NT\$ 3,905,361
	NT\$ 6,040,850	US\$ 180,000		

The Corporation has sufficient operating capital to meet the above cash demand. In addition, the exchange rates of forward foreign exchange contracts and interest rates swap 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 purpose. The Corporation enters into forward exchange contracts and interest rate swap contracts to hedge the effect of exchange rate fluctuations on net foreign currency-denominated assets and liabilities and interest rate fluctuations on its long-term loans. 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 loss derived from settled forward exchange contracts is \$172,015 thousand for the six months ended June 30, 2004. Such loss is presented under nonoperating income and gain; and a receivable of \$18,715 thousand as of June 30, 2004 generated from forward exchange contracts is presented under current assets.

Interest receivable derived from interest rate swap contracts is presented under other receivables. Such receivable is \$240 thousand as of June 30, 2004.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

	June 30			
	2004		2003	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
<u>Non-derivative instruments</u>				
Assets				
Cash and cash equivalents	\$28,882,493	\$28,882,493	\$ 7,265,058	\$ 7,265,058
Notes and accounts receivable	5,251,393	5,251,393	2,081,884	2,081,884
Short-term and long-term investments	5,926,935	6,641,908	4,620,086	4,826,447
Other receivables	187,160	187,160	148,245	148,245

(Continued)

	June 30			
	2004		2003	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Pledged time deposits	\$ 2,534,477	\$ 2,534,477	\$ 364,757	\$ 364,757
Refundable deposits	22,824	22,824	21,794	21,794
Liabilities				
Short-term bank borrowings and commercial paper issued	-	-	2,769,115	2,769,115
Accounts payable and payable on equipment	23,175,280	23,175,280	11,386,041	11,386,041
Convertible bonds payable	6,663,030	7,094,520	7,640,772	8,706,291
Obligation under capital lease (including current portion)	255,170	255,170	450,300	450,300
Long-term bank loans (including current portion)	14,299,573	14,299,573	14,293,997	14,293,997
Guarantee deposits	3,854	3,854	3,734	3,734
<u>Derivative instruments</u>				
Forward exchange contracts	18,715	43,695 (9,942)	2,284
Interest rate swap contracts	240 (40,518)	-	-
Foreign currency option contracts	-	-	(13,105)	8,121

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

- a. The carrying amounts reported in the balance sheets for cash and cash equivalents, notes and accounts receivable, 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.

25. 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 \$100 million or 20% of the paid-in capital: Please see 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 23 and 24.

TABLE 1

POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

MARKETABLE SECURITIES HELD

JUNE 30, 2004

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

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004				Note
				Shares (Thousands/ Units) (Note 8)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Powerchip Semiconductor Corporation	<u>Stock</u>							
	Quantum Vision Corp.	Subsidiary	Long-term investments	119,990	\$ 1,238,091	99.99	\$ 1,240,490	Note 4
	Li-Hsin Investment Corp.	Subsidiary	Long-term investments	89,850	547,863	99.83	633,084	Note 4
	Paramax Corp.	Subsidiary	Long-term investments	39,994	357,729	99.99	358,085	Note 4
	MaxEdge Electronics Corp.	Investee	Long-term investments	14,259	103,013	13.18	111,991	Note 4
	Maxium Technologies, Inc.	Investee	Long-term investments	9,111	95,945	30.37	94,939	Note 4
	Deutron Electronics Corp.	Investee	Long-term investments	2,940	95,877	10.29	114,550	Note 4
	Telmax Technologies Corp.	Investee	Long-term investments	10,605	90,934	21.21	89,930	Note 4
	Deutron Japan Corp.	Investee	Long-term investments	2,891	90,020	43.34	90,020	Note 4
	Luxxon Technology Corp.	Investee	Long-term investments	9,400	87,637	18.80	87,709	Note 4
	Novax Technologies, Inc.	Investee	Long-term investments	6,050	81,405	12.10	81,265	Note 4
	Syntronix Corp.	Subsidiary	Long-term investments	10,200	80,767	51.00	84,493	Note 4
	Zentel Electronics Corp.	Subsidiary	Long-term investments	4,700	36,471	47.00	36,230	Note 4
	Tekmax Development Corp.	Investee	Long-term investments	2,800	31,100	14.00	38,310	Note 4
	Silicon Optronics, Inc.	Investee	Long-term investments	1,700	15,968	17.00	15,968	Note 4
	Synage Technology Corp.	Investee	Long-term investments	1,000	10,930	10.00	11,057	Note 4
	PowerGate Optical, Inc.	Investee	Long-term investments	1,000	9,920	10.00	9,920	Note 4
	Optimax Technology Corp.	Corporation is its director	Long-term investments	5,110	117,132	2.07	576,283	-
	Powertech Technology Inc.	Quantum Vision is its director	Long-term investments	5,975	85,784	2.29	346,431	-
	PowerWorld Capital Management Corp.	Same chairman	Long-term investments	8,000	140,000	9.09	83,542	Note 4
	Eastern Broadband Telecommunications Co., Ltd.	-	Long-term investments	12,000	120,000	0.18	114,098	Note 4
	Besteam Technology Inc.	-	Long-term investments	3,718	95,863	10.30	95,863	Note 2
	Universal Venture Fund, Inc.	Same chairman	Long-term investments	8,000	88,000	4.76	64,077	Note 4
	Ardentec Corp.	-	Long-term investments	5,608	60,580	2.17	60,580	Note 2
	eMemory Technology Inc.	Same chairman	Long-term investments	3,852	40,444	8.37	22,251	Note 4
	Advanced Chip Engineering Technology Inc.	-	Long-term investments	3,435	39,352	2.94	35,439	Note 4
	Actrans System Inc.	-	Long-term investments	2,480	28,760	8.28	28,760	Note 2
	Great Taipei Broadband Co., Ltd.	Corporation is its director	Long-term investments	2,500	25,000	1.67	22,754	Note 4
	CHIPSIP Technology Co., Ltd.	-	Long-term investments	2,000	25,000	12.50	19,870	Note 4
	TwinMOS Technologies Inc.	-	Long-term investments	2,757	23,109	1.34	23,109	Note 2
	A-DATA Technology Inc.	-	Long-term investments	300	22,000	0.66	22,000	Note 2
	Lightsonic Optoelectronics Inc.	Same chairman	Long-term investments	1,700	19,050	1.83	12,266	Note 4
	Emerging Memory & Logic Solution Incorporation	-	Long-term investments	279	18,924	4.75	18,924	Note 2
EUDAR Technology Inc.	-	Long-term investments	600	16,800	2.20	16,800	Note 2	
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	13,522	Note 4	
E-Phocus, Inc. Series B-preferred shares	-	Long-term investments	333	11,460	3.92	11,460	Note 2	
Venglobal International Fund	-	Long-term investments	1	11,217	2.83	11,217	Note 2	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004				Note
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	CDIB High Tech Investment Inc.	Corporation is its director	Long-term investments	900	\$ 9,000	2.11	\$ 11,855	Note 4
	Terax Communication Technologies Inc.	Same chairman	Long-term investments	600	9,000	1.62	5,858	Note 4
	Taiwan Liposome Co., Ltd.	-	Long-term investments	300	9,000	2.39	5,232	Note 4
	Miluku Entertainment Corp.	-	Long-term investments	400	5,000	1.80	2,188	Note 4
	E-Tech, Inc.	Corporation is its director	Long-term investments	349	3,145	2.26	3,145	Note 2
	DRAMeXchange Tech Inc.	-	Long-term investments	330	3,089	4.03	2,899	Note 4
	Phitech Corp.	-	Long-term investments	305	2,660	1.27	2,660	Note 2
	Jade Pacific Corp.	-	Long-term investments	250	1,313	1.35	359	Note 4
	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	89,750	-	89,750	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>							
	ProMos Technologies Inc.	-	Short-term investments	33,000	773,524	-	573,540	-
	United Microelectronics Corp.	-	Short-term investments	2,000	70,001	-	49,660	-
	Fubon Financial Holding Co., Ltd.	-	Short-term investments	1,660	62,794	-	51,659	-
	HannStar Display Corp.	-	Short-term investments	3,000	61,717	-	49,980	-
	Epistar Corp.	-	Short-term investments	500	47,200	-	35,120	-
	Yageo Corp.	-	Short-term investments	2,000	44,657	-	32,080	-
	Cypress Semiconductor Corp.	-	Short-term investments	61	36,455	-	30,491	-
	HUA NAN Financial Holdings Co., Ltd.	-	Short-term investments	1,000	30,689	-	27,420	-
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	1,249	24,886	-	35,572	-
	Etron Technology Inc.	-	Short-term investments	370	14,152	-	12,994	-
	NewSoft Technology Corp.	Same chairman	Short-term investments	180	3,767	-	2,722	-
	Broadcom Corp.	-	Short-term investments	3	3,012	-	5,077	-
	<u>Equity</u>							
	Credit Linked Notes issued by Yuanta Asset Management Limited, with unfixed interest income	-	Short-term investments	-	198,525	-	227,419	Note 1
	United New Century Fund	-	Short-term investments	1,000	10,000	-	4,710	Note 1
	Fuhwa Classical Fund	-	Short-term investments	500	5,012	-	5,062	Note 1
	<u>Bonds</u>							
	Bonds purchased under resale agreements issued by Yuanta Asset Management Limited	-	Short-term investments	-	270,452	-	270,971	Note 3
	Bonds purchased under resale agreements issued by KGI Securities Co., Ltd.	-	Short-term investments	-	168,875	-	169,199	Note 3

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004				Note	
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value		
Li-Hsin	<u>Stock</u>								
	MaxEdge Electronics Corp.	Investee	Long-term investments	16,188	\$ 116,751	14.97	\$ 116,751	Note 2	
	Telmax Technologies Corp.	Investee	Long-term investments	11,901	100,565	23.80	100,565	Note 2	
	Novax Technologies, Inc.	Investee	Long-term investments	2,291	27,834	4.58	27,834	Note 2	
	Optimax Technology Corp.	Corporation is its director	Long-term investments	300	8,847	0.12	33,837	-	
	Turnkey Manufacturing Solutions, Inc.	-	Long-term investments	962	14,254	0.92	14,254	Note 2	
	Tekmax Development Corp.	Investee	Long-term investments	800	8,891	4.00	8,891	Note 2	
	Gatetech Technology Inc.	-	Long-term investments	187	6,051	0.31	6,051	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	6,634	6.00	6,634	Note 2	
	Maxium Technologies, Inc.	Investee	Long-term investments	138	1,385	0.46	1,385	Note 2	
	PowerWorld Capital Management Corp.	Same chairman	Long-term investments	1,238	22,284	1.41	22,284	Note 2	
	Eon Silicon Solution Inc.	-	Long-term investments	150	6,000	0.35	6,000	Note 2	
	Deutron Japan Corp.	Investee	Long-term investments	142	4,433	2.12	4,433	Note 2	
	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	
		<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	-	87,461	-
		NewSoft Technology Corp.	Same chairman	Short-term investments	1,126	28,519	-	16,133	-
		<u>Equity</u>							
	Sheng Hua 5599 Bond Fund	-	Short-term investments	1,024	11,000	-	11,093	Note 1	
	Sheng Hua 1699 Bond Fund	-	Short-term investments	713	8,500	-	8,552	Note 1	
Quantum Vision	<u>Stock</u>								
	MaxEdge Electronics Corp.	Investee	Long-term investments	11,185	80,527	10.34	80,527	Note 2	
	Maxium Technologies, Inc.	Investee	Long-term investments	2,956	31,250	9.85	31,250	Note 2	
	Optimax Technology Corp.	Corporation is its director	Long-term investments	747	18,402	0.30	84,254	-	
	AVAC Systems Inc.	-	Long-term investments	462	5,159	2.98	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	2,043	22,789	0.78	92,343	-	
	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	7.45	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	4,470	2.50	4,470	Note 2	
	PowerGate Optical, Inc.	Investee	Long-term investments	1,200	11,904	12.00	11,904	Note 2	
	Lightsonic Optoelectronics Inc.	Same chairman	Long-term investments	1,500	16,500	1.62	16,500	Note 2	
	Ardentec Corp.	-	Long-term investments	662	11,258	0.26	11,258	Note 2	
	Tekmax Development Corp.	Investee	Long-term investments	2,000	22,222	10.00	22,222	Note 2	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004				Note
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Miluku Entertainment Corp.	-	Long-term investments	400	\$ 5,000	1.80	\$ 5,000	Note 2
	Telmax Technologies Corp.	Investee	Long-term investments	500	4,240	1.00	4,240	Note 2
	PowerWorld Capital Management Corp.	Same chairman	Long-term investments	1,000	18,000	1.14	18,000	Note 2
	Chipking Electronic Co., Ltd.	Investee	Long-term investments	800	8,000	16.00	8,000	Note 2
	Silicon Optronics, Inc.	Investee	Long-term investments	800	7,514	8.00	7,514	Note 2
	Taiwan Liposome Co., Ltd.	-	Long-term investments	200	6,000	1.59	6,000	Note 2
	Actrans System Inc.	-	Long-term investments	1,467	17,004	4.96	17,004	Note 2
	Zentel Electronics Corp.	Investee	Long-term investments	1,100	8,522	11.00	8,522	Note 2
	Billions of Operations Per Second, Inc.	-	Long-term investments	200	-	-	-	Note 2
	Eon Silicon Solution Inc.	-	Long-term investments	150	8,000	0.35	8,000	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	3,080	111,755	10.78	111,755	Note 2
	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	2,300	25,409	23.00	25,409	Note 2
	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	90,056	12.90	90,056	Note 2
	Luxxon Technology Corp.	Investee	Long-term investments	4,230	39,437	8.46	39,437	Note 2
	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
	Nobex Corp.	-	Long-term investments	40	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	19,800	-	19,800	Note 2
	Veutron Corp.—issued in 2002 (II)	Same chairman	Long-term investments	5	25,000	-	25,000	Note 2
	Veutron Corp.—issued in 2003 (I)	Same chairman	Long-term investments	5	25,000	-	25,000	Note 2
	Veutron Corp.—issued in 2003 (II)	Same chairman	Long-term investments	13	26,000	-	26,000	Note 2
	MaxEdge Electronics Corp.—issued in 2002 (I)	Investee	Long-term investments	4	20,000	-	20,000	Note 2
	MaxEdge Electronics Corp.—issued in 2002 (II)	Investee	Long-term investments	1	5,000	-	5,000	Note 2
	<u>Stock</u>							
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	742	15,202	-	21,129	-
	NewSoft Technology Corp.	Same chairman	Short-term investments	473	7,172	-	6,779	-
	Fubon Financial Holding Co., Ltd.	-	Short-term investments	700	26,552	-	21,783	-
	Veutron Corp.	Same chairman	Short-term investments	500	7,001	-	4,787	-
	HannStar Display Corp.	-	Short-term investments	176	3,611	-	2,932	-
	ProMos Technologies Inc.	-	Short-term investments	3,000	58,557	-	51,927	-
	HUA NAN Financial Holdings Co., Ltd.	-	Short-term investments	500	15,601	-	13,712	-
	Cypress Semiconductor Corp.	-	Short-term investments	36	10,371	-	17,959	-
	<u>Equity</u>							
	Sheng Hua 5599 Bond Fund	-	Short-term investments	278	3,000	-	3,011	Note 1
	KGI Victory Fund	-	Short-term investments	974	10,100	-	10,134	Note 1

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004				Note	
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value		
Paramax	<u>Stock</u>								
	MaxEdge Electronics Corp.	Investee	Long-term investments	4,820	\$ 34,599	4.46	\$ 34,599	Note 2	
	Maxium Technologies Inc.	Investee	Long-term investments	311	2,688	1.04	2,688	Note 2	
	Optimax Technology Corp.	Corporation is its director	Long-term investments	200	4,689	0.08	22,558	-	
	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	1.08	4,200	Note 2	
	Synage Technology Corp.	Investee	Long-term investments	600	6,634	6.00	6,634	Note 2	
	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	28,490	3.99	28,490	Note 2	
	Telmax Technologies Corp.	Investee	Long-term investments	1,684	15,201	3.37	15,201	Note 2	
	Luxxon Technology Corp.	Investee	Long-term investments	1,410	13,146	2.82	13,146	Note 2	
	Impact Technology Co., Ltd.	-	Long-term investments	400	6,400	1.85	6,400	Note 2	
	PowerGate Optical, Inc.	Investee	Long-term investments	800	7,936	8.00	7,936	Note 2	
	Lightsonic Optoelectronics Inc.	-	Long-term investments	1,000	11,000	1.08	11,000	Note 2	
	Elitegroup Computer System	-	Long-term investments	-	6,975	-	6,975	Note 2	
	Silicon Optronics, Inc.	Investee	Long-term investments	500	4,696	5.00	4,696	Note 2	
	Eon Silicon Solution Inc.	-	Long-term investments	161	6,430	0.38	6,430	Note 2	
	Deutron Japan Corp.	Investee	Long-term investments	142	4,433	2.13	4,433	Note 2	
	<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	235	4,671	-	6,692	-	
	Veutron Corp.	Corporation and investee have same chairman	Short-term investments	600	7,895	-	5,744	-	
	Cypress Semiconductor Corp.	-	Short-term investments	6	1,740	-	3,006	-	
	Syntronix	<u>Stock</u>							
		Powervision Technologies, Inc.	Syntronix is its director	Long-term investments	140	-	32.00	-	Note 2
		Deutron Electronics Corp.	Investee	Long-term investments	420	6,302	1.47	6,302	Note 2
		Actrans System Inc.	-	Long-term investments	150	1,500	0.50	1,500	Note 2
Terax Communication Technologies Inc.		Same chairman	Long-term investments	300	4,500	0.81	4,500	Note 2	
Zentel Electronics Corp.	Investee	Long-term investments	400	3,575	4.00	3,575	Note 2		

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004				Note
				Shares (Thousands/ Units) (Note 8)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Zentel	<u>Bonds</u> Veutron Corp.—issued in 2002(I)	Same chairman	Long-term investments	2	\$ 9,971	-	\$ 9,971	Note 2
	<u>Stock</u> Shinkong Financial Holding Co., Ltd.	-	Short-term investments	1	8	-	11	-
	<u>Equity</u> Capital Safe Income Bond Fund	-	Short-term investments	1,418	19,344	-	20,271	Note 1
	Sheng Hua 5599 Bond Fund	-	Short-term investments	2,096	21,872	-	22,701	Note 1
	Capital Cash Reserves Fund	-	Short-term investments	1,564	17,000	-	17,681	Note 1
	<u>Stock</u> Zentel Japan Corp.	Subsidiary	Long-term investments	2	5,513	99.89	5,513	Note 2
	<u>Equity</u> PCA Wellpool Fund	-	Short-term investments	295	3,500	-	3,578	Note 1

Note 1: The market value is based on net asset value of the fund as of June 30, 2004.

Note 2: The market values are based on carrying value as of June 30, 2004.

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

Note 4: The net asset value is based on unaudited financial data as of June 30, 2004.

Note 5: The above marketable securities had not been pledged or mortgaged as of June 30, 2004.

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, Paramax, Zentel and the Corporation are excluded.

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

TABLE 2

POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2004

(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>													
	Li- Hsin Investment Corp.	Long-term investments	-	Subsidiary	78,850	\$ 444,357	11,000	\$ 110,000	-	\$ -	\$ -	\$ -	89,850	\$ 547,863 (Note)
	Paramax Corp.	Long-term investments	-	Subsidiary	29,994	262,325	10,000	100,000	-	-	-	-	39,994	357,729 (Note)
	Quantum Vision Corp.	Long-term investments	-	Subsidiary	99,990	1,033,808	20,000	173,000	-	-	-	-	119,990	1,238,091 (Note)
	PowerWorld Capital Management Corp.	Long-term investments	-	Veutron Corp. Same chairman	-	-	8,000	140,000	-	-	-	-	8,000	140,000
	China Development Financial Holding Corp.	Short-term investments	-	-	10,000	161,114	20,000	360,372	30,000	569,997	521,486	48,511	-	-
	Cathay Financial Holding Co., Ltd.	Short-term investments	-	-	-	-	2,000	119,652	2,000	129,444	119,652	9,792	-	-
	Quanta Display Inc.	Short-term investments	-	-	-	-	6,140	138,654	6,140	168,702	138,654	30,048	-	-
	Chi Mei Optoelectronics Corp.	Short-term investments	-	-	250	9,647	2,000	115,197	2,250	132,506	124,844	7,662	-	-
	ProMos Technologies Inc.	Short-term investments	-	-	-	-	33,000	773,524	-	-	-	-	33,000	773,524
Power Quotient International Co., Ltd.	Short-term investments	-	-	3,527	92,848	-	-	3,527	150,930	92,848	58,082	-	-	
	<u>Equity</u>													
	Credit Linked Notes issued by Yuanta Asset Management Limited, with unfixed interest income	Short-term investments	-	-	-	1,043,677	-	-	966,613	845,152	121,461	-	198,525	
Li- Hsin	<u>Equity</u>													
	KGI Victory Fund	Short-term investments	-	-	-	-	13,026	135,000	13,026	135,235	135,000	235	-	-
Quantum Vision	<u>Stock</u>													
	China Development Financial Holding Corp.	Short-term investments	-	-	4,000	64,069	4,000	71,859	8,000	138,832	135,928	2,904	-	-
	<u>Equity</u>													
	KGI Victory Fund	Short-term investments	-	-	1,469	15,119	14,474	150,000	14,969	155,207	155,019	188	974	10,100

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

POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEES

**ACQUISITION OF INDIVIDUAL REAL ESTATES AT COSTS OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2004
(Amounts in Thousands of New Taiwan Dollars)**

Company Name	Property	Transaction Date	Transaction Amount	Payment Status	Counter-Party	Nature of Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date	Amount			
Powerchip Semiconductor Corporation	Buildings	January 16,2004-June 30, 2004	\$133,477	\$121,542 paid	Fu Tsu Construction Co., Ltd., etc.	-	-	-	-	\$ -	-	Fab. 12B and office manufacturing	-

POWERCHIP SEMICONDUCTOR CORPORATION

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE SIX MONTHS ENDED JUNE 30, 2004

(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.	Investee	Sales	\$ 5,863,881	24	Note 4	-	-	\$ 763,832	14	-
	Power Quotient International Co., Ltd. (Note 1)	The Corporation is its director (until April 29, 2003)	Sales	1,022,527	4	Note 3	-	-	90,894	2	-
	Novax Technologies, Inc.	Investee	Sales	1,722,551	7	Note 4	-	-	401,559	8	-
	Syntronix Corp.	Subsidiary	Sales	116,516	-	Note 5	-	-	32,244	1	-
	Powertech Technology Inc.	Quantum Vision is its director	Note 2	751,073	6	Note 6	Note 7	Note 7	(385,223)	(10)	-

Note 1: The companies ceased to be the Corporation's related party as of June 30, 2004; the transactions made as of and for the six months ended June 30, 2004 are disclosed only for reference.

Note 2: Subcontract fees.

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

Note 4: Mainly paid on the 45th day after the month of the shipment is made.

Note 5: Mainly paid on the 30th day after the month of the shipment is made.

Note 6: Mainly paid on the 60th day after the month of the shipment is made.

Note 7: 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

JUNE 30, 2004

(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	\$ 763,832	23.13	\$ -	-	\$ 610,746	\$ 7,708
	Novax Technologies, Inc.	Investee	401,559	14.21	-	-	283,006	4,052

TABLE 6

POWERCHIP SEMICONDUCTOR CORPORATION

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE SIX MONTHS ENDED JUNE 30, 2004

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of June 30, 2004			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				June 30, 2004	Dec. 31, 2003	Shares (Thousands)	Percentage of Ownership	Carrying Value			
Powerchip Semiconductor Corporation	Quantum Vision Corp.	Taipei, Taiwan	Investment	\$ 1,172,900	\$ 999,900	119,990	99.99%	\$ 1,238,091	\$ 27,885	\$ 32,491	-
	Li-Hsin Investment Corp.	Taipei, Taiwan	Investment	898,500	788,500	89,850	99.83%	547,863	27,658	(5,975)	-
	Paramax Corp.	Taipei, Taiwan	Investment	399,940	299,940	39,994	99.99%	357,729	(3,830)	(3,829)	-
	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	406,844	406,844	14,259	13.18%	103,013	(92,780)	(12,229)	-
	Maxium Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	91,111	91,111	9,111	30.37%	95,945	(676)	(493)	-
	Deutron Electronics Corp.	Taipei, Taiwan	Electronic components manufacturing	21,300	21,300	2,940	10.29%	95,877	525,125	54,823	-
	Telmax Technologies Corp.	Taipei, Taiwan	Electronic components manufacturing	106,046	90,000	10,605	21.21%	90,934	14,438	2,716	-
	Deutron Japan Corp.	Japan	Electronic components manufacturing	90,020	-	2,891	43.34%	90,020	-	-	-
	Luxxon Technology Corp.	Taipei, Taiwan	Electronic components manufacturing	94,000	40,000	9,400	18.80%	87,637	(25,230)	(4,918)	-
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	70,389	70,389	6,050	12.10%	81,405	58,464	6,947	-
	Syntronix Corp.	Taipei, Taiwan	Design of electronic related products	102,000	102,000	10,200	51.00%	80,767	24,068	12,275	-
	Zentel electronics Corp.	Taipei, Taiwan	Design of electronic related products	47,000	47,000	4,700	47.00%	36,471	(17,241)	(8,103)	-
	Tekmax Development Corp.	Taipei, Taiwan	Investment	28,000	-	2,800	14.00%	31,100	22,162	3,393	-
	Silicon Optronics, Inc.	Hsin-Chu, Taiwan	Electronic components manufacturing	17,000	-	1,700	17.00%	15,968	(6,074)	(1,032)	-
Synage Technology Corp.	Taipei, Taiwan	Electronic components manufacturing	10,000	10,000	1,000	10.00%	10,930	(292)	(29)	-	
PowerGate Optical, Inc.	Taipei, Taiwan	Optical components manufacturing	10,000	-	1,000	10.00%	9,920	(723)	(57)	-	