

**SILICON INTEGRATED SYSTEMS CORP.**  
**FINANCIAL STATEMENTS**  
**WITH REPORT OF INDEPENDENT AUDITORS**  
**FOR THE SIX-MONTH PERIODS ENDED**  
**JUNE 30, 2003 AND 2002**

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

**English Translation of a Report Originally Issued in Chinese**

**REPORT OF INDEPENDENT AUDITORS**

The Board of Directors and Stockholders  
Silicon Integrated Systems Corp.

We have audited the accompanying balance sheet of Silicon Integrated Systems Corp. as of June 30, 2003, and the related statements of operations, changes in stockholders' equity and cash flows for the six-month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Silicon Integrated Systems Corp. as of June 30, 2002 were audited by other auditors whose report, dated July 25, 2002, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with "Guidelines for Certified Public Accountants' Examination and Reporting on Financial Statements" and generally accepted auditing standards 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Silicon Integrated Systems Corp. as of June 30, 2003, and the result of its operations and its cash flows for the six-month period then ended, in conformity with "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the Republic of China.

July 10, 2003  
Taipei, Taiwan  
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**  
**SILICON INTEGRATED SYSTEMS CORP.**  
**BALANCE SHEETS**  
**June 30, 2003 and 2002**  
(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	As of June 30,				Liabilities and Stockholders' Equity	Notes	As of June 30,					
		2003	%	2002	%			2003	%	2002	%		
<b>Current assets</b>													
Cash and cash equivalents	2 and 4	\$2,307,420	7.04	\$1,760,103	4.97	Short-term loans	16	\$-	-	\$2,858,783	8.08		
Short-term investments	2 and 5	3,085,179	9.42	-	-	Notes payable		-	-	355	-		
Notes receivable-net	2 and 6	324,755	0.99	401,178	1.13	Accounts payable		937,448	2.86	931,451	2.63		
Accounts receivable-net	2 and 7	3,010,865	9.19	3,107,003	8.78	Accounts payable-related parties	27	152,080	0.46	675	-		
Accounts receivable-related parties	2 and 27	37,969	0.12	47,270	0.13	Accrued expenses	27	896,151	2.74	1,009,843	2.85		
Other receivables		116,987	0.36	612,590	1.73	Equipment payable		349,301	1.07	228,764	0.65		
Other receivables-related parties	27	44,812	0.14	-	-	Royalty payable-current	13, 27 and 29	707,459	2.16	549,677	1.55		
Other financial assets-current	2, 8 and 32	34,605	0.11	-	-	Current portion of long-term loans	17 and 18	2,132,725	6.51	2,338,974	6.61		
Inventories-net	2 and 9	2,280,844	6.96	3,728,788	10.54	Deferred credits-intercompany profits	2	-	-	1,671	-		
Prepaid expenses	27	130,529	0.40	523,723	1.48	Obligation under capital lease-current	12	-	-	98,801	0.28		
Other current assets	7 and 32	64,094	0.19	54,367	0.16	Other current liabilities	27	40,496	0.12	3,842	0.01		
Deferred income tax assets-current	2 and 25	527,899	1.61	126,184	0.36	<b>Total current liabilities</b>		<b>5,215,660</b>	<b>15.92</b>	<b>8,022,836</b>	<b>22.66</b>		
Restricted deposits	28	36,476	0.11	4,100	0.01								
<b>Total current assets</b>		<b>12,002,434</b>	<b>36.64</b>	<b>10,365,306</b>	<b>29.29</b>	<b>Long-term interest-bearing liabilities</b>							
<b>Long-term investments</b>						Bonds payable	2 and 17	4,295,550	13.11	2,140,002	6.05		
Long-term investments in stocks	2 and 10					Long-term loans	18	3,818,182	11.66	6,534,660	18.47		
Long-term investments accounted for under the equity method		494,906	1.51	177,341	0.50	Obligation under capital lease-noncurrent	12	-	-	45,001	0.13		
Long-term investments accounted for under the cost method		659,043	2.01	1,319,599	3.73	<b>Total long-term interest-bearing liabilities</b>		<b>8,113,732</b>	<b>24.77</b>	<b>8,719,663</b>	<b>24.65</b>		
<b>Total long-term investments</b>		<b>1,153,949</b>	<b>3.52</b>	<b>1,496,940</b>	<b>4.23</b>	<b>Other liabilities</b>							
<b>Other financial assets-noncurrent</b>	2, 11 and 32	69,210	0.21	-	-	Accrued pension liabilities	2 and 19	79,451	0.24	61,222	0.17		
<b>Property, plant and equipment</b>	2, 12 and 28					Deposits received		969	-	-	-		
Land		439,671	1.34	439,671	1.24	Royalty payable-noncurrent	13, 27, and 29	363,352	1.11	502,950	1.42		
Buildings and auxiliary equipment		2,492,089	7.61	1,526,560	4.31	<b>Total other liabilities</b>		<b>443,772</b>	<b>1.35</b>	<b>564,172</b>	<b>1.59</b>		
Machinery and equipment		24,687,995	75.36	24,621,451	69.57	<b>Total liabilities</b>		<b>13,773,164</b>	<b>42.04</b>	<b>17,306,671</b>	<b>48.90</b>		
Transportation equipment		6,328	0.02	6,168	0.02	<b>Stockholders' equity</b>							
Furniture and fixtures		141,285	0.43	107,687	0.31	Capital							
Leased assets		373,880	1.14	277,995	0.79	Common stock	20	13,380,166	40.84	10,714,164	30.28		
Total cost		28,141,248	85.90	26,979,532	76.24	Capital reserve	20 and 21	-	-	-	-		
Less: Accumulated depreciation		(11,223,334)	(34.26)	(7,375,241)	(20.84)	Common stock premiums		5,821,293	17.77	7,415,406	20.95		
Construction in progress and prepayments for equipment		233,440	0.71	532,203	1.50	Treasury stock		-	-	31,715	0.09		
<b>Property, plant and equipment-net</b>		<b>17,151,354</b>	<b>52.35</b>	<b>20,136,494</b>	<b>56.90</b>	Retained earnings	22 and 23	-	-	-	-		
<b>Intangible assets</b>	2 and 13					Accumulated deficits		(156,629)	(0.48)	(103,267)	(0.29)		
License agreements		71,721	0.22	1,164,302	3.29	Adjusting items in stockholders' equity							
<b>Other assets</b>						Unrealized loss on long-term investments	2 and 10	(87,121)	(0.26)	-	-		
Refundable deposits		6,450	0.02	15,457	0.05	Cumulative translation adjustments	2 and 10	29,822	0.09	24,225	0.07		
Deferred charges	2 and 14	595,095	1.82	633,658	1.79	<b>Total stockholders' equity</b>		<b>18,987,531</b>	<b>57.96</b>	<b>18,082,243</b>	<b>51.10</b>		
Deferred income tax assets-noncurrent	2 and 25	1,096,019	3.35	1,497,733	4.23								
Other assets-others	15 and 27	614,463	1.87	79,024	0.22								
<b>Total other assets</b>		<b>2,312,027</b>	<b>7.06</b>	<b>2,225,872</b>	<b>6.29</b>								
<b>Total assets</b>		<b>\$32,760,695</b>	<b>100.00</b>	<b>\$35,388,914</b>	<b>100.00</b>	<b>Total liabilities and stockholders' equity</b>		<b>\$32,760,695</b>	<b>100.00</b>	<b>\$35,388,914</b>	<b>100.00</b>		

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

English Translation of Financial Statements Originally Issued in Chinese

**SILICON INTEGRATED SYSTEMS CORP.**

**STATEMENTS OF OPERATIONS**

**For the six-month periods ended June 30, 2003 and 2002**

	Notes	For the six-month period ended June 30,			
		2003		2002	
		Amount	%	Amount	%
<b>Sales</b>		\$8,828,314	101.92	\$6,911,460	101.70
Less : Sales returns and allowances		(166,520)	(1.92)	(115,333)	(1.70)
<b>Net sales</b>	2 and 27	8,661,794	100.00	6,796,127	100.00
<b>Cost of goods sold</b>	24 and 27	6,306,812	72.81	4,991,826	73.45
Unrealized profit on intercompany sales	2	-	-	757	0.01
<b>Gross profit</b>		<u>2,354,982</u>	<u>27.19</u>	<u>1,803,544</u>	<u>26.54</u>
<b>Operating expenses</b>	24, 27 and 29				
Selling		1,161,315	13.41	697,140	10.26
General and administrative		157,689	1.82	318,775	4.69
Research and development		929,331	10.73	979,655	14.41
Subtotal		<u>2,248,335</u>	<u>25.96</u>	<u>1,995,570</u>	<u>29.36</u>
<b>Operating income (loss)</b>		<u>106,647</u>	<u>1.23</u>	<u>(192,026)</u>	<u>(2.82)</u>
<b>Non-operating income</b>					
Interest income	2 and 32	17,572	0.20	9,405	0.14
Dividend income	10	28,980	0.33	30,870	0.45
Gain on disposal of property, plant and equipment		-	-	50,120	0.74
Gain on disposal of investments		21,614	0.25	282,573	4.16
Foreign exchange gain	2 and 32	18,338	0.21	40,823	0.60
Other income	27	72,526	0.84	8,355	0.12
<b>Total non-operating income</b>		<u>159,030</u>	<u>1.83</u>	<u>422,146</u>	<u>6.21</u>
<b>Non-operating expenses</b>					
Interest expense	12	228,792	2.64	304,057	4.47
Investment loss accounted for under the equity method	2 and 10	21,693	0.25	2,839	0.04
Other investment loss	10	69,465	0.80	-	-
Factoring expense	7	-	-	17,202	0.25
Loss on decline of assets	15	85,019	0.98	-	-
Other losses		17,337	0.20	9,289	0.14
<b>Total non-operating expenses</b>		<u>422,306</u>	<u>4.87</u>	<u>333,387</u>	<u>4.90</u>
<b>Loss before income tax</b>		(156,629)	(1.81)	(103,267)	(1.51)
<b>Income tax benefit</b>	2 and 25	-	-	-	-
<b>Net loss</b>		<u>\$(156,629)</u>	<u>(1.81)</u>	<u>\$(103,267)</u>	<u>(1.51)</u>
<b>Basic loss per share (New Taiwan Dollars)</b>	26				
Loss before income tax benefit		<u>\$(0.12)</u>		<u>\$(0.10)</u>	
Net loss		<u>\$(0.12)</u>		<u>\$(0.10)</u>	
<b>Diluted loss per share (New Taiwan Dollars)</b>	26				
Loss before income tax benefit		<u>\$(0.12)</u>		<u>\$(0.10)</u>	
Net loss		<u>\$(0.12)</u>		<u>\$(0.10)</u>	

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

**English Translation of Financial Statements Originally Issued in Chinese**

**SILICON INTEGRATED SYSTEMS CORP.  
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
For the six-month periods ended June 30, 2003 and 2002  
(Expressed in Thousands of New Taiwan Dollars)**

Description	Common Stock	Capital Reserve	Retained Earnings		Cumulative Translation Adjustments	Unrealized Loss on Long-term Investments	Total
			Legal Reserve	Unappropriated Earnings (Accumulated Deficits)			
<b>Balance as of January 1, 2002</b>	\$10,714,164	\$7,740,182	\$314,911	\$ (607,972)	\$31,778	\$-	\$18,193,063
Transfer of legal reserve to offset deficit			(314,911)	314,911			-
Transfer of capital reserve to offset deficit		(293,061)		293,061			-
Translation adjustment on equity investees					(7,553)		(7,553)
Net loss for six months ended June 30, 2002				(103,267)			(103,267)
<b>Balance as of June 30, 2002</b>	\$10,714,164	\$7,447,121	\$-	<b>\$(103,267)</b>	\$24,225	\$-	\$18,082,243
<b>Balance as of January 1, 2003</b>	\$10,880,166	\$7,828,567	\$-	\$ (4,183,163)	\$30,052	<b>\$(57,260)</b>	\$14,498,362
Transfer of capital reserve to offset deficit		<b>(4,183,163)</b>		4,183,163			-
Issuance of common stock	2,500,000	2,175,889					4,675,889
Translation adjustment on equity investees					(230)		(230)
Net loss for six months ended June 30, 2003				(156,629)			(156,629)
Unrealized loss on long-term investments						(29,861)	(29,861)
<b>Balance as of June 30, 2003</b>	\$13,380,166	\$5,821,293	\$-	<b>\$(156,629)</b>	\$29,822	<b>\$(87,121)</b>	\$18,987,531

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

English Translation of Financial Statements Originally Issued in Chinese

**SILICON INTEGRATED SYSTEMS CORP.**

**STATEMENTS OF CASH FLOWS**

**For the six-month periods ended June 30, 2003 and 2002**

**(Expressed in Thousands of New Taiwan Dollars)**

	For the six-month period ended June 30,	
	2003	2002
Cash flows from operating activities:		
Net loss	\$(156,629)	\$(103,267)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	2,055,058	2,035,447
Amortization	246,044	270,715
Investment loss accounted for under the equity method	21,693	2,839
Other investment loss	69,465	-
Unrealized profit on intercompany sales	-	757
Loss on decline of assets	85,019	-
Loss (Gain) on disposal of property, plant and equipment	319	(49,792)
Gain on disposal of investments	(21,614)	(282,573)
Compensation interest payable	66,595	-
Changes in assets and liabilities:		
Notes receivable	360,679	(39,771)
Accounts receivable	291,243	(1,221,759)
Accounts receivable-related parties	11,418	(18,926)
Other receivables	175,172	-
Other receivables-related parties	(44,812)	-
Inventories	137,109	66,439
Prepaid expenses	(33,639)	(379,590)
Other current assets	(33,764)	(193,567)
Notes payable	-	(4,404)
Accounts payable	(246,670)	27,639
Accounts payable-related parties	152,080	(57,159)
Royalty payable	(186,515)	-
Accrued expenses	(264,777)	86,467
Other current liabilities	(15,213)	(24,505)
Accrued pension liabilities	9,451	5,950
Net cash provided by operating activities	<u>2,677,712</u>	<u>120,940</u>
Cash flows from investing activities:		
Decrease (Increase) in short-term investments	(3,063,565)	1,335
Increase in long-term investments	(449,990)	(34,970)
Increase in other financial assets	(103,815)	-
Acquisition of property, plant and equipment	(584,349)	(1,345,757)
Proceeds from disposal of property, plant and equipment	34,859	115,236
Proceeds from disposal of long-term investment	-	464,621
Increase in intangible assets	(11,348)	(220,874)
Decrease (Increase) in refundable deposits	202	(3,854)
Increase in deferred charges	(31,069)	(266,274)
Net cash used in investing activities	<u>(4,209,075)</u>	<u>(1,290,537)</u>

(Continued)

**English Translation of Financial Statements Originally Issued in Chinese**

**SILICON INTEGRATED SYSTEMS CORP.  
STATEMENTS OF CASH FLOWS**

**For the six-month periods ended June 30, 2003 and 2002  
(Expressed in Thousands of New Taiwan Dollars)**

	For the six-month period ended June 30,	
	2003	2002
(Continued)		
Cash flows from financing activities:		
Increase (Decrease) in short-term loans	\$(1,021,679)	\$654,153
Increase (Decrease) in obligation under capital lease	(172,639)	2,796
Redemption of bonds	(442,099)	-
Decrease in long-term loans	(2,286,364)	(636,363)
Proceeds from issuance of Global Depository Shares	4,675,889	-
Net cash provided by financing activities	753,108	20,586
Net decrease in cash and cash equivalents	(778,255)	(1,149,011)
Cash and cash equivalents at beginning of period	3,085,675	2,909,114
Cash and cash equivalents at end of period	<u>\$2,307,420</u>	<u>\$1,760,103</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest (excluding capitalized interest)	<u>\$178,313</u>	<u>\$390,844</u>
Cash paid for income tax	<u>\$903</u>	<u>\$936</u>
Capitalized interest	<u>\$-</u>	<u>\$2,900</u>
Investing activities partially paid by cash:		
Acquisition of property, plant and equipment	\$365,390	\$414,616
Decrease in equipment payable	218,959	931,141
Cash paid for acquiring property, plant and equipment	<u>\$584,349</u>	<u>\$1,345,757</u>
Investing and financing activities not affecting cash flows:		
Current portion of long-term loans	<u>\$2,132,725</u>	<u>\$2,338,974</u>
Obligation under capital lease-current	<u>\$-</u>	<u>\$98,801</u>

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

**English Translation of Financial Statements Originally Issued in Chinese**

**SILICON INTEGRATED SYSTEMS CORP.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003 and 2002**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Stated)**

1. Organization and Operations

Silicon Integrated Systems Corp. (“the Company”) was incorporated on August 26, 1987 under the laws of the Republic of China (“ROC”) and its shares have been listed and traded on the Taiwan Stock Exchange since August 1997.

The Company is engaged in the design, research, development and manufacturing of specific application integrated circuits, including core logic chipsets, 3D graphic and connectivity chips for mainstream PC and networking applications, testing services, and limited related trading business.

The numbers of employees as of June 30, 2003 and 2002 were 1,509 and 1,663, respectively.

2. Summary of Significant Accounting Policies

The financial statements were prepared in conformity with “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and accounting principles generally accepted in the Republic of China. Summary of significant accounting policies is as follows:

(1) Foreign currency transactions

The Company’s accounts are maintained in New Taiwan dollars (“NTD”). Transactions other than forward foreign exchange contracts in any given year involving payments denominated in foreign currencies are converted into NTD at exchange rates prevailing at the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into NTD using the exchange rates on that date. The resulting exchange gains or losses from settlement of such transactions or translation of monetary assets and liabilities are reflected in the accompanying statements of operations. The resulting differences are credited or charged to current income except those foreign currency denominated long-term investments where such differences are accounted for as translation adjustment under stockholders’ equity.

(2) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near to their maturity that they present insignificant risk of changes in interest rates. Commercial paper and negotiable certificates of deposit with original maturity of three months or less are considered to be cash equivalents.

(3) Short-term investments

Short-term investments are recorded at cost when acquired and are stated at the lower of aggregate cost or market value at the balance sheet date. Costs of such investments sold are determined by the weighted-average method.

(4) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on expected collectibility and aging analysis of notes receivable, accounts receivable, and receivable from affiliates.

(5) Revenue recognition

Revenue is generally recognized at the time of actual delivery and customer acceptance, which is when title is transferred. Allowance for sales returns and discounts are estimated at the time of the recognition of the related revenues on the basis of experience and these provisions are deducted from sales to derive the net revenue.

(6) Other financial assets

Investments in credit-linked notes are stated at cost.

(7) Inventories

Inventories are stated at the lower of cost or market value. The cost is determined by using standard costs. The difference between the standard cost and actual cost is allocated proportionately to cost of goods sold and inventories in the accompanying statements of operation. The market value for raw materials is determined based on current replacement cost while work in process and finished goods are determined based on net realizable value.

(8) Long-term investments

Investments in shares of companies wherein the Company exercises significant influence on the operating and financial policy decisions are accounted for using the equity method. Under the equity method, investments are initially carried at cost and subsequently adjusted for the proportionate equity of the Company in the net income or net loss of the investees.

The entire amount of the gains or losses on sales to majority owned subsidiaries are deferred until such gains or losses are realized through the subsequent sale of the related products to third parties. On the other hand, the gains or losses on the sales made by the subsidiaries to the Company are deferred by the Company to the extent of its equity interest in such subsidiaries until such gains or losses are realized also through the subsequent sale of the related products to unrelated parties.

Other stock investments are accounted for under the cost method. An allowance for decline in value is recognized as follows:

- a. Listed stocks or stock traded over the counter: If the decline in market value is considered temporary, a credit is made to an allowance for decline in value with a corresponding debit to stockholders' equity. The allowance is then debited for any subsequent recovery of the market value to the extent of the balance of the allowance. However, if the decline in value is considered irrecoverable, the allowance for decline in value is reversed and the debit to stockholders' equity is charged to income.
- b. Other than listed stocks or stocks traded over the counter: The decline in value is charged to current income only if the decline is irrecoverable.

Cash dividends received in the year the investment is made are credited to the cost of the investment while cash dividends received in subsequent years are recognized as investment income. No investment income is recognized on stock dividends received other than an increase in the number of shares of stock held on the ex-dividend date.

The costs of investments sold are determined using the weighted-average method.

(9) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Significant additions, renewals and improvements are capitalized and depreciated over their estimated useful lives while ordinary repairs and maintenance are expensed as incurred. Interest incurred on loans used to finance the construction of property, plant and equipment is capitalized. Properties covered by agreements qualifying as leased assets are carried at the lower of the leased equipment's market value or the present value of the minimum lease payments at the inception date of the lease. The effective interest rate method is used to allocate each lease payment between principal and interest expense.

When assets are retired or disposed of, their cost and related accumulated depreciation are removed from the fixed assets account. Gain or loss on disposal of property, plant and equipment are recorded as non-operating income or expenses in the accompanying statements of operations.

Property, plant and equipment which is continued to use after reaching its useful life will be depreciated over its remaining useful life on the basis of residual value. Depreciation is provided on the straight-line basis over the following useful lives :

Buildings and auxiliary equipment	3-55	Years
Machinery and equipment	3-10	Years
Furniture and fixtures	3-8	Years
Transportation equipment	5	Years
Leased assets	3-4	Years

(10) Intangible assets

License agreements are amortized over 3 to 5 years using the straight-line method.

(11) Deferred charges

Deferred charges are stated at cost and amortized on a straight-line basis over the period as follows:

Software	3	Years
Bonds issuance costs		the life of the bonds

(12) Convertible bonds

The cost method is adopted when an investor exercises his/her conversion right. The book value of bonds is credited to common stock at an amount equal to the par value of the stock and the excess is credited to capital surplus; no gain or loss will be recognized on bond conversion.

(13) Pension plan

The Company has established a defined benefit pension plan (the “Plan”) covering all regular employees in Taiwan. In accordance with the Plan, payments of retirement benefits are based on the years of service and the average salary for the six-month period before the employee’s retirement. The Company contributes 2 percent of salaries and wages to a pension fund maintained with the Central Trust of China on a monthly basis.

The Company has adopted the ROC Statements of Financial Accounting Standards (“SFAS”) No. 18, “Accounting for Pensions”. The statement requires the Company to perform an actuarial calculation of its pension obligation as of each balance sheet date. Based on the actuarial calculation, the Company recognizes a minimum pension liability and net pension cost.

(14) Income tax

The Company has adopted the ROC SFAS No. 22, that requires measuring and reporting of interperiod and intraperiod tax allocation. Tax consequences caused by taxable temporary differences should be recorded as deferred tax liability; tax consequences caused by deductible temporary differences, operating loss carryforwards, and tax credits should be recorded as deferred tax assets. Valuation allowance associated with the underlying tax assets is then determined based on the realization of deferred tax assets.

According to the Income Tax Law, the Company’s undistributed income earned after December 31, 1997, is subject to an additional 10 percent corporate income surtax. The surtax is charged to income tax expenses after the appropriation of earnings is approved by the shareholders in the following year.

According to the ROC SFAS No. 12, the Company realized the tax benefit at the year of equipment acquired, or the year of expenditures incurred for research and development.

(15) Derivative financial instruments

All forward foreign exchange contracts are used for hedging foreign currency positions. These contracts are translated at the spot rate on the inception date of the forward contracts. The discount or premium on a forward contract is amortized over its life. The difference between the spot rate on the inception date of a forward contract and the market spot rate at the balance sheet date is reflected in the accompanying statements of operations.

3. Change in Accounting Principles

None.

4. Cash and Cash Equivalents

	As of June 30,	
	2003	2002
Petty cash	\$150	\$150
Checking and savings accounts	1,147,643	1,670,753
Time deposits	1,159,627	89,200
	<u>\$2,307,420</u>	<u>\$1,760,103</u>

5. Short-term Investments

	As of June 30,	
	2003	2002
Mutual funds	\$3,000,000	\$-
Stocks	85,179	-
	<u>3,085,179</u>	<u>-</u>
Less: allowance for loss on decline in market value	-	-
	<u>\$3,085,179</u>	<u>\$-</u>

6. Notes Receivable

	As of June 30,	
	2003	2002
Notes receivable	\$334,799	\$401,178
Less: allowance for doubtful accounts	(10,044)	-
	<u>\$324,755</u>	<u>\$401,178</u>

7. Accounts Receivable

	As of June 30,	
	2003	2002
Accounts receivable	\$3,155,530	\$3,327,833
Less: allowance for doubtful accounts	(102,893)	(119,577)
Less: allowance for sales returns and discounts	(41,772)	(101,253)
	<u>\$3,010,865</u>	<u>\$3,107,003</u>

The Company entered into agreements to sell accounts receivable to factors without recourse. Due from factors as of June 30, 2003 and 2002 was zero and \$460,974, respectively. The factors assess a finance charge that is reflected in non-operating expenses as a factoring expense.

Under the factoring agreements, the Company is assessed a periodic finance charge, based on the uncollected balance of the factored receivables over a fixed term of no longer than 180 days.

8. Other Financial Assets-Current

	As of June 30,	
	2003	2002
Credit-linked notes	<u>\$34,605</u>	<u>\$-</u>

Please refer to Note 32 for disclosures on risks of credit-linked notes.

9. Inventories

	As of June 30,	
	2003	2002
Materials and supplies	\$181,049	\$230,117
Work in process	1,723,165	2,400,538
Finished goods	1,342,098	1,434,133
	3,246,312	4,064,788
Less: provision for inventory obsolescence and net realizable value	<u>(965,468)</u>	<u>(336,000)</u>
	<u>\$2,280,844</u>	<u>\$3,728,788</u>

As of June 30, 2003 and 2002, the insurance coverage for inventories amounted to \$2,312,000 and \$3,538,611, respectively.

## 10. Long-term Investments

Invested Company	As of June 30,			
	2003		2002	
	Amount	Percentage of Ownership	Amount	Percentage of Ownership
Equity method:				
Silicon Integrated Systems Corporation (SiS-USA)	\$39,975	100.00	\$39,449	100.00
Silicon Integrated Systems Limited (SiS-HK)	13,526	100.00	13,741	100.00
XGI Technology Inc. (XGI)	434,690	99.99	-	-
InveStar CPU Venture Capital Fund, Inc. LDC (IVCF)	6,715	62.50	124,151	62.50
	<u>494,906</u>		<u>177,341</u>	
Cost method or the lower of cost or market value method:				
Vanguard International Semiconductor Corp. (VIS)	212,914	0.71	212,914	-
VADEM Corporation (VADEM) - Preferred stock	-	-	2,220	-
Orient Semiconductor Electronics (OSE) - Preferred stock	533,250	-	1,035,000	-
GlobiTech Incorporation (GlobiTech) - Series E preferred stock	-	-	69,465	-
	<u>746,164</u>		<u>1,319,599</u>	
Less: allowance for loss on decline in market value	<u>(87,121)</u>		<u>-</u>	
	<u>659,043</u>		<u>1,319,599</u>	
	<u>\$1,153,949</u>		<u>\$1,496,940</u>	

- a. Because of the consecutive operating loss in GlobiTech, the Company considered the possibility of recovery of market value of its long-term investment low. As a result, the Company recognized permanent decline on long-term investment in \$69,465 as other investment loss for the six-month period ended June 30, 2003.
- b. The Company acquired 90,000 thousand shares of non-voting OSE preferred stock on September 21, 2001 for \$1,035,000. The OSE preferred stock pays cumulative dividends at 5.6% and has a mandatory one for one conversion feature into common stock of OSE at the end of the third year. The Company recognized dividends income in \$28,980 and \$30,870 as non-operating income for the six-month periods ended June 30, 2003 and 2002, respectively. Resulting from the evaluation made by the Company in 2002, the possibility of recovery of market value of its long-term investment was considered low, therefore, the Company recognized permanent decline on long-term investment in \$501,750 as investment loss in the second half of year 2002.

- c. The equity in net loss, which is recognized based on audited financial statements was summarized as follows:

	<u>For the six-month period ended June 30,</u>	
	<u>2003</u>	<u>2002</u>
SiS-USA	\$(3,840)	\$(1,546)
SiS-HK	(2,406)	(633)
XGI	(15,300)	-
IVCF	(147)	(660)
	<u><u>\$(21,693)</u></u>	<u><u>\$(2,839)</u></u>

- d. The average market value of VIS shares owned by the Company as of June 30, 2003 and 2002 was \$125,793 and \$391,534, respectively. The allowance for loss on decline in market value for the six-month periods ended June 30, 2003 and 2002 was \$87,121 and zero, respectively.
- e. The Company's investee, InveStar CPU Venture Capital Fund, Inc. LDC has resolved to wind up at the Shareholders Written Consent held in November 2002. However, liquidation process has not been commenced yet as of June 30, 2003.
- f. The Company's investee, XGI, based on the resolutions of the board of directors' meeting on June 3 and June 27, 2003, issued new shares for a cash consideration of \$450,000 and \$600,000, respectively. The Company does not participate in both of the subscriptions. However, the subscription process has not finished yet as of June 30, 2003.

11. Other Financial Assets-Noncurrent

	<u>As of June 30,</u>	
	<u>2003</u>	<u>2002</u>
Credit-linked notes	<u><u>\$69,210</u></u>	<u><u>\$-</u></u>

Please refer to Note 32 for disclosures on risks of credit-linked notes.

12. Property, Plant and Equipment

- a. No interest was capitalized for the six-month period ended June 30, 2003. Total interest expenses before capitalization and capitalized interest expense were \$306,957 and \$2,900 for the six-month period ended June 30, 2002, respectively. The rate used in calculation of capitalization of interest was 2.88%~5.28% for the six-month period ended June 30, 2002.

- b. The insurance coverage for property, plant and equipment amounted to \$28,888,647 and \$31,820,745 as of June 30, 2003 and 2002, respectively.
- c. Please refer to Note 28 for property, plant and equipment pledged as collateral.
- d. Information of capital leases is summarized as follows:

	As of June 30,	
	2003	2002
Leased period	From April 2000 to March 2006	From October 1999 to October 2003
Total amount of leased assets	\$373,880	\$277,995
Present value of obligation under capital lease	\$-	\$143,802
Less: current portion of obligation under capital lease	-	(98,801)
Over one year	\$-	\$45,001

The aforementioned obligation under capital lease has been fully repaid ahead of schedule during six-month period ended June 30, 2003.

### 13. Intangible Assets

	As of June 30,	
	2003	2002
License agreements	\$71,721	\$1,164,302

The Company recognized intangible assets attributable to various license agreements with several foreign companies for rights to use certain patents or technologies. Royalties have been paid in installments and are amortized over the periods of these agreements. As of December 31, 2002, the Company had determined that the intangible assets derived from some of these agreements were impaired due to changes in the Company's operating strategies. In 2002, \$1,208,072 was written off and recorded as non-operating loss in the statement of operations.

14. Deferred Charges

	As of June 30,	
	2003	2002
Software	\$559,829	\$551,932
Bonds issuance costs	35,266	81,726
	<u>\$595,095</u>	<u>\$633,658</u>

15. Other Assets-Others

	As of June 30,	
	2003	2002
Land	\$79,024	\$79,024
Machinery and equipment-net	535,439	-
	<u>\$614,463</u>	<u>\$79,024</u>

- a. In August 2000, the Company purchased a parcel of land in Hsinchu, ROC as the site for the new facilities for research and development activities. This parcel of land is zoned as farmland and, as required by regulation in ROC, must be owned by an individual rather than a corporate entity. To comply with this regulation, the parcel was registered under the name of Ms. Hsin-Ron Duh, a third party, temporarily. The Company paid for the parcel on behalf of Ms. Duh, registered the land under her name and obtained the first mortgage on the property. Pursuant to an agreement between the Company and Ms. Duh, Ms. Duh has granted the Company unrestricted usage rights and has agreed to transfer the registered title to the Company when the land is no longer zoned as farmland. The Company, also under the agreement, is responsible for all taxes and expenses incurred for the usage of the land.
- b. Due to the changes in the Company's operating strategies, the aforementioned equipment are to be disposed and were recorded as non-operating assets at their net realizable value. The Company therefore recognized impairment loss in \$85,019 for the six month period ended June 30, 2003.

16. Short-term Loans

	As of June 30, 2002		
	Interest rates	Amount	Collateral
Resolving funds	3.50%~5.75%	\$2,450,000	None
Usance L/C loans	0.69%~4.39%	408,783	None
		<u>\$2,858,783</u>	

17. Bonds Payable

	As of June 30,	
	2003	2002
Secured domestic bonds payable	\$2,140,002	\$3,000,000
Euro convertible bonds payable	2,887,787	-
Accrued interest compensation	127,759	-
	<u>5,155,548</u>	<u>3,000,000</u>
Less: current portion	<u>(859,998)</u>	<u>(859,998)</u>
	<u>\$4,295,550</u>	<u>\$2,140,002</u>

- a. On July 4, 2000, the Company issued five-year secured bonds amounting to \$3,000,000 with stated interest rate of 5.42%. The bonds are repayable in installments by every six months from July 2002 to July 2005.

The bond agreement requires, among other things, the maintenance of specific financial ratios, including current ratio, stockholders' equity ratio and interest coverage ratio, which are tested on both semi-annual and annual basis.

Please refer to Note 28 for assets pledged for bonds payable.

- b. On December 14, 2001, the Board of Directors approved the planned issuance of European Convertible Bonds (ECB), which were carried out on July 18, 2002. The terms and conditions of the bonds are as follows:

- (a) Total issued:

The Company issued the bonds amounting to US\$100,000,000. As of June 30, 2003, US\$16,550,000 of the bonds have been converted.

- (b) Place of issuance:

The bonds are issued in Europe, Asia and America and listed on the Luxembourg Stock Exchange ("LSE").

- (c) Issue period:

Five years from July 18, 2002 to July 18, 2007.

(d) Final redemption:

The stated interest rate of the bonds is 0%. Unless previously redeemed, repurchased, cancelled or converted, the bonds will be redeemed at their principal and compensation interest amounts.

(e) Redemption at the option of the Company:

- i. Unless previously converted or redeemed, the bonds will be redeemed at maturity.
- ii. Early redemption price before maturity:

The bonds can be redeemed after eighteen months and in the event that the closing price during any twenty consecutive trading days is over the conversion price by 125% or at least 90% in principal amount of the bonds has already been redeemed, purchased or converted.

(f) Redemption at the option of bondholders:

The Company will at the option of the holders, redeem such bonds after two years at their principal and compensation interest amounts.

(g) Conversion:

- i. Conversion object: The common stock of the Company.
- ii. Conversion period: August 18, 2002 to June 18, 2007.
- iii. Conversion price:

The conversion price upon issuance was NT\$33 per share and has been adjusted to NT\$31.66 since January 7, 2003 as the Company issued new shares for Global Depositary shares (“GDSs”).

The conversion price will be adjusted on the reset dates which shall be the date falling 45 days prior to July 18, 2003, 2004, 2005 and 2006 in the event that the average closing price for the 20 consecutive trading days prior to the reset dates converted into US dollars at the prevailing rate shall be less than the conversion price then in effect. However, the adjusted conversion price shall not be less than 80 percent of original conversion price.

Due to the above-mentioned reason, the conversion price has been adjusted from NT\$31.66 to NT\$25.33 since the first reset day.

## 18. Long-term Loans

a. Details of long-term loans are summarized as follows:

Creditor	Type	Repayment terms	Maturity	As of June 30,	
				2003	2002
Industrial bank of Taiwan, First Commercial bank, etc.	Secured syndicated loans	Principal payable in 11 semi-annual installments starting from June of 2002.	June 2, 2007	\$5,090,909	\$6,363,636
Industrial bank of Taiwan, First Commercial bank, etc.	Secured syndicated loans	Principal payable in 8 semi-annual installments starting from February of 2003.	August 31, 2006	-	1,650,000
				5,090,909	8,013,636
Less: current portion of long-term loans				(1,272,727)	(1,478,976)
				\$3,818,182	\$6,534,660

b. The loan originally scheduled to be repaid starting from February of 2003 has been fully paid off during the six-month period ended June 30, 2003.

c. Interest rates of long-term loans ranged from 2.63%~3.54% and 3.47%~4.40% for the six-month periods ended June 30, 2003 and 2002, respectively.

d. Please refer to Note 28 for assets pledged for long-term loans.

19. Pension Plan

The net pension cost recognized for the six-month periods ended June 30, 2003 and 2002 was \$22,571 and \$19,348, respectively, and the balances of the pension fund deposited at the Central Trust of China as of June 30, 2003 and 2002 were \$125,023 and \$97,548, respectively.

20. Common Stock

- a. As of January 1, 2002, the issued capital of the Company was \$10,714,164, for 1,071,416 thousand shares of common stock at par of NT\$10.
- b. On December 28, 2001, September 11, 2002 and March 18, 2003, the Company was authorized by the Securities and Futures Commission to issue Employee Stock Options. The total numbers of options to be granted under the plan are 30 million, 20 million and 50 million units, respectively, with each unit entitling the optionee to subscribe for one share of the Company's common stock. The grant period for options is seven years and an optionee may exercise his/her options in accordance with certain schedules as prescribed by the plan starting from two years after the grant. The total number of option units outstanding as of June 30, 2003 was 99,930 thousand units and the exercise prices for the options were NT\$40.83, NT\$20.91 and NT\$22.60 per unit, respectively.
- c. As of June 30, 2003, in accordance with the conversion policy, bondholders of the European Convertible Bonds (ECB) issued by the Company have applied to convert to 16,600 thousand common shares. The excess of the conversion amount over capital was \$381,446, recorded as capital reserve.
- d. Based on a resolution at the Board of Directors' meeting held on August 23, 2002, the Company plan to issue 250,000 thousand new common stocks on January 7, 2003 for \$2,500,000 in cash for the issuance of Global Depository Shares ("GDSs").

The aforementioned GDSs will be listed on the Luxembourg Stock Exchange and the issuance amount will be US\$5.515 per GDS (issued at premium value of NT\$19.2 per share) with total proceeds in US\$137,875,000 (equivalent to \$4,800,000) for 25 million units (each unit represents 10 common shares).

- f. As of June 30, 2003, the issued capital of the Company was \$13,380,166, for 1,338,017 thousand shares of common stock at par of NT\$10.

## 21. Capital Reserve

Pursuant to the Company Law, capital reserve can only be used to offset an accumulated deficit or be transferred to capital (as a stock dividend). Such transfer from capital reserve to capital (as a stock dividend) are limited to the following: (i) donations (donated capital); (ii) the excess of the issue price over the par value of the capital stock issued; (iii) the excess of the sale price over the par value of treasury stock sold; and (iv) the excess of the issue price over the par value of shares issued in a business combination. The Company shall not use the capital reserve to make up its deficit unless the legal reserve or other special reserve is insufficient to make up such losses.

## 22. Legal Reserve

The Company Law stipulates that companies must retain at least 10% of their annual earnings, as defined in the Law, until such retention equals the amount of paid-in capital. This retention is accounted for as a legal reserve account upon approval at the shareholders' meeting. Once the legal reserve equals one-half of the paid-in capital, 50% of the reserve may be transferred to common stock. The legal reserve cannot be distributed as cash dividends to shareholders; however, it can be used at any time to replenish any deficit.

## 23. Distribution of Earnings

According to the Company's articles of incorporation, the Company's annual earnings shall be used to offset an accumulated deficit, if any, and be retained at a rate of 10 percent, as defined in the Company Law, except when such retention equals the amount of authorized common stock. After the aforementioned deduction, 10 percent of remaining earnings should be distributed as employee bonuses. The distribution of any remaining earnings is subject to the approval of the stockholders.

According to a regulation of the Securities and Futures Commission ("SFC") promulgated in 1999, a publicly listed company in the ROC should retain a special reserve, which is equal to the reduction in stockholders' equity before distributing annual earnings, which were generated since 1999. If the aforementioned reduction in stockholder' equity is reserved, the same amount could be removed from special reserve and transferred to unappropriated earnings.

Based on a resolution at the stockholders' meeting held on June 27, 2003, the Company offset its accumulated deficits with the capital reserve in \$4,183,163.

Based on a resolution at the stockholders' meeting held on June 26, 2002, the Company offset its accumulated deficits with the capital reserve in \$293,061 and legal reserve in \$314,911.

24. Summary of Labor, Depreciation, Depletion and Amortization

	For the six-month period ended June 30,					
	2003			2002		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Labor expenses						
Salaries	246,245	365,858	612,103	273,456	328,082	601,538
Labor and health insurance	21,922	25,443	47,365	19,881	20,329	40,210
Pension	11,490	11,081	22,571	10,638	8,710	19,348
Other labor expenses	36,077	7,660	43,737	29,286	12,334	41,620
Total	315,734	410,042	725,776	333,261	369,455	702,716
Depreciation expenses	1,881,963	173,095	2,055,058	1,901,832	133,615	2,035,447
Depletion expenses	-	-	-	-	-	-
Amortization expenses	47,900	181,217	229,117	40,660	230,055	270,715

25. Income Tax

- a. The components of deferred tax assets (liabilities) as of June 30, 2003 and 2002, are summarized as follows:

	As of June 30,	
	2003	2002
(A) Total deferred income tax assets	\$6,468,425	\$5,014,754
(B) Total deferred income tax liabilities	\$1,075,294	\$602,866
(C) Total valuation allowance	\$3,769,213	\$2,787,971
	As of June 30,	
	2003	2002
(D) Deferred income tax assets-current	\$1,011,438	\$194,399
Valuation allowance for deferred income tax		
Assets-current	(483,539)	(68,215)
Deferred income tax assets-current-net	527,899	126,184
Deferred income tax liabilities-current	-	-
Net deferred income tax assets-current	\$527,899	\$126,184

	As of June 30,	
	2003	2002
Deferred income tax assets-noncurrent	\$5,456,987	\$4,820,355
Valuation allowance for deferred income tax assets-noncurrent	(3,285,674)	(2,719,756)
Deferred income tax assets-noncurrent-net	2,171,313	2,100,599
Deferred income tax liabilities-noncurrent	(1,075,294)	(602,866)
Net deferred income tax assets-noncurrent	\$1,096,019	\$1,497,733

(E) The temporary differences of deferred tax assets (liabilities), loss carryforward, and income tax credits as of June 30, 2003 and 2002, were summarized as follows:

	As of June 30,			
	2003		2002	
	Amount	Income tax effect	Amount	Income tax effect
Deferred income tax assets (liabilities) - current:				
Provision for inventory obsolescence and net realizable value	\$965,468	\$241,367	\$316,999	\$79,250
Allowance for sales returns and discounts	41,772	10,443	51,002	12,750
Allowance for doubtful accounts	77,654	19,414	82,270	20,567
Unrealized exchange (gain) loss	63,988	15,997	9,413	2,353
Unrealized loss on decline of assets	673,387	168,347	-	-
Depreciation	257,389	64,347	-	-
Investment tax credits	483,539	483,539	68,215	68,215
Others	31,937	7,984	45,055	11,264
Deferred income tax assets (liabilities) - noncurrent:				
Depreciation	\$(4,301,176)	\$(1,075,294)	\$(2,100,353)	\$(525,088)
Pension	64,383	16,096	50,307	12,576
Unrealized loss on decline of assets	749,957	187,489	-	-
Loss carryforward	7,483,045	1,870,761	4,982,444	1,245,611
Investment tax credits	3,347,710	3,347,710	3,463,003	3,463,003
Others	139,721	34,931	85,546	21,387

b. The components of income tax expense were as follows:

	For the six-month period ended June 30,	
	2003	2002
Income tax payable	\$-	\$-
Deferred income tax expense (benefits) resulting from:		
Investment tax credits	(214,123)	(483,258)
Loss carryforward	(9,257)	(444,013)
Temporary differences	148,109	250,165
Change in valuation allowance	75,271	677,106
Income tax benefit	\$-	\$-

c. The Company's income tax returns through 1999 have been assessed and approved by the Tax Authority.

d. The income of the Company attributable to the following projects and services is exempt from income tax:

	Tax-Exemption Period
Expansion of third manufacturing plant	2000 to 2003
Expansion of fourth manufacturing plant	2002 to 2005

e. An enterprise earns an investment tax credit for the amount invested in production equipment, research and development expenditure, employee training expenditure and other related costs. This credit may be applied over a period of five years.

As of June 30, 2003, the Company's unused investment tax credit is as follows:

Total tax credit amount	Balances of tax credit amount	Year of expiration
\$571,449	\$483,539	2003
1,966,578	1,966,578	2004
867,815	867,815	2005
343,473	343,473	2006
169,844	169,844	2007
<u>\$3,919,159</u>	<u>\$3,831,249</u>	

- f. Under the rules of Income Tax Law, operating loss can be carried forward for 5 years. As of June 30, 2003, the unutilized accumulative loss brought forward amounted to \$7,483,045, which will expire in 2005, 2006, 2007 and 2008.

As of June 30, 2003 and 2002, the balance of the imputation credit account (“ICA”) were both \$256.

Due to the accumulated deficits in 2002 and 2001, there was no actual creditable ratio in both years.

## 26. Loss Per Share

A reconciliation of numerator and denominator of basic loss per share calculation is provided as follows:

	For the six-month period ended June 30,	
	2003	2002
Outstanding weighted average shares (Thousands)	1,338,017	1,071,416
Loss before income tax	\$(156,629)	\$(103,267)
Net loss	\$(156,629)	\$(103,267)
Loss per share-basic (New Taiwan Dollars)		
Loss before income tax	\$(0.12)	\$(0.10)
Net loss	\$(0.12)	\$(0.10)
Loss per share-diluted		
Loss before income tax	\$(0.12)	\$(0.10)
Net loss	\$(0.12)	\$(0.10)

## 27. Related Party Transactions

### (1) Name and relationship of related parties

<u>Name of related parties</u>	<u>Relationship with the Company</u>
United Microelectronics Corporation (UMC)	The Company’s investor
Orient Semiconductor Electronics (OSE)	The chairman is the spouse of the Company’s former chairman (the Company’s former chairman resigned in October 2002 and took the position as the chairman of OSE in February 2003)
Silicon Integrated Systems Corporation (SiS-USA)	A subsidiary of the Company
Silicon Integrated Systems Limited (SiS-HK)	A subsidiary of the Company
XGI Technology Inc.(XGI)	A subsidiary of the Company

(2) Significant related party transactions

a. Operating revenues

	For the six-month period ended June 30,			
	2003		2002	
	Amount	Percentage	Amount	Percentage
SiS-HK	\$139,675	1.61	\$112,118	1.65
SiS-USA	73	-	-	-
	<u>\$139,748</u>	<u>1.61</u>	<u>\$112,118</u>	<u>1.65</u>

The sales to the above related parties were dealt with in the ordinary course of business with the sales price made in the way similar to the sales to third-party customers.

b. Purchase

	For the six-month period ended June 30,			
	2003		2002	
	Amount	Percentage	Amount	Percentage
UMC	<u>\$323,270</u>	<u>9.42</u>	<u>\$-</u>	<u>-</u>

The purchases from the above related parties were dealt with in the ordinary course of business similar to those from third-party suppliers. The payment terms for the related parties and third-party suppliers were month-end 45 days and month-end 60~90 days, respectively.

c. Accounts receivable

	As of June 30,			
	2003		2002	
	Amount	Percentage	Amount	Percentage
SiS-HK	<u>\$37,969</u>	<u>1.19</u>	<u>\$47,270</u>	<u>1.40</u>

d. Other receivables

	As of June 30,			
	2003		2002	
	Amount	Percentage	Amount	Percentage
UMC	\$36,830	22.76	\$-	-
XGI	7,982	4.94	-	-
	<u>\$44,812</u>	<u>27.70</u>	<u>\$-</u>	<u>-</u>

e. Prepaid expenses

	As of June 30,			
	2003		2002	
	Amount	Percentage	Amount	Percentage
OSE	\$-	-	\$350,356	66.90

f. Accounts payable

	As of June 30,			
	2003		2002	
	Amount	Percentage	Amount	Percentage
UMC	\$152,080	13.96	\$-	-
OSE	-	-	675	0.07
	\$152,080	13.96	\$675	0.07

g. Accrued expenses

	As of June 30,			
	2003		2002	
	Amount	Percentage	Amount	Percentage
SiS-USA	\$8,497	0.95	\$13,261	1.31
SiS-HK	825	0.09	1,161	0.12
	\$9,322	1.04	\$14,422	1.43

h. The Company has entered into a license agreement with UMC during the six-month period ended June 30, 2003. Under the agreement, the Company has to pay royalties based on production volume quarterly, which was \$38,010 for the six-month period ended June 30, 2003. As of June 30, 2003, the unpaid portion amounting to \$28,811 was recorded as royalty payable.

i. The Company authorized SiS-USA and SiS-HK to conduct sales orders and collect accounts receivables overseas and agreed to pay the commission expenses based on the proportion to sales. The Company also authorized SiS-USA to provide product warranty and to collect marketing information, and would pay SiS-USA the technical service fee monthly.

The Company paid commission expense and the technical service fee in \$18,643 and \$28,800 to SiS-USA for the six-month periods ended June 30, 2003 and 2002, respectively. Related amounts paid to SiS-HK were \$5,090 and \$3,413 for the six-month periods ended June 30, 2003 and 2002, respectively.

j. The Company leases offices to XGI and the leasing period is from June 1, 2003 to May 31, 2006. For the six-month period ended June 30, 2003, the rental income of \$1,688 was included in other income. In addition, as of June 30, 2003, the Company received \$3,376 in advance which was recorded as other current liabilities.

k. The Company sold machinery and equipment which was under other assets-others to UMC for the six-month period ended June 30, 2003 totally in the amount of \$34,859. No gain or loss arisen from the above transaction.

l. The subcontracted assembly and test expenses paid to OSE were \$788,766 for the six-month period ended June 30, 2002.

## 28. Assets Pledged as Collateral

Assets pledged as collateral as of June 30, 2003 and 2002, are summarized as follows:

<u>Pledged assets</u>	<u>Pledged to secure</u>	<u>As of June 30,</u>	
		<u>2003</u>	<u>2002</u>
Restricted time deposits	Customs guarantee deposits	\$36,476	\$4,100
Property, plant and equipment-net	Long-term loans and bonds payable	10,567,968	13,445,030
		<u>\$10,604,444</u>	<u>\$13,449,130</u>

## 29. Commitments and Contingent Liabilities

Commitments and contingencies as of June 30, 2003, except those disclosed in other notes, were as follows:

- Unused letters of credit for the Company aggregated approximately US\$11,789,000, ¥ 190,020,000 and EUR€460,000.
- The remaining unbilled amount of construction contracts related to the 8-inch wafer fabrication plants, ultra pure water, evaporator water system and clean room was \$240,034.

- c. The Company entered into several operating lease contracts for the Taipei office and the site of its manufacturing plants. The latter is leased from Hsinchu Science-Based Industrial Park Administration under agreements which will expire on various dates from July 2014 to October 2019 but renewable upon expiration. Annual rentals, which are subject to adjustments, currently amount to \$10,403. Future minimum rentals are as follows:

Year	Amount
2003 3 <sup>rd</sup> ~ 4 <sup>th</sup> quarter, inclusive	\$16,744
2004	33,489
2005	12,327
2006	10,403
2007	10,403
2008 and thereafter	76,093
	\$159,459

- d. The Company has entered into various license agreements with third parties. Under the agreements, the Company has to pay royalties based on the proportion of sales volumes or sales amounts. The periods of these agreements are 2 to 10 years.
- e. The Company has entered into production licensing agreement with domestic vendor. Under the agreement, the Company has to pay royalties for the contracted products based on production volumes. The period of the agreement is 3 years.

30. Significant Disaster Loss

None.

31. Significant Subsequent Events

None.

## 32. Others

### (1) Fair value of financial instruments

	As of June 30,			
	2003		2002	
	Book value	Fair value	Book value	Fair value
<u>Non-derivative financial instruments</u>				
Assets :				
Cash and cash equivalents	\$2,307,420	\$2,307,420	\$1,760,103	\$1,760,103
Short-term investments	3,085,179	3,112,967	-	-
Notes and accounts receivable (including accounts receivable-related parties)	3,373,589	3,373,589	3,555,451	3,555,451
Other receivables (including other receivables-related parties)	161,799	161,799	612,590	612,590
Other financial assets	103,815	103,815	-	-
Restricted deposits	36,476	36,476	4,100	4,100
Long-term investments	1,153,949	1,153,949	1,496,940	1,675,560
Refundable deposits	6,450	6,450	15,457	15,457
Liabilities :				
Short-term loans	-	-	2,858,783	2,858,783
Notes and accounts payable (including accounts payable-related parties)	2,334,980	2,334,980	2,171,088	2,171,088
Royalty payable (including current portion)	1,070,811	1,070,811	1,052,627	1,052,627
Bonds payable (including current portion)	5,155,548	5,155,548	3,000,000	3,000,000
Long-term loans (including current portion)	5,090,909	5,090,909	8,013,636	8,013,636
Obligation under capital lease (including current portion)	-	-	143,802	143,802
<u>Derivative financial instruments</u>				
Liabilities-non-trading				
Forward exchange contracts-sold	-	-	103,462	99,185

The following methods and assumptions were used by the Company in estimating the fair value of the financial instruments:

- a. Short-term financial instruments and other financial assets: the carrying amount reported on the balance sheets approximates their fair value due to their short-term nature. Short-term financial instruments included cash and cash equivalents, notes and accounts receivable (including accounts receivable-related parties), other receivables, restricted deposits, short-term loans, notes and accounts payable (including accounts payable-related parties).

- b. Long-term investment: the fair values of long-term investments are based on the market value of the securities or, if the market value is unavailable, the net equities of the investees are used as fair value.
- c. Bonds payable and long-term loans: the fair value of bonds payable is determined by the market value. The carrying value of long-term loans approximates the fair value as the loans bear floating rates.
- d. Fair value of derivative financial instruments: the spot rate is revalued at the balance sheet date, and the difference between the contracted spot rate and the revalued spot rate is recorded as unrealized exchange gains or losses.

The fair values of certain financial instruments are not required to be disclosed. Accordingly, the sum of the fair values of the financial instruments listed above is not equal to the fair value of the Company.

- (2) The Company held several credit-linked notes principally for the earning of interest income. Details are disclosed as follows:

- a. Contract Amount

(In thousands)

Credit-linked notes referenced to	Amount
UMC, Motorola and CITI Group' s ECB	US\$1,000
the Company' s ECB	US\$2,000

- b. Credit Risk

The counter-parties of the above investments are major international financial institutions. The repayment in full of these deposits is subject to the non-occurrence of one or more credit events, which are referenced to the entities' fulfillment of their own obligations as well as repayment of their corporate bonds. Upon the occurrence of one or more of such credit events, the Company may receive less than full amount of these deposits. The Company has undertaken to minimize the credit risk by selecting reference entities with high credit ratings.

c. Liquidity Risk

Though early withdrawal is not allowed for the above credit-linked deposits unless called by the issuer, the anticipated liquidity risk is low as most of the contracts are mature within one year.

d. Market Risk

There is no market risk for the above investments except for the fluctuations in the exchange rates of US Dollars to NT Dollars.

(3) Forward exchange contracts

a. Nominal principal and credit risk

(In thousands)

Financial Instruments	As of June 30,			
	2003		2002	
	Nominal principal	Credit risk	Nominal principal	Credit risk
Forward exchange contracts-sold	US\$-	\$-	US\$85,000	\$-

There was no significant credit risk with respect to the above transactions because the counter parties are reputable banks with excellent credit rating.

b. Market price risk

The Company entered into forward contracts for hedging purposes. Since the gains or losses resulting from volatility of exchange rates and accounts hedged will offset each other, the exposure to market price risk is not considered to be significant.

c. Liquidity risk and cash flow risk

As the Company has sufficient working capital to support cash inflows and outflows, the exposure to funding risk is not considered to be significant. In addition, since the forward rate has been fixed, the exposure to cash flow risk is deemed to be low.

d. Derivative financial instruments categories, purpose and strategy

In order to hedge the risk resulting from the volatility in exchange rate, the Company entered into forward contracts. The objective of the Company's hedging strategy is to reduce the market risk. The Company mainly uses forward contracts with negative correlation with the fair value variation of accounts hedged as hedging instruments and performs evaluation periodically.

e. The presentation of derivative instruments on financial statements

The difference between accounts receivable and payable resulting from foreign currency forward contract was recorded under current assets or current liabilities. As of June 30, 2003 and 2002, such current liabilities amounted to zero and \$103,462, respectively. Exchange gains, recorded as non-operating income, were \$1,171 and \$143,720 for the six-month periods ended June 30, 2003 and 2002, respectively.

(4) Others

a. Because of changes in its operating strategies, the Company terminated a license agreement with one of its foreign vendors during the three-month period ended March 31, 2003. However, the Company is still in negotiation with the vendor for unpaid royalties and related payment schedule.

b. Certain comparative amounts have been reclassified to confirm with the current year's presentation.