SILICON INTEGRATED SYSTEMS CORP.

FINANCIAL STATEMENTS

WITH REPORT OF INDEPENDENT AUDITORS

FOR THE YEARS ENDED

DECEMBER 31, 2002 AND 2001

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 December 31, 2002, and the related statements of operations, changes in stockholders' equity and cash flows for the year 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 December 31, 2001 were audited by other auditors whose report, dated March 8, 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 December 31, 2002, and the result of its operations and its cash flows for the year 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.

March 5, 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
December 31, 2002 and 2001
(Expressed in Thousands of New Taiwan Dollars)

		2002		2001	
Assets	Notes	Amount	%	Amount	%
Current assets					
Cash and cash equivalents	4	$3,085,675	9.38	$2,909,114	8.04
Notes receivable-net	2 and 5	685,434	2.08	361,407	1.00
Accounts receivable-net	2 and 6	3,302,108	10.04	1,885,244	5.21
Accounts receivable-related parties	2 and 24	49,387	0.15	28,344	0.08
Inventories-net	2 and 7	2,417,953	7.35	3,795,227	10.50
Prepaid expenses		96,890	0.29	144,133	0.40
Other current assets	6 and 24	322,489	0.98	473,390	1.31
Deferred income tax assets-current	2 and 22	495,618	1.51	92,661	0.26
Restricted deposits	25	36,476	0.11	4,100	0.01
Total current assets		10,492,030	31.89	9,693,620	26.81
Long-term investments	2 and 8	825,207	2.51	1,655,745	4.58
Property, plant and equipment	2, 9 and 25				
Land		439,671	1.34	439,671	1.22
Buildings and auxiliary equipment		2,416,554	7.35	1,521,686	4.21
Machinery and equipment		24,298,972	73.86	24,452,717	67.61
Transportation equipment		6,328	0.02	6,168	0.02
Furniture and fixtures		136,196	0.41	112,446	0.31
Leased assets		373,880	1.13	335,702	0.93
Total cost		27,671,601	84.11	26,868,390	74.30
Less: Accumulated depreciation		(9,177,102)	(27.90)	(5,461,954)	(15.10)
Construction in progress and prepayments for equipment		377,069	1.15	416,333	1.15
Property, plant and equipment-net		18,871,568	57.36	21,822,769	60.35
Intangible assets					
License agreements	2 and 10	88,038	0.27	840,767	2.33
Other assets					
Refundable deposits		6,652	0.02	11,603	0.03
Deferred charges	2 and 11	782,406	2.38	525,920	1.45
Deferred income tax assets-noncurrent	2 and 22	1,128,300	3.43	1,531,257	4.23
Other assets-others	12	704,114	2.14	79,024	0.22
Total other assets		2,621,472	7.97	2,147,804	5.93
Total assets		$32,898,315	100.00	$36,160,705	100.00

		2002		2001	
Liabilities and Stockholders' equity	Notes	Amount	%	Amount	%
Current liabilities					
Short-term loans	13	$1,021,679	3.11	$2,204,630	6.10
Notes payable		-	-	4,759	0.01
Accounts payable		1,184,118	3.60	903,812	2.50
Accounts payable-related parties	24	-	-	57,834	0.16
Accrued expenses	24	1,160,928	3.53	841,650	2.33
Equipment payable		568,260	1.73	1,159,905	3.21
Royalty payable-current	10, 24 and 26	892,451	2.71	395,263	1.09
Current portion of long-term loans	9, 14 and 15	2,659,839	8.09	1,813,665	5.02
Deferred credits-intercompany profits	2	-	-	914	-
Other current liabilities	29	55,709	0.17	28,347	0.08
Total current liabilities		7,542,984	22.94	7,410,779	20.50
Long-term liabilities					
Bonds payable	2 and 14	4,671,054	14.20	2,570,001	7.11
Long-term loans	15	5,692,046	17.30	7,377,273	20.40
Royalty payable-noncurrent	10, 24 and 26	364,875	1.11	524,250	1.44
Obligation under capital lease	9	58,025	0.18	30,067	0.08
Total long-term liabilities		10,786,000	32.79	10,501,591	29.03
Other liabilities					
Accrued pension liabilities	2 and 16	70,000	0.21	55,272	0.15
Deposits received		969	-	-	-
Total other liabilities		70,969	0.21	55,272	0.15
Total liabilities		18,399,953	55.94	17,967,642	49.68
Stockholders' equity					
Capital					
Common stock	17	10,880,166	33.07	10,714,164	29.63
Capital reserve	17, 18 and 19				
Common stock premiums		7,415,406	22.54	7,698,310	21.29
Convertible bonds premiums		381,446	1.16	-	-
Treasury stock		31,715	0.09	31,715	0.09
Gain on disposal of property, plant and equipment		-	-	10,157	0.03
Retained earnings	20 and 21				
Legal reserve		-	-	314,911	0.87
Accumulated deficits		(4,183,163)	(12.72)	(607,972)	(1.68)
Adjusting items in stockholders' equity					
Unrealized loss on long-term investments	2 and 8	(57,260)	(0.17)	-	-
Cumulative translation adjustments	2 and 8	30,052	0.09	31,778	0.09
Total stockholders' equity		14,498,362	44.06	18,193,063	50.32
Total liabilities and stockholders' equity		$32,898,315	100.00	$36,160,705	100.00

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 years ended December 31, 2002 and 2001
(Expressed in Thousands of New Taiwan Dollars, Except for Loss Per Share)

		2002		2001	
	Notes	Amount	%	Amount	%
Sales		$16,444,614	104.34	$10,240,215	102.62
Less : Sales returns and allowances		684,237	4.34	261,040	2.62
Net sales	2 and 24	15,760,377	100.00	9,979,175	100.00
Cost of goods sold	24	12,397,970	78.67	7,433,765	74.49
Realized profit on intercompany sales	2	914	0.01	440	-
Gross profit		3,363,321	21.34	2,545,850	25.51
Operating expenses	24 and 26				
Selling		2,472,729	15.69	619,185	6.21
General and administrative		577,962	3.67	495,374	4.96
Research and development		2,051,269	13.01	1,898,271	19.02
Subtotal		5,101,960	32.37	3,012,830	30.19
Operating loss		(1,738,639)	(11.03)	(466,980)	(4.68)
Non-operating income					
Interest income		18,562	0.12	44,348	0.44
Dividend income	8	59,850	0.38	12,600	0.13
Gain on disposal of property, plant and equipment	2	50,121	0.31	-	-
Gain on disposal of investments		282,574	1.79	45,045	0.45
Foreign exchange gain	2 and 29	-	-	93,707	0.94
Other income		23,111	0.15	20,236	0.20
Total non-operating income		434,218	2.75	215,936	2.16
Non-operating expenses					
Interest expense	9	644,799	4.09	678,612	6.80
Investment loss	2 and 8	623,139	3.95	27,537	0.28
Foreign exchange loss	2 and 29	9,096	0.06	-	-
Factoring expense	6	15,862	0.10	43,812	0.44
Impairment loss of long-lived assets	10 and 12	1,508,072	9.57	-	-
Other losses		77,774	0.49	77,348	0.78
Total non-operating expenses		2,878,742	18.26	827,309	8.30
Loss before income tax		(4,183,163)	(26.54)	(1,078,353)	(10.82)
Income tax benefit	2 and 22	-	-	470,381	4.71
Net loss		$(4,183,163)	(26.54)	$(607,972)	(6.11)
Basic loss per share (New Taiwan Dollars)	23				
Loss before income tax benefit		$(3.88)		$(1.01)	
Net loss		$(3.88)		$(0.57)	

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 years ended December 31, 2002 and 2001
(Expressed in Thousands of New Taiwan Dollars)

			Retained Earnings					
Description	**Common Stock**	**Capital Reserve**	**Legal Reserve**	**Unappropriated Earnings (Accumulated Deficits)**	**Cumulative Translation Adjustments**	**Treasury Stock**	**Unrealized Loss on Long-term Investments**	**Total**
Balance as of January 1, 2001	$9,740,149	$8,682,482	$525,835	$(210,924)	$21,119	$(390,501)	$-	$18,368,160
Transfer of legal reserve to offset deficit			(210,924)	210,924				-
Transfer of capital reserve into capital	974,015	(974,015)						-
Sales of treasury stock to employees		31,715				390,501		422,216
Translation adjustment on equity investees					10,659			10,659
Net loss in 2001				(607,972)				(607,972)
Balance as of December 31, 2001	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					(1,726)			(1,726)
Conversion of convertible bonds issued	166,002	381,446						547,448
Net loss in 2002				(4,183,163)				(4,183,163)
Unrealized loss on long-term investments							(57,260)	(57,260)
Balance as of December 31, 2002	$10,880,166	$7,828,567	$-	$(4,183,163)	$30,052	$-	$(57,260)	$14,498,362

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 years ended December 31, 2002 and 2001
(Expressed in Thousands of New Taiwan Dollars)

	2002	2001
Cash flows from operating activities:		
Net loss	$(4,183,163)	$(607,972)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	4,094,075	3,669,416
Amortization	596,368	415,119
Investment loss	623,139	27,537
Realized profit on intercompany sales	(914)	(440)
Impairment loss of long-lived assets	1,508,072	-
Loss (Gain) on disposal of property, plant and equipment	(47,594)	9,776
Gain on disposal of investments	(282,574)	-
Compensation interest payable	62,342	-
Changes in assets and liabilities:		
Notes receivable	(324,027)	850,104
Accounts receivable	(1,416,864)	26,230
Accounts receivable-related parties	(21,043)	6,513
Inventories	1,377,274	(1,977,832)
Prepaid expenses	47,243	(12,453)
Other current assets	150,901	(422,002)
Deferred income tax assets	-	(470,597)
Notes payable	(4,759)	(1,313)
Accounts payable	280,306	(41,537)
Accounts payable-related parties	(57,834)	(128,396)
Royalty payable	480,613	57,016
Accrued expenses	319,278	337,540
Other current liabilities	27,362	(24,288)
Accrued pension liabilities	14,728	12,813
Net cash provided by operating activities	3,242,929	1,725,234
Cash flows from investing activities:		
Decrease in short-term investments	1,336	1,930,451
Decrease (Increase) in restricted deposits	(32,376)	300
Acquisition of property, plant and equipment	(2,728,016)	(3,943,825)
Proceeds from disposal of property, plant and equipment	116,001	-
Decrease (Increase) in refundable deposits	4,951	(855)
Increase in deferred charges	(632,059)	(371,373)
Increase in intangible assets	(831,861)	(332,044)
Acquisition of long-term investments	(34,969)	(1,069,495)
Proceeds from disposal of long-term investments	464,620	-
Net cash used in investing activities	(3,672,373)	(3,786,841)

(Continued)

English Translation of Financial Statements Originally Issued in Chinese

SILICON INTEGRATED SYSTEMS CORP.
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2002 and 2001
(Expressed in Thousands of New Taiwan Dollars)

	2002	2001
(Continued)		
Cash flows from financing activities:		
Increase (Decrease) in short-term loans	$(1,182,951)	$154,630
Increase (Decrease) in obligation under capital lease	31,633	(99,928)
Redemption of bonds	(429,999)	-
Increase (Decrease) in long-term loans	(1,272,727)	1,650,000
Proceeds from bonds issuance	3,459,080	-
Increase in deposits received	969	-
Sales of treasury stock to employees	-	422,216
Net cash provided by financing activities	606,005	2,126,918
Net increase in cash and cash equivalents	176,561	65,311
Cash and cash equivalents, beginning of the year	2,909,114	2,843,803
Cash and cash equivalents, end of the year	$3,085,675	$2,909,114
Supplemental disclosures of cash flow information:		
Cash paid for interest (excluding capitalized interest)	$600,154	$666,165
Cash paid for income tax	$1,856	$4,552
Capitalized interest	$5,622	$41,950
Investing activities partially paid by cash:		
Acquisition of property, plant and equipment	$2,136,371	$2,498,155
Decrease in equipment payable	591,645	1,445,670
Cash paid for acquiring property, plant and equipment	$2,728,016	$3,943,825
Investing and financing activities not affecting cash flows:		
Current portion of long-term loans	$2,659,839	$1,813,665
Properties acquired by exchange	$-	$125,729

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

SILICON INTEGRATED SYSTEMS CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2002 and 2001
(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.

2. Summary of Significant Accounting Policies

(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 income. 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) 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.

(3) 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.

(4) Revenue recognition

Revenue is generally recognized at the time of actual delivery and customer acceptance, which is when title is transferred. Allowance for sales return 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.

(5) 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 income. 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.

(6) 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.

(7) 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

(8) Intangible assets

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

(9) 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

(10) 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.

(11) Pension plan

The Company has established an employee noncontributory retirement 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.

(12) 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.

(13) 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 December 31,	
	2002	2001
Petty cash	$150	$150
Checking and savings accounts	3,083,425	2,792,564
Time deposits	2,100	116,400
	$3,085,675	$2,909,114

5. Notes Receivable

	As of December 31,	
	2002	2001
Notes receivable	$685,434	$361,407
Less: allowance for doubtful accounts	-	-
	$685,434	$361,407

6. Accounts Receivable

	As of December 31,	
	2002	2001
Accounts receivable	$3,488,385	$2,038,244
Less: allowance for doubtful accounts	(134,034)	(69,000)
Less: allowance for sales returns and discounts	(52,243)	(84,000)
	$3,302,108	$1,885,244

The Company entered into agreements to sell accounts receivable to factors without recourse. Due from factors as of December 31, 2002 and 2001 was $102,752 and $444,047, respectively. The factors assess a finance charge that is reflected in non-operating expense 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.

7. Inventories

	As of December 31,	
	2002	2001
Materials and supplies	$204,860	$273,228
Work in process	1,777,095	2,194,138
Finished goods	1,178,772	1,533,960
	3,160,727	4,001,326
Less: provision for inventory obsolescence and net realizable value	(742,774)	(206,099)
	$2,417,953	$3,795,227

As of December 31, 2002 and 2001, the insurance coverage for inventories amounted to $2,743,000 and $3,450,000, respectively.

8. Long-term Investments

Invested Company	As of December 31, 2002 Amount	2002 Percentage of Ownership	2001 Amount	2001 Percentage of Ownership
Equity method:				
Silicon Integrated Systems Corporation (SiS-USA)	$43,987	100.00	$42,674	100.00
Silicon Integrated Systems Limited (SiS-HK)	15,989	100.00	14,986	100.00
InveStar CPU Venture Capital Fund, Inc. LDC (IVCF)	6,862	62.50	130,073	62.50
Cost method or the lower of cost or market value method:				
Vanguard International Semiconductor Corp. (VIS)	212,914	0.91	396,297	2.00
VADEM Corporation (VADEM)	-	2.00	2,220	2.00
Orient Semiconductor Electronics (OSE) - Preferred stock	533,250	-	1,035,000	-
GlobiTech Incorporation (GlobiTech) - Series E preferred stock	69,465	-	34,495	-
	882,467		1,655,745	
Less: allowance for loss on decline in market value	(57,260)		-	
	$825,207		$1,655,745	

a. 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 $59,850 and $12,600 as non-operating income for the years ended December 31, 2002 and 2001, respectively. After evaluation, the Company considered the possibility of recovery of market value of its long-term investment low, therefore, the Company recognized permanent decline on long-term investment in $501,750 as investment loss for the year ended December 31, 2002.

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

	For the years ended December 31, 2002	2001
SiS-USA	$1,549	$(28,185)
SiS-HK	1,111	1,781
IVCF	(121,829)	(1,133)
	$(119,169)	$(27,537)

c. The average market value of VIS shares owned by the Company as of December 31, 2002 and 2001 was $155,654 and $441,281, respectively. The allowance for loss on decline in market value for the years ended December 31, 2002 and 2001 was $57,260 and zero, respectively.

d. 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 December 31, 2002.

9. Property, Plant and Equipment

a. Total interest expenses before capitalization amounted to $650,421 and $720,562 for the years ended December 31, 2002 and 2001, respectively. Capitalized interest expenses were $5,622 and $41,950 for the years ended December 31, 2002 and 2001, respectively. The rate used in calculation of capitalization of interest was 2.88%~5.28% and 6.12% for the years ended December 31, 2002 and 2001.

b. The insurance coverage for property, plant and equipment amounted to $32,614,116 and $26,424,107 as of December 31, 2002 and 2001, respectively.

c. Please refer to Note 25 for property, plant and equipment pledged as collateral.

d. Information of capital leases is summarized as follows:

	As of December 31,	
	2002	2001
Leased period	From April 2000 to March 2006	From October 1999 to October 2003
Total amount of leased assets	$373,880	$335,702
Present value of obligation under capital lease	$172,639	$141,006
Less: current portion of obligation under capital lease	(114,614)	(110,939)
Over one year	$58,025	$30,067

10. Intangible Assets

	As of December 31,	
	2002	2001
License agreements	$88,038	$840,767

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 determined that the intangible assets derived from some of these agreements are 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.

11. Deferred Charges

	As of December 31,	
	2002	2001
Software	$730,212	$525,920
Bonds issuance costs	52,194	-
	$782,406	$525,920

12. Other Assets-Others

	As of December 31,	
	2002	2001
Land	$79,024	$79,024
Machinery and equipment-net	625,090	-
	$704,114	$79,024

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 $300,000 for the year ended December 31, 2002.

13. Short-term Loans

	As of December 31, 2002		
	Interest rates	Amount	Collateral
Resolving funds	2.80%~5.47%	$800,000	None
Usance L/C loans	2.80%~3.60%	221,679	None
		$1,021,679	

	As of December 31, 2001		
	Interest rates	Amount	Collateral
Resolving funds	3.60%~5.00%	$1,850,000	None
Usance L/C loans	1.50%~4.57%	354,630	None
		$2,204,630	

14. Bonds Payable

	As of December 31,	
	2002	2001
Secured domestic bonds payable	$2,570,001	$3,000,000
Euro convertible bonds payable	2,899,888	-
Accrued interest compensation	61,163	-
	5,531,052	3,000,000
Less: current portion	(859,998)	(429,999)
	$4,671,054	$2,570,001

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 25 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 December 31, 2002, 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 is NT$33 per share. 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.

15. Long-term Loans

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

Creditor	Type	Repayment terms	Maturity	As of December 31, 2002	As of December 31, 2001
Industrial bank of Taiwan, First Commercial bank, etc.	Secured syndicated loans	Principal payable in 11 semi-annual installments staring from June of 2002.	June 2, 2007	$5,727,273	$7,000,000
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	1,650,000
				7,377,273	8,650,000
Less: current portion of long-term loans				(1,685,227)	(1,272,727)
				$5,692,046	$7,377,273

b. Interest rates of long-term loans ranged from 2.97%~4.49% and 3.97%~4.72% for 2002 and 2001, respectively.

c. Please refer to Note 25 for assets pledged for long-term loans.

16. Pension Plan

a. The components of net pension cost are as follows:

	For the years ended December 31,	
	2002	2001
Service cost	$35,702	$30,573
Interest cost	7,393	7,226
Actual return on plan assets	(2,220)	(4,268)
Net amortization and deferral	(2,180)	447
Net pension cost	$38,695	$33,978

b. The following table sets forth the benefit obligation and accrued pension balance related to the Company's pension plan as of December 31, 2002 and 2001.

	As of December 31,	
	2002	2001
Benefit obligations:		
Vested benefit obligation	$-	$-
Non-vested benefit obligation	(90,172)	(57,074)
Accumulated benefit obligation	(90,172)	(57,074)
Effect on projected future salary increase	(92,168)	(90,777)
Projected benefit obligation	(182,340)	(147,851)
Fair value of pension assets	111,903	85,716
Status of pension plan	(70,437)	(62,135)
Unrecognized net transitional obligation	7,587	8,034
Unrecognized net actuarial loss	(7,150)	(1,171)
Accrued pension liabilities	$(70,000)	$(55,272)

c. Under the Company's pension plan, the vested benefit was zero as of December 31, 2002 and 2001.

d. The actuarial assumptions are as follows:

	As of December 31,	
	2002	2001
Discount rate	3.5%	5.0%
Rate of increase in future compensation levels	3.5%	5.0%
Expected long-term rate of return on plan assets	3.5%	5.0%

17. Common Stock

a. As of January 1, 2001, the issued capital of the Company was $9,740,149, for 974,015 thousand shares of common stock at par of NT$10.

b. Based on a resolution at the stockholders' meeting held in 2001, the Company offset its accumulated deficits with the legal reserve in $210,924 and increased its capital by $974,015 through capitalization of capital reserve. The effective date of the issuance was on August 19, 2001.

c. As of December 31, 2001, the issued capital of the Company was $10,714,164, for 1,071,416 thousand shares of common stock at par of NT$10.

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

e. On December 28, 2001 and September 11, 2002, 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 and 20 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 December 31, 2002 was 49,930 thousand units and the exercise prices for the options were NT$40.83 and NT$20.91 per unit, respectively.

f. 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 for the year ended December 31, 2002. The excess of the conversion amount over capital was $381,446, recorded as capital reserve.

g. As of December 31, 2002, the issued capital of the Company was $10,880,166, for 1,088,017 thousand shares of common stock at par of NT$10.

h. 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 Depositary 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).

18. Treasury Stock

(In thousand shares)

	As of December 31, 2001		
Purpose	Beginning Shares	Decrease	Ending Shares
Transfer to employees	10,689	(10,689)	-

According to the SFC regulation, a company may acquire no more than 10% of the total issued shares of its own capital stock. While held by the Company, the redeemed shares are not available for pledge and cannot be voted. In addition, the aggregate acquisition cost cannot exceed the combined balance of the retained earnings and specific capital reserve.

On June 27, 2001, the entire treasury stocks have been transferred to employees at a price of NT$39.5 per share.

19. 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.

20. 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.

21. 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 shareholders.

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.

The appropriation of 2002 retained earnings has not yet been recommended by the board of directors as of the date of the Report of Independent Auditors. Information on board of directors' recommendations and shareholders' approvals can be obtained from the "Market Observation Post System" on the website of Taiwan Stock Exchange Corporation.

For the years ended December 31, 2002 and 2001, the Company had no earnings to be distributed.

22. Income Tax

a. The components of deferred tax assets (liabilities) as of December 31, 2002 and 2001, are summarized as follows:

	As of December 31,	
	2002	2001
(A) Total deferred income tax assets	$6,191,842	$4,006,932
(B) Total deferred income tax liabilities	$873,982	$272,148
(C) Total valuation allowance	$3,693,942	$2,110,866

	As of December 31,	
	2002	2001
(D) Deferred income tax assets-current	$799,330	$171,770
Valuation allowance for deferred income tax assets-current	(303,712)	(68,215)
Deferred income tax assets-current-net	495,618	103,555
Deferred income tax liabilities-current	-	(10,894)
Net deferred income tax assets-current	$495,618	$92,661

	As of December 31,	
	2002	2001
Deferred income tax assets-noncurrent	$5,392,512	$3,835,162
Valuation allowance for deferred income tax assets-noncurrent	(3,390,230)	(2,042,651)
Deferred income tax assets-noncurrent-net	2,002,282	1,792,511
Deferred income tax liabilities-noncurrent	(873,982)	(261,254)
Net deferred income tax assets-noncurrent	$1,128,300	$1,531,257

(E) The temporary differences of deferred tax assets (liabilities), loss carryforward, and income tax credits as of December 31, 2002 and 2001, were summarized as follows:

	As of December 31,			
	2002		2001	
	Amount	Income tax effect	Amount	Income tax effect
Deferred income tax assets (liabilities) - current:				
Provision for inventory obsolescence and net realizable value	$742,774	$185,693	$225,104	$56,276
Allowance for sales returns and discounts	52,243	13,061	51,000	12,750
Allowance for doubtful accounts	91,251	22,813	44,720	11,180
Unrealized exchange (gain) loss	47,390	11,848	(43,576)	(10,894)
Depreciation	312,799	78,200	93,396	23,349
Investment tax credits	483,133	483,133	68,215	68,215
Others	18,328	4,582	-	-
Deferred income tax assets (liabilities) - noncurrent:				
Depreciation	$(3,495,928)	$(873,982)	$(1,045,016)	$(261,254)
Pension	56,066	14,016	30,000	7,500
Unrealized loss on decline of assets	1,508,072	377,018	-	-
Loss carryforward	7,446,014	1,861,504	3,206,392	801,598
Investment tax credits	3,133,993	3,133,993	2,979,745	2,979,745
Others	23,925	5,981	185,276	46,319

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

	For the years ended December 31,	
	2002	2001
Income tax payable	$-	$-
Deferred income tax expense (benefits) resulting from:		
Investment tax credits	(569,166)	(651,205)
Loss carryforward	(1,059,906)	(484,461)
Temporary differences	45,996	124,530
Change in valuation allowance	1,583,076	540,539
Adjustment of prior years' tax expense	-	216
Income tax benefit	$-	$(470,381)

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 December 31, 2002, the Company's unused investment tax credit is as follows:

Total tax credit amount	Balances of tax credit amount	Year of expiration
$483,133	$483,133	2003
1,948,850	1,948,850	2004
789,758	789,758	2005
395,385	395,385	2006
$3,617,126	$3,617,126	

f. Under the rules of Income Tax Law, operating loss can be carried forward for 5 years. As of December 31, 2002, the unutilized accumulative loss brought forward amounted to $7,446,014, which will expire in 2005, 2006 and 2007.

As of December 31, 2002 and 2001, the balance of the imputation credit account (“ICA”) was both $256.

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

23. Loss Per Share

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

	For the years ended December 31,	
	2002	2001
Outstanding weighted average shares (Thousands)	1,076,841	1,064,941
Loss before income tax	$(4,183,163)	$(1,078,353)
Net loss	$(4,183,163)	$(607,972)
Loss per share-basic (New Taiwan dollars)		
Loss before income tax benefit	$(3.88)	$(1.01)
Income tax	-	0.44
Net loss	$(3.88)	$(0.57)

24. Related Party Transactions

(1) Name and relationship of related parties

Name of related parties	Relationship with the Company
Orient Semiconductor Electronics (OSE)	The chairman is the spouse of the Company’s former chairman (the former chairman resigned in October 2002)
Silicon Integrated Systems Corporation (SiS-USA)	A subsidiary of the Company
Silicon Integrated Systems Limited (SiS-HK)	A subsidiary of the Company

(2) Significant related party transactions

a. Operating revenues

	For the years ended December 31,			
	2002		2001	
	Amount	Percentage	Amount	Percentage
SiS-HK	$236,773	1.50	$118,577	1.19

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. Accounts receivable

	As of December 31,			
	2002		2001	
	Amount	Percentage	Amount	Percentage
SiS-HK	$49,387	1.47	$28,344	1.48

c. Other current assets

	As of December 31,			
	2002		2001	
	Amount	Percentage	Amount	Percentage
SiS-USA	$14,282	4.43	$-	-

d. Accounts payable

	As of December 31,			
	2002		2001	
	Amount	Percentage	Amount	Percentage
OSE	$-	-	$57,834	6.01

e. Accrued expenses

	As of December 31,			
	2002		2001	
	Amount	Percentage	Amount	Percentage
SiS-USA	$4,745	0.41	$15,513	1.84
SiS-HK	2,609	0.22	1,739	0.21
	$7,354	0.63	$17,252	2.05

f. The subcontracted assembly and test expenses paid to OSE were $1,941,901 and $1,277,044 for the years ended December 31, 2002 and 2001, respectively.

g. The Company authorized SiS-USA and SiS-HK to conduct sales orders and collect accounts receivable 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 $57,313 and $21,874 to SiS-USA for 2002 and 2001, respectively. Related amounts paid to SiS-HK were $11,426 and $10,173 for 2002 and 2001, respectively.

25. Assets Pledged as Collateral

Assets pledged as collateral as of December 31, 2002 and 2001, are summarized as follows:

		As of December 31	
Pledged assets	Pledged to secure	2002	2001
Restricted time deposits	Customs guarantee deposits	$36,476	$4,100
Property, plant and equipment-net	Long-term loans and bonds payable	12,012,987	14,641,326
		$12,049,463	$14,645,426

26. Commitments and Contingent Liabilities

Commitments and contingencies as of December 31, 2002, except those disclosed in other notes, were as follows:

a. Unused letters of credit for the Company aggregated approximately US$7,017,000, ￥50,160,000 and EUR€460,000.

b. 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 $298,275.

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	$33,489
2004	33,489
2005	12,327
2006	10,403
2007	10,403
2008 and thereafter	76,093
	$176,204

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.

27. Significant Disaster Loss

None.

28. Significant Subsequent Events

a. Based on a resolution at the stockholders' meeting held in August 2002, the Company resolved to increase its capital by $2,500,000 for the issuance of Global Depositary Shares ("GDSs"). Each share at par of NT$10 is issued at premium value of NT$19.2 amounting to $4,800,000. Total issued capital after capitalization is $13,380,166, which will be carried out on January 7, 2003.

b. Because of changes in its operating strategies, the Company intends to terminate a license agreement with one of its foreign vendors in 2003. However, the Company is still in negotiation with the vendor for unpaid royalties and related payment schedule.

29. Others

(1) Fair Value of Financial Instruments

	As of December 31,			
	2002		2001	
Non-derivative financial instruments	Book value	Fair value	Book value	Fair value
Assets：				
Cash and cash equivalents	$3,085,675	$3,085,675	$2,909,114	$2,909,114
Notes and accounts receivable (including accounts receivable-related parties)	4,036,929	4,036,929	2,274,995	2,274,995
Restricted deposits	36,476	36,476	4,100	4,100
Long-term investments	825,207	827,427	1,655,745	1,700,729
Refundable deposits	6,652	6,652	11,603	11,603
Liabilities：				
Short-term loans	1,021,679	1,021,679	2,204,630	2,204,630
Notes and accounts payable (including accounts payable-related parties)	2,913,306	2,913,306	2,967,960	2,967,960
Royalty payable (including current portion)	1,257,326	1,257,326	919,513	833,121
Bonds payable (including current portion)	5,531,052	5,531,052	3,000,000	3,000,000
Long-term loans (including current portion)	7,377,273	7,377,273	8,650,000	8,650,000
Obligation under capital lease (including current portion)	172,639	172,639	141,006	141,006
Derivative financial instruments				
Liabilities-non-trading				
Forward exchange contracts-sold	51,546	51,546	23,662	23,662

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

a. Short-term financial instruments: the carrying amount reported on the balance sheets approximates their fair value due to their short-term nature. The method is applicable to cash and cash equivalents, notes and accounts receivable (including accounts receivable-related parties), 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) Derivative Financial Instruments

a. Nominal principal and credit risk

(In thousands)

	As of December 31,			
	2002		2001	
Financial Instruments	Nominal principal	Credit risk	Nominal principal	Credit risk
Forward exchange contracts-bought	$-	$-	EUR€9,000	$-
Forward exchange contracts-sold	US$39,000	$-	US$40,000	$-

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 December 31, 2002 and 2001, such current liabilities amounted to $51,546 and $23,662, respectively. Exchange gains and losses, recorded as non-operating income (loss), were $70,574 and $40,308 for the years ended December 31, 2002 and 2001, respectively.

(3) Others

a. In December 2000 and January 2001, United Microelectronics Corporation (UMC), together with its affiliates, referred to as plaintiffs, accused the Company infringed their intellectual property rights. After constant negotiations, an agreement to settle the litigation between the Company and the plaintiffs has been reached at the end of 2002.

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

30. Segment Financial Information

(1) Operations in different industries

The Company operates principally in one industry, which is manufacture and sale of specific application integrated circuits.

(2) Operations in different geographic areas

The Company has no significant foreign operations.

(3) Export Information

A breakdown of export sales for the years ended December 31, 2002 and 2001, is as follows:

Area	For the years ended December 31, 2002	2001
Hong Kong	$5,611,051	$5,003,078
Northeast Asia	5,325	28,345
Europe and America	75,850	12,545
Southeast Asia	1,972,740	6,541
	$7,664,966	$5,050,509

(4) Major customers

The customers that account for at least 10% of net sales for the years ended December 31, 2002 and 2001 are as follows:

Customers	For the year ended December 31, 2002 Amount	Percentage
Customer A	$4,760,009	30.20
Customer B	2,463,969	15.63
Customer C	126,370	0.80

Customers	For the year ended December 31, 2001 Amount	Percentage
Customer A	$4,167,569	41.76
Customer B	1,084,267	10.87
Customer C	1,010,871	10.13