

Sunplus Technology Company Limited

**Financial Statements for the Six Months Ended
June 30, 2004 and 2003
Together with Independent Auditors' Report**

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

English Translation of a Report Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Shareholders
Sunplus Technology Company Limited

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

Except as stated in the following paragraph, we conducted our audits in accordance with the Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants, and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As disclosed in Note 5 to the financial statements, the financial statements of all equity-method investees had not been audited. As of June 30, 2004 and 2003, the carrying values of long-term investments were NT\$3,483,789 thousand and NT\$3,380,984 thousand, respectively, and related credit balances were NT\$10,456 thousand and NT\$3,715 thousand, respectively. For the six months ended June 30, 2004 and 2003, the related investment losses were NT\$132,533 thousand and NT\$71,392 thousand, respectively.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sunplus Technology Company Limited as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the periods ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

July 20, 2004

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

SUNPLUS TECHNOLOGY COMPANY LIMITED

BALANCE SHEETS

JUNE 30, 2004 AND 2003

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

ASSETS	2004		2003		LIABILITIES AND SHAREHOLDERS' EQUITY	2004		2003	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash	\$ 763,987	4	\$ 830,135	5	Short-term bank loans (Note 9)	\$ 185,680	1	\$ -	-
Short-term investments (Notes 2 and 3)	3,154,263	17	4,008,852	26	Notes and accounts payable (Notes 2 and 16)	2,621,979	14	1,015,997	7
Notes and accounts receivable					Income taxes payable (Notes 2 and 14)	15,885	-	22,655	-
Third parties—net of allowance for doubtful accounts of \$30,854 thousand in 2004 and \$39,204 thousand in 2003 (Note 2)	3,439,910	18	1,764,433	11	Dividend and remuneration to directors and supervisors payable (Note 11)	1,187,233	6	1,411,675	9
Related parties (Notes 2 and 16)	257,166	2	239,301	2	Other current liabilities (Notes 2, 5 and 19)	279,212	2	160,930	1
Other financial assets—current (Notes 18 and 19)	47,159	-	146,399	1	Deferred intercompany profit (Note 2)	10,556	-	6,833	-
Inventories—net (Notes 2 and 4)	3,631,179	19	1,003,171	6	Deferred royalty income—current (Notes 2, 7 and 16)	22,171	-	-	-
Deferred income taxes—current (Notes 2 and 14)	37,067	-	89,488	1					
Other current assets (Note 2)	208,469	1	101,578	1	Total current liabilities	4,322,716	23	2,618,090	17
Total current assets	11,539,200	61	8,183,357	53					
LONG-TERM INVESTMENTS (Notes 2 and 5)					LONG-TERM LIABILITY (Note 2)	-	-	1,084	-
Equity method	3,483,789	18	3,380,984	22					
Cost method	764,446	4	928,370	6	OTHER LIABILITIES				
Convertible bonds	36,642	-	81,622	1	Deferred royalty income—noncurrent (Notes 2, 7 and 16)	78,344	-	-	-
Prepayment for stock subscription	-	-	5,000	-	Accrued pension liability (Notes 2 and 10)	131,368	1	87,224	1
Total long-term investments	4,284,877	22	4,395,976	29	Guarantee deposits (Note 16)	287,024	1	175,148	1
					Total other liabilities	496,736	2	262,372	2
PROPERTIES (Notes 2, 6 and 16)					Total liabilities	4,819,452	25	2,881,546	19
Cost									
Buildings	935,881	5	928,737	6	SHAREHOLDERS' EQUITY (Note 11)				
Auxiliary equipment	134,149	1	124,507	1	Capital stock—\$10 par value				
Machinery and equipment	420,297	2	319,934	2	Authorized—1,000,000 thousand shares				
Testing equipment	629,931	3	451,697	3	Issued—777,504 thousand shares in 2004 and 694,950 thousand shares in 2003	7,775,040	41	6,949,500	45
Transportation equipment	8,400	-	7,228	-	To be issued	977,504	5	825,540	5
Furniture and fixtures	103,646	1	91,770	1	Capital surplus (Note 2)				
Leasehold improvements	458	-	89	-	Additional paid-in capital	945,304	5	1,567,308	10
Total cost	2,232,762	12	1,923,962	13	Merger and others	635,496	4	524,190	4
Less: Accumulated depreciation	796,593	4	574,900	4	Retained earnings				
Advance payments and construction in progress	31,864	-	59,066	-	Legal reserve	1,316,618	7	1,115,921	7
Net properties	1,468,033	8	1,408,128	9	Special reserve	-	-	58,633	1
					Unappropriated earnings	2,648,260	14	1,598,410	10
INTANGIBLE ASSETS—Net (Notes 2 and 7)	1,096,861	6	1,138,427	7	Others				
					Unrealized loss on long-term investments (Notes 2 and 5)	(91,125)	-	(10,915)	-
OTHER ASSETS					Cumulative translation adjustments (Note 2)	(1,734)	-	30,482	-
Deferred charges—net (Notes 2 and 8)	19,405	-	24,930	-	Treasury stock (at cost)—5,322 thousand shares in 2004 and 4,838 thousand shares in 2003 (Notes 2 and 12)	(95,605)	(1)	(95,605)	(1)
Deferred income taxes—noncurrent (Notes 2 and 14)	506,044	3	279,622	2	Total shareholders' equity	14,109,758	75	12,563,464	81
Miscellaneous (Note 18)	14,790	-	14,570	-					
Total other assets	540,239	3	319,122	2					
TOTAL ASSETS	\$ 18,929,210	100	\$ 15,445,010	100	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 18,929,210	100	\$ 15,445,010	100

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

(With Deloitte & Touche auditors' report dated July 20, 2004)

English Translation of Financial Statements Originally Issued in Chinese

SUNPLUS TECHNOLOGY COMPANY LIMITED

STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003

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

	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
GROSS SALES	\$ 8,598,123		\$ 4,267,026	
SALES RETURNS AND ALLOWANCES	<u>125,147</u>		<u>30,963</u>	
NET SALES (Notes 2 and 16)	8,472,976	100	4,236,063	100
UNREALIZED INTERCOMPANY PROFITS—Net (Note 2)	1,916	-	2,313	-
COST OF SALES (Note 13)	<u>5,786,752</u>	<u>68</u>	<u>2,793,447</u>	<u>66</u>
GROSS PROFIT	<u>2,684,308</u>	<u>32</u>	<u>1,440,303</u>	<u>34</u>
OPERATING EXPENSES (Note 13)				
Marketing	124,434	2	60,358	1
General and administrative	164,098	2	89,601	2
Research and development	<u>944,423</u>	<u>11</u>	<u>706,090</u>	<u>17</u>
Total operating expenses	<u>1,232,955</u>	<u>15</u>	<u>856,049</u>	<u>20</u>
OPERATING INCOME	<u>1,451,353</u>	<u>17</u>	<u>584,254</u>	<u>14</u>
NONOPERATING INCOME AND GAIN				
Gain on sales of investments—net (Note 2)	48,564	1	60,841	1
Interest	12,136	-	11,033	-
Subsidies (Note 2)	11,800	-	5,500	-
Dividend income (Note 2)	6,874	-	2,048	-
Others (Note 16)	<u>12,659</u>	<u>-</u>	<u>27,972</u>	<u>1</u>
Total nonoperating income and gains	<u>92,033</u>	<u>1</u>	<u>107,394</u>	<u>2</u>
NONOPERATING EXPENSES AND LOSSES				
Equity-method investment loss—net (Notes 2 and 5)	132,533	1	71,392	2
Loss on inventory (Note 2)	67,689	1	12,000	-
Foreign exchange loss—net (Notes 2 and 20)	7,681	-	8,000	-
Unrealized loss on short-term investments (Notes 2 and 3)	6,204	-	-	-
Interest expense	892	-	468	-
Others	<u>9,559</u>	<u>-</u>	<u>56</u>	<u>-</u>
Total nonoperating expenses and losses	<u>224,558</u>	<u>2</u>	<u>91,916</u>	<u>2</u>

(Continued)

English Translation of Financial Statements Originally Issued in Chinese

	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
INCOME BEFORE INCOME TAX	\$ 1,318,828	16	\$ 599,732	14
INCOME TAX BENEFIT (Notes 2 and 14)	<u>42,319</u>	<u>-</u>	<u>33,739</u>	<u>1</u>
NET INCOME	<u>\$ 1,361,147</u>	<u>16</u>	<u>\$ 633,471</u>	<u>15</u>
	<u>2004</u>		<u>2003</u>	
	<u>Before</u>	<u>After</u>	<u>Before</u>	<u>After</u>
	<u>Income</u>	<u>Income</u>	<u>Income</u>	<u>Income</u>
	<u>Tax</u>	<u>Tax</u>	<u>Tax</u>	<u>Tax</u>
EARNINGS PER SHARE (Note 15)				
Basic	<u>\$ 1.71</u>	<u>\$ 1.76</u>	<u>\$ 0.78</u>	<u>\$ 0.82</u>
Diluted	<u>\$ 1.68</u>	<u>\$ 1.73</u>	<u>\$ 0.78</u>	<u>\$ 0.82</u>

The pro forma net income and earnings per share (EPS) based on the assumption that the Company's stock held by its subsidiary is treated as an investment instead of treasury stock are shown as follows (Note 12):

	<u>2004</u>		<u>2003</u>	
	<u>Before</u>	<u>After</u>	<u>Before</u>	<u>After</u>
	<u>Income</u>	<u>Income</u>	<u>Income</u>	<u>Income</u>
	<u>Tax</u>	<u>Tax</u>	<u>Tax</u>	<u>Tax</u>
NET INCOME	<u>\$ 1,318,828</u>	<u>\$ 1,361,147</u>	<u>\$ 599,732</u>	<u>\$ 633,471</u>
BASIC EPS				
Based on weighted-average shares				
Outstanding—777,504 thousand shares in 2004 and 2003	<u>\$1.70</u>	<u>\$1.75</u>	<u>\$0.77</u>	<u>\$0.81</u>
DILUTED EPS				
Based on weighted-average shares				
Outstanding—792,447 thousand shares in 2004 and 778,538 thousand shares in 2003	<u>\$1.66</u>	<u>\$1.72</u>	<u>\$0.77</u>	<u>\$0.81</u>

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

(With Deloitte & Touche auditors' report dated July 20, 2004)

(Concluded)

English Translation of Financial Statements Originally Issued in Chinese

SUNPLUS TECHNOLOGY COMPANY LIMITED

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

	Capital Stock Issued		Capital Stock to Be Issued	Capital Surplus (Note 2)			Retained Earnings (Note 11)			Unrealized Loss on Long-term Investments (Note 2)	Cumulative Translation Adjustments (Note 2)	Treasury Stock (Note 12)	Total Shareholders' Equity		
	Shares (thousands)	Amount		Additional paid-in capital	From long-term investments	From merger	Total	Legal reserve	Special reserve					Unappropriated earnings	Total
BALANCE, JANUARY 1, 2004	777,504	\$7,775,040	\$ -	\$1,567,308	\$478,073	\$157,423	\$2,202,804	\$1,115,921	\$58,633	\$2,971,910	\$4,146,464	(\$ 9,908)	\$10,888	(\$95,605)	\$ 14,029,683
Transfer of special reserve to retained earnings	-	-	-	-	-	-	-	-	(58,633)	58,633	-	-	-	-	-
Appropriation of prior year's earnings:															
Legal reserve	-	-	-	-	-	-	-	200,697	-	(200,697)	-	-	-	-	-
Bonus to employees—stock	-	-	200,000	-	-	-	-	-	-	(200,000)	(200,000)	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	-	(20,977)	(20,977)	-	-	-	(20,977)
Stock dividends—\$0.2 per share	-	-	155,500	-	-	-	-	-	-	(155,500)	(155,500)	-	-	-	-
Cash dividends—\$1.5 per share	-	-	-	-	-	-	-	-	-	(1,166,256)	(1,166,256)	-	-	-	(1,166,256)
Capital stock transferred from capital surplus	-	-	622,004	(622,004)	-	-	(622,004)	-	-	-	-	-	-	-	-
Net income for the six months ended June 30, 2004	-	-	-	-	-	-	-	-	-	1,361,147	1,361,147	-	-	-	1,361,147
Adjustment from changes in the shareholders' equity of investees	-	-	-	-	-	-	-	-	-	-	-	(22,804)	-	-	(22,804)
Unrealized loss on long-term investments	-	-	-	-	-	-	-	-	-	-	-	(58,413)	-	-	(58,413)
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(12,622)	-	(12,622)
BALANCE, JUNE 30, 2004	<u>777,504</u>	<u>\$7,775,040</u>	<u>\$ 977,504</u>	<u>\$ 945,304</u>	<u>\$478,073</u>	<u>\$157,423</u>	<u>\$1,580,800</u>	<u>\$1,316,618</u>	<u>\$ -</u>	<u>\$2,648,260</u>	<u>\$3,964,878</u>	<u>(\$91,125)</u>	<u>(\$ 1,734)</u>	<u>(\$95,605)</u>	<u>\$14,109,758</u>
BALANCE, JANUARY 1, 2003	694,950	\$6,949,500	\$ -	\$2,262,258	\$365,042	\$157,423	\$2,784,723	\$ 904,289	\$23,759	\$2,753,710	\$3,681,758	(\$93,030)	\$34,397	(\$95,605)	\$ 13,261,743
Appropriation of prior year's earnings:															
Legal reserve	-	-	-	-	-	-	-	211,632	-	(211,632)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	34,874	(34,874)	-	-	-	-	-
Bonus to employees—stock	-	-	130,590	-	-	-	-	-	-	(130,590)	(130,590)	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	-	(21,775)	(21,775)	-	-	-	(21,775)
Cash dividends—\$2 per share	-	-	-	-	-	-	-	-	-	(1,389,900)	(1,389,900)	-	-	-	(1,389,900)
Capital stock transferred from capital surplus	-	-	694,950	(694,950)	-	-	(694,950)	-	-	-	-	-	-	-	-
Net income for the six months ended June 30, 2003	-	-	-	-	-	-	-	-	-	633,471	633,471	-	-	-	633,471
Adjustment from changes in ownership interests in investees	-	-	-	-	1,725	-	1,725	-	-	-	-	-	-	-	1,725
Adjustment from changes in the shareholders' equity of investees	-	-	-	-	-	-	-	-	-	-	-	82,115	-	-	82,115
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(3,915)	-	(3,915)
BALANCE, JUNE 30, 2003	<u>694,950</u>	<u>\$6,949,500</u>	<u>\$ 825,540</u>	<u>\$1,567,308</u>	<u>\$366,767</u>	<u>\$157,423</u>	<u>\$2,091,498</u>	<u>\$1,115,921</u>	<u>\$58,633</u>	<u>\$1,598,410</u>	<u>\$2,772,964</u>	<u>(\$10,915)</u>	<u>\$30,482</u>	<u>(\$95,605)</u>	<u>\$12,563,464</u>

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

(With Deloitte & Touche auditors' report dated July 20, 2004)

English Translation of Financial Statements Originally Issued in Chinese

SUNPLUS TECHNOLOGY COMPANY LIMITED

STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003

(In Thousands of New Taiwan Dollars)

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,361,147	\$ 633,471
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	268,552	176,563
Gain on sales of long-term investments	(19,054)	(14,373)
Equity-method investment loss—net	132,533	71,392
Unrealized intercompany profits—net	1,916	2,313
Unrealized royalty income	42,515	-
Gain on disposal of properties	(33)	-
Deferred income taxes	(69,394)	(57,202)
Accrued pension liabilities	22,570	21,386
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Notes and accounts receivable		
Third parties	(1,020,714)	(579,428)
Related parties	(39,344)	(78,299)
Other financial assets—current	165,477	(131,580)
Inventories	(1,921,698)	(146,625)
Other current assets	(50,359)	(60,290)
Increase (decrease) in:		
Notes and accounts payable	844,701	213,346
Income tax payable	(59,503)	22,655
Other current liabilities	(35,882)	(97,959)
Net cash used in operating activities	(<u>376,570</u>)	(<u>24,630</u>)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in short-term investments	287,409	570,010
Proceeds from sales of:		
Long-term investments	44,525	30,574
Properties	699	-
Acquisitions of:		
Long-term investments	(320,000)	(137,061)
Properties	(197,143)	(168,673)
Increase in intangible assets	(80,503)	(1,047,847)
Increase in deferred charges	(921)	-
Decrease (increase) in other assets— miscellaneous	(<u>1,436</u>)	(<u>14,090</u>)
Net cash used in investing activities	(<u>267,370</u>)	(<u>738,907</u>)

(Continued)

English Translation of Financial Statements Originally Issued in Chinese

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term bank loans	\$ 185,680	\$ -
Decrease in long-term bank loans	-	(1,084)
Increase (decrease) in guarantee deposits	<u>26,805</u>	<u>(4,199)</u>
Net cash provided by (used in) financing activities	<u>212,485</u>	<u>(5,283)</u>
NET DECREASE IN CASH	(431,455)	(768,820)
CASH, BEGINNING OF THE PERIOD	<u>1,195,442</u>	<u>1,598,955</u>
CASH, END OF THE PERIOD	<u>\$ 763,987</u>	<u>\$ 830,135</u>
SUPPLEMENTAL INFORMATION:		
Income tax paid	<u>\$ 15,675</u>	<u>\$ 808</u>
Interest paid	<u>\$ 892</u>	<u>\$ 468</u>
NONCASH INVESTING AND FINANCING ACTIVITY:		
Reclassification of credit balance of long-term investments to other current liabilities	<u>\$ 3,998</u>	<u>\$ 3,715</u>
PARTIAL CASH INVESTING ACTIVITY:		
Acquisitions of properties	\$ 203,274	\$ 131,014
Decrease (increase) in payables to contractors and equipment suppliers	(<u>6,131</u>)	<u>37,659</u>
Cash paid	<u>\$ 197,143</u>	<u>\$ 168,673</u>

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

(With Deloitte & Touche auditors' report dated July 20, 2004)

(Concluded)

SUNPLUS TECHNOLOGY COMPANY LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

1. ORGANIZATION AND OPERATIONS

Sunplus Technology Company Limited (the "Company"), established in August 1990, started its operations in October 1991 and moved into the Hsinchu Science-Based Industrial Park in October 1993. It researches, develops, designs, tests, and sells high-quality, high value-added consumer integrated circuits (ICs). Its products are based on core technology in areas such as multimedia audio/video, single-chip microcontroller and digital signal processor. These technologies are used to develop hundreds of products including various ICs: liquid crystal display, microcontroller, multimedia, voice/music, and application specific.

The Company's shares have been listed on the Taiwan Stock Exchange since January 2000.

In March 2001, the Company issued 10,000 thousand units of Global Depositary Receipts (GDRs) representing 20,000 thousand common shares. The GDRs are listed on the London Stock Exchange, the code is SUPD.

As of June 30, 2004 and 2003, the Company had 891 and 702 employees, respectively.

**2. SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES**

The accompanying financial statements are prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (ROC). Under these guidelines and principles, the Company estimates the amounts of allowance for doubtful receivables, decline in market value of inventories, depreciation of properties, and pension expenses. However, actual results may differ from estimates because of the uncertainty of circumstances.

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

Current and Noncurrent Assets and Liabilities

Current assets are those to be converted to cash or consumed within one year from the balance sheet date. Current liabilities are those to be paid off or settled within one year from the balance sheet date. All other assets and liabilities are classified as noncurrent.

Short-term Investments

Short-term investments are open-end funds, which are carried at the lower of aggregate cost or market value. Declines in market value are recognized as losses in the period of occurrence. An allowance for losses is provided when the aggregate carrying value of the investments exceeds their total market value. Any recovery of the market value to the extent of the original carrying value is recognized as income. Costs of the investments sold are determined using the weighted-average method. The market value of the open-end funds is their net asset value on the last trading day of the reporting period.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided on the basis of a review of the collectibility of individual receivables, taking into account the age of receivables and the financial condition of the debtors.

Inventories

Inventories consist of raw materials, work in process and finished goods, which are stated at the lower of cost or market value. Inventories are recorded at standard costs and adjusted to approximate weighted-average cost at the end of the period. Market value is based on replacement cost for raw materials and net realizable value for finished goods and work in process.

Long-term Investments

Investments in share of stock of companies in which the Company owns at least 20% of the outstanding voting shares or exercises significant influence on their operating and financial policy decisions are accounted for by the equity method. The Company's proportionate share in the net income or net loss of investee companies is recognized as a component of the "equity-method investment income (loss)—net" account. If the recognized carrying value of the investment plus any advances to the investee are reduced to zero, the Company will discontinue recognizing its investment loss. But (a) if the Company guarantees the obligations of an investee or commits to provide financial support to an investee or (b) if the investee's losses are temporary and evidence sufficiently shows imminent return to profitability, the Company will continue to recognize its investment loss. This credit balance in the carrying value of a long-term investment and advances are credited to other current liabilities in the balance sheets. The difference between the investment cost and the Company's equity in the investees' net assets on the acquisition date is amortized over five years using the straight-line method. This amortization and the Company's equity in the investees' net income or net loss are recognized as equity-method investment income (loss)—net. If an investee issues additional shares and the Company subscribes for these shares at a percentage different from its current equity, the resulting increase is credited to capital surplus. If a decrease results, the decrease is debited to capital surplus. But if capital surplus is not enough for debiting purposes, the decrease is debited to unappropriated retained earnings.

Gains or losses on sales to equity-method investees of which the Company owns less than a controlling interest are deferred in proportion to the Company's percentage of investee ownership. However, the entire gains or losses on the Company's sales to subsidiaries are deferred. Gains or losses from sales by investees to the Company are deferred in proportion to the Company's percentage of investee ownership. All of these deferred gains and losses are realized upon resale of products to third parties.

The Company recognizes a reduction of shareholders' equity if it incurs an unrealized loss on a long-term investment as a result of the investee's application of lower of cost or market valuation method as reported in the separate financial statements of its equity-method investee. A reversal of the unrealized loss will result from a subsequent recovery of the market value.

Investments in which the Company owns less than 20% of the outstanding voting shares are accounted for by the cost method. Shares of stock with no quoted market prices are stated at cost. An other than temporary decline either in carrying value or in market value below carrying value is charged to current income, and the carrying amount of such investments after recognizing losses will become the new cost of the investment. Cash dividends received within a year of investment acquisition are accounted for as a reduction of the carrying value of the investment, while cash dividends received in subsequent years are recognized as investment income on the declaration date.

For both equity-method and cost-method investments, stock dividends received are recognized only as an increase in the number of shares held rather than investment income. Investment cost per share is then recalculated on the basis of the new number of shares. The cost of investments sold or transferred is determined using the weighted-average method.

The Company has recorded its stocks held by its subsidiaries as treasury stocks since January 2002. The recorded costs of treasury stocks are based upon the carrying values of the long-term investments in subsidiaries' books as of January 2002.

Convertible bonds are stated at cost, and the costs of investments sold are determined using the weighted-average method.

Properties

Properties are stated at cost less accumulated depreciation. Major additions, renewals and betterments are capitalized, while maintenance and repairs are expensed in the period incurred.

Depreciation is computed using the straight-line method over service lives initially estimated as follows: buildings—3 to 55 years; auxiliary equipment—3 to 10 years; machinery and equipment—3 to 5 years; testing equipment—3 to 5 years; transportation equipment—3 to 5 years; furniture and fixtures—3 to 10 years; and leasehold improvements—3 years.

Properties still in use beyond their initially estimated service lives are depreciated over their newly estimated service lives. Upon the sale or disposal of properties, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to current income.

Intangible Assets

Intangible assets consist of patents and technology license fees, which are booked at the acquisition cost and amortized using the straight-line method over 5 to 18 years and 2 to 5 years, respectively.

Deferred Charges

Deferred charges are mainly costs of electricity installation and software and system design, which are booked at the installation or acquisition cost. The amounts are amortized over 5 years, using the straight-line method.

Revenue Recognition

The Company recognizes net sales when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title and acceptance, if applicable, the price is fixed or determinable and the collectibility is reasonably assured. The Company does not recognize sales on transactions involving the delivery of materials to subcontractors since there is no transfer of ownership of materials.

Sales are determined at fair value, taking into account sales discounts agreed to by the Company and its customers. Since sales transactions are frequent and the sales receivables are collectible within one year, the fair value of receivables is equivalent to the nominal amount of cash received.

Government Subsidies

Amounts received by the Company from the government to sponsor the development of certain products are recognized as other income when realized or as deferred income when unrealized. Under related contracts, half of the subsidies should be paid back to the Industrial Development Bureau in installment. The portion expected to be paid after one year is presented as long-term liabilities on the balance sheets.

Pension Costs

The Company has a pension plan for all regular employees. This plan provides benefits based on the length of service and the average basic salary of the employee's final six months of service.

Net periodic pension costs are recorded on the basis of actuarial calculations. Unrecognized net transition obligation and unrecognized net gains or losses are amortized over 15 years and the employee's residual length of service, respectively, using the straight-line method.

Income Tax

The Company applies the inter-period income tax allocation method. Under this method, deferred income taxes are recognized for the tax effects of deductible temporary differences and unused tax credits. A valuation allowance is recognized if it is more likely than not that some portion or all of the deferred tax asset will not be realized. A deferred tax asset or liability is classified as current or noncurrent according to the classification of the related asset or liability. But if a deferred tax asset or liability cannot be related to an asset or liability in the financial statements, it is classified as current or noncurrent based on the expected realization date of the temporary difference.

Tax credits for certain purchases of machinery, equipment and technology, research and development expenditures and personnel training are recognized in the current period.

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

Income tax (10%) on unappropriated earnings is recorded as expense in the year when the shareholders approve the retention of earnings.

Foreign-currency Transactions

Foreign-currency transactions (except derivative transactions) are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses from the settlement of foreign-currency transactions or conversion of cash in foreign currency into New Taiwan dollars at prevailing rates are recognized as current income. At the end of each period, foreign-currency assets and liabilities are revalued at the prevailing exchange rate, with the resulting gains or losses recognized as current income. If an investee's functional currency is a foreign currency, gains or losses resulting from translation of the foreign currency financial statements are recognized as a translation adjustment under shareholders' equity.

Derivative Transactions

The Company uses derivative financial instruments for hedging purposes, i.e., to manage currency exposures in cash flows and foreign-currency assets and liabilities.

For forward contracts, premiums or discounts, which are the differences in the spot rates at the start of the contracts and the contracted forward rates, are recognized in the current period and amortized over the terms of the forward contracts. On the balance sheet date, the receivables or payables arising from forward contracts are restated at the prevailing spot rates, and the resulting differences between the spot rates on the contract starting date and the spot rates on the balance sheet date (or the spot rate last used to measure gain or loss on a forward contract on a date earlier than the balance sheet date) are recognized and charged to income. For contracts that are outstanding as of the balance sheet date, the related receivables and payables are netted out, and the resulting amount is presented as an asset or a liability.

For foreign-currency option contracts, the contract amounts are not recognized as an asset or liability on the contract dates. The premiums paid or received for the call or put options are amortized and charged to income on a straight-line basis over the term of the contract. Any resulting gains or losses on the exercise of options are charged to income on the exercise date.

Reclassifications

Certain accounts in the 2003 financial statements have been reclassified to conform to the presentation of the financial statements as of and for the six months ended June 30, 2004.

3. SHORT-TERM INVESTMENTS

	June 30	
	2004	2003
Open-end funds—acquisition costs	\$3,160,467	\$4,008,852
Less: Allowance for losses	<u>6,204</u>	<u>-</u>
	<u>\$3,154,263</u>	<u>\$4,008,852</u>
Market value	<u>\$3,154,263</u>	<u>\$4,013,300</u>

The market values were based on the net asset values as of June 30, 2004 and 2003.

4. INVENTORIES—NET

	June 30	
	2004	2003
Finished goods	\$2,171,360	\$ 507,198
Work in process	1,085,129	456,955
Raw materials	<u>491,998</u>	<u>101,326</u>
	3,748,487	1,065,479
Less: Allowance for losses	<u>117,308</u>	<u>62,308</u>
	<u>\$3,631,179</u>	<u>\$1,003,171</u>

5. LONG-TERM INVESTMENTS

	June 30			
	2004		2003	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Shares:				
Equity method				
Giantplus Technology Co., Ltd.	\$ 819,759	42	\$ 760,309	42
Sunplus Venture Capital Co., Ltd.	801,640	100	914,029	100
Lin Shih Investment Co., Ltd.	624,926	100	\$ 681,338	100
Russell Holdings Limited	548,476	100	587,955	100
Ventureplus Group Inc.	260,321	100	311,679	100
Wei-Young Investment Inc.	203,225	100	-	-
Generaplus Technology Corp.	123,820	60	-	-
Goldkey Technology Corp.	65,906	15	65,092	16
Waveplus Technology Co., Ltd.	24,298	10	19,215	16
Techplus Capital Niue Inc.	6,752	100	6,921	100
Sunplus Management Consulting Inc.	4,666	100	-	-
Electric Energy Application Technology Inc.	<u>-</u>	24	<u>34,446</u>	24
	<u>3,483,789</u>		<u>3,380,984</u>	
Cost method				
Publicly traded stocks				
RITEK Corp.	335,069	-	335,069	-
Global View Co., Ltd.	223,455	10	259,468	13
United Microelectronics Corp.	45,887	-	45,887	-
Broadcom Corp.	37,608	-	107,105	-

(Continued)

	June 30			
	2004		2003	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Harvatek Corp.	\$ 37,488	4	\$ 37,489	4
Silicon Application Corp.	26,700	1	26,700	1
Non-publicly traded stocks				
Network Capital Global Fund	60,000	7	60,000	7
Technology Partners Venture Capital Corp.	50,000	11	50,000	11
Quality Test System Inc.	<u>6,652</u>	2	<u>6,652</u>	2
	822,859		928,370	
Less: Allowance for losses	<u>58,413</u>		<u>-</u>	
	<u>764,446</u>		<u>928,370</u>	
Convertible bonds:				
AIPTEK International Inc.	20,000	-	20,000	-
Sin Bon Electronics Co., Ltd.	16,642	-	16,642	-
King Yuan Electronics Co., Ltd.	-	-	34,980	-
Signality System Engineering Co., Ltd.	<u>-</u>	-	<u>10,000</u>	-
	<u>36,642</u>		<u>81,622</u>	
Prepayment for stock subscription:				
Sunplus Management Consulting Inc.	<u>-</u>	-	<u>5,000</u>	-
	<u>\$4,284,877</u>		<u>\$4,395,976</u>	
Credit balance of long-term investments—(recorded as other current liabilities)				
Sunplus Technology (H.K.) Co., Ltd.	<u>\$ 10,456</u>	100	<u>\$ 3,715</u>	100

In March 2004, the Company established Wei-Young Investment Inc. engaging in investments and Generaplus Technology Inc. engaging in IC design, international trade, information software services and data process.

The equity-method investment gains and losses for the six months ended June 30, 2004 and 2003 were based on the investees' unaudited financial statements for the same period. The related amounts were as follows:

	Six Months Ended	
	June 30	
	2004	2003
Giantplus Technology Co., Ltd.	\$ 48,588	\$ 5,331
Sunplus Venture Capital Co., Ltd.	(52,673)	(56,832)
Lin Shih Investment Co., Ltd.	(57,022)	17,515
Russell Holdings Limited	(42,021)	(9,482)
Ventureplus Group Inc.	(27,806)	(14,408)
Wei-Young Investment Inc.	3,225	-
Generaplus Technology Corp.	3,820	-
Goldkey Technology Corp.	1,690	(2,066)
Waveplus Technology Co., Ltd.	(6,350)	(3,103)
Techplus Capital Niue Inc.	13	-

(Continued)

	Six Months Ended	
	June 30	
	2004	2003
Sunplus Management Consulting Inc.	(\$ 334)	\$ -
Sunplus Technology (H.K.) Co., Ltd.	(3,663)	(3,398)
Electric Energy Application Technology Inc.	<u>-</u>	<u>(4,949)</u>
	<u>(\$ 132,533)</u>	<u>(\$ 71,392)</u>

As of June 30, 2004 and 2003, the Company and its subsidiaries collectively owned 32% of Goldkey Technology Co., Ltd., and 43% and 50%, respectively, of Waveplus Technology Co., Ltd. Thus, these investments were accounted for by the equity method.

Information on the market value of long-term investment is as follows:

	June 30	
	2004	2003
Publicly traded stocks		
RITEK Corp.	\$ 76,343	\$ 101,693
Global View Co., Ltd.	250,585	407,485
United Microelectronics Corp.	55,729	50,473
Broadcom Corp.	97,365	142,727
Harvatek Corp.	144,609	133,687
Silicon Application Corp.	20,900	25,668
Convertible bonds		
AIPTEK International Inc.	21,100	20,000
Sin Bon Electronics Co., Ltd.	18,906	17,373
King Yuan Electronics Co., Ltd.	-	34,605
Signality System Engineering Co., Ltd.	-	8,800

6. PROPERTIES

	June 30	
	2004	2003
Accumulated depreciation:		
Buildings	\$ 58,922	\$ 39,918
Auxiliary equipment	78,453	62,963
Machinery and equipment	261,389	191,383
Testing equipment	339,337	240,843
Transportation equipment	3,591	2,376
Furniture and fixtures	54,834	37,387
Leasehold improvements	<u>67</u>	<u>30</u>
	<u>\$ 796,593</u>	<u>\$ 574,900</u>

7. INTANGIBLE ASSETS—NET

	June 30	
	2004	2003
Patents	\$ 91,056	\$ 95,750
Technology license fees	<u>1,005,805</u>	<u>1,042,677</u>
	<u>\$ 1,096,861</u>	<u>\$ 1,138,427</u>

Intangible assets consisted of fees paid to Oak Technology (“Oak”) for the Company to use Oak’s technology on light storage solutions to develop SOC DVD/VCD (system on a chip digital compact disk/video compact disk) players.

The Company also authorized Sunext Technology (a 49.5 % indirect investee) to research, design and manufacture products using Oak’s technology in exchange for royalty income (shown under “gross sales” in the income statements and as “deferred royalty income” in the balance sheets).

8. DEFERRED CHARGES—NET

	June 30	
	2004	2003
Electricity installation	\$ 56	\$ 163
Software and system design	<u>19,349</u>	<u>24,767</u>
	<u>\$ 19,405</u>	<u>\$ 24,930</u>

9. SHORT-TERM BANK LOANS

	June 30	
	2004	2003
Export trade loans—US\$3,000 thousand, due in September 2004, 1.79% annual interest	\$ 101,280	\$ -
Unsecured loans—US\$2,500 thousand, due in May 2005, 1.86%-2.13% annual interest	<u>84,400</u>	<u>-</u>
	<u>\$ 185,680</u>	<u>\$ -</u>

10. PENSION PLAN

The Company has a pension plan for all regular employees. It is a lump sum that is payable immediately on retirement and is equivalent to 2 months’ unit for each of the first 15 years of service and 1 month’s unit for each year of service thereafter. The total retirement benefit is subject to a maximum of 45 months’ unit. The pension plan provides benefits based on the length of service and the average monthly basic salary of the employee’s final six months of service.

The Company makes monthly contributions, equal to 2% of salaries, to a pension fund, which is administered by a pension fund monitoring committee. The contributions are deposited in the committee’s name in the Central Trust of China.

The balances of the pension fund as of June 30, 2004 and 2003 were \$46,791 thousand and \$35,587 thousand, respectively.

The accrued pension liability is summarized as follows:

	Six Months Ended	
	June 30	
	2004	2003
Balance, beginning of the period	\$ 108,798	\$ 65,838
Pension costs	28,353	25,901
Contributions	(5,783)	(4,515)
Balance, end of the period	<u>\$ 131,368</u>	<u>\$ 87,224</u>

11. SHAREHOLDERS' EQUITY

Employee Stock Option Plan

On March 7, 2003, the Securities and Futures Bureau (formerly known as "Securities and Futures Commission") approved the Company's adoption of an employee stock option plan. The plan provides for the grant of 30,000 thousand options, with each representing 1 common share. A total of 30,000 thousand common shares are reserved for issuance. The options are valid for six years and exercisable at certain percentages after the second anniversary of the grant date. All options had been granted as of August 28, 2003.

Information on outstanding option rights is as follows:

	Outstanding Option Rights			
	Number of Option Rights Available (in Thousands)	Number of Option Rights Granted (in Thousands)	Exercise Price (NT\$)	Weighted Average Exercise Price (NT\$)
Amount authorized in 2003	30,000	-		
Granted on May 6, 2003	(<u>22,000</u>)	<u>24,200</u> (Note)	\$31.5 (Note)	\$31.5 (Note)
Balance, June 30, 2003	8,000	24,200		
Granted on August 28, 2003	(<u>8,000</u>)	<u>8,000</u>	54.0	54.0
Balance, June 30, 2004	<u> </u> -	<u>32,200</u>		

Note: The numbers of outstanding option rights and exercise prices have been adjusted to reflect the issuance of stock dividends based on the plan.

Paid-in Capital

Under ROC regulations, capital surplus may be used to offset deficit, and only the capital surplus from donations (donated capital) and the issue of stock in excess of par value (including the stock issued for new capital and mergers) may be transferred to capital as stock dividend.

Appropriation of Earnings and Dividend Policy

The Company's Articles of Incorporation provide that the following should be appropriated from annual earnings less any accumulated deficit: (a) 10% as legal reserve; and (b) special reserve equivalent to the debit balance of any accounts shown in the shareholders' equity section of the balance sheet, other than deficit. The distribution of any remaining earnings will be as follows: (i) dividends of up to 6% of paid-in capital; and (ii) 1.5% as remuneration to directors and supervisors and at least 1% as bonus to employees. The employees may include, with the approval of the Company's board of directors, the employees of affiliated companies.

The current year's net income less all the foregoing appropriations and distributions plus the unappropriated prior years' earnings may be distributed as additional dividends. It is the Company's policy that cash dividends should be at least 10% of total dividends distributed. However, cash dividends will not be distributed if these dividends are less than NT\$0.5 per share.

A special reserve equivalent to the debit balance of any account shown in the shareholders' equity section of the balance sheet (for example, unrealized loss on long-term investments and cumulative translation adjustments) should be made from unappropriated retained earnings pursuant to regulations promulgated by the R.O.C. Securities and Futures Bureau. The special reserve is allowed to be appropriated to the extent that the debit balance of such accounts is reversed.

The appropriation of earnings should be approved by the shareholders in the following year and given effect on the financial statements of that year.

Under the Integrated Income Tax System, which took effect on January 1, 1998, ROC resident shareholders are allowed to have tax credits for the income tax paid by the Company on earnings generated since January 1, 1998. An imputation credit account (ICA) is maintained by the Company for such income tax and the tax credit allocated to each resident shareholder. The maximum credit available for allocation to each resident shareholder cannot exceed the ICA balance on the dividend distribution date.

The appropriations for the earnings of 2003 and 2002 were approved in the shareholders' meetings on June 1, 2004 and May 6, 2003, respectively. The appropriations, including dividends, were as follows:

	<u>2003</u>		<u>2002</u>	
	<u>Appropriation of Earnings</u>	<u>Dividends (NT\$)</u>	<u>Appropriation of Earnings</u>	<u>Dividends (NT\$)</u>
Legal reserve	\$ 200,697	\$ -	\$ 211,632	\$ -
Special reserve	-	-	34,874	-
Common dividends—cash	1,166,256	1.5	1,389,900	2.0
Common dividends—stock	155,500	0.2	-	-
Remuneration of directors and supervisors	20,977	-	21,775	-
Bonus to employees—stock	<u>200,000</u>	-	<u>130,590</u>	-
	<u>\$ 1,743,430</u>		<u>\$ 1,788,771</u>	

The shareholders' meeting also approved the conversion of the employees' stock bonuses \$200,000 thousand, stock dividends of \$155,500 thousand and capital surplus of 622,004 thousand into new shares. The expected issuance of capital stock will total \$8,752,544 thousand. These appropriations have been approved by the Securities and Futures Bureau and will take effect on August 23, 2004.

12. TREASURY STOCK (COMMON STOCK)

	(Shares in Thousands)			
<u>Purpose of Purchase</u>	<u>Beginning Shares</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Shares</u>
<u>Six months ended June 30, 2004</u>				
Company stocks held by subsidiaries as investments	<u>5,322</u>	—	—	<u>5,322</u>
<u>Six months ended June 30, 2003</u>				
Company stocks held by subsidiaries as investments	<u>4,838</u>	—	—	<u>4,838</u>

In January 2002, the Company transferred \$95,605 thousand of its shares held by Lin Shin Investment Co., Ltd. as investments to treasury stock. As of June 30, 2004 and 2003, the book values of these stocks were \$95,605 thousand and \$325,730 thousand, respectively, and the market values of these stocks were \$95,605 thousand and \$232,696 thousand, respectively. Effective January 1, 2002, capital stock of the Company held by a subsidiary as an investment is recorded as treasury stock, but shareholders of treasury stock retain their shareholders' rights on these shares.

13. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Six Months Ended June 30, 2004		
	Classified as		
	Classified as Cost of Sales	Operating Expense	Total
Personnel expenses			
Salary	\$ 47,030	\$ 389,106	\$ 436,136
Labor and health insurance	2,798	20,431	23,229
Pension	2,791	25,562	28,353
Others	3,279	20,600	23,879
Depreciation	40,442	76,257	116,699
Amortization	446	151,407	151,853
	<u>\$ 96,786</u>	<u>\$ 683,363</u>	<u>\$ 780,149</u>

	Six Months Ended June 30, 2003		
	Classified as		
	Classified as Cost of Sales	Operating Expense	Total
Personnel expenses			
Salary	\$ 37,411	\$ 309,802	\$ 347,213
Labor and health insurance	1,797	18,344	20,141
Pension	2,479	23,422	25,901
Others	2,081	12,939	15,020
Depreciation	34,798	68,544	103,342
Amortization	445	72,776	73,221
	<u>\$ 79,011</u>	<u>\$ 505,827</u>	<u>\$ 584,838</u>

14. INCOME TAX

- a. A reconciliation of income tax expense on income before income tax at the statutory rate and current income tax expense before income tax credits is shown below:

	Six Months Ended June 30	
	2004	2003
Income tax expense on income before income tax at statutory rate (25%)	\$ 329,707	\$ 149,933
Tax effects of adjustments:		
Tax-exempt income	(267,161)	(94,926)
Permanent difference	30,331	2,186
Temporary difference	<u>27,306</u>	<u>6,533</u>
Income tax expense before tax credits	<u>\$ 120,183</u>	<u>\$ 63,726</u>

b. Income tax benefit consisted of the following:

	Six Months Ended	
	June 30	
	<u>2004</u>	<u>2003</u>
Income tax expense before tax credits	(\$ 120,183)	(\$ 63,726)
Income tax (10%) on unappropriated earnings	(57,774)	(45,873)
Investment tax credits	162,071	86,136
Net change in deferred income taxes	69,394	57,202
Nondeductible tax credits—income from oversea	(14,015)	-
Adjustment of prior years' income tax expense	<u>2,826</u>	<u>-</u>
Income tax benefit	<u>\$ 42,319</u>	<u>\$ 33,739</u>

c. Deferred income tax assets consisted of the following:

	June 30	
	<u>2004</u>	<u>2003</u>
Current:		
Investment tax credits	\$ 8,470	\$ 86,798
Temporary difference	<u>28,597</u>	<u>2,690</u>
	<u>\$ 37,067</u>	<u>\$ 89,488</u>
Noncurrent:		
Investment tax credits	\$ 509,075	\$ 342,414
Temporary difference	37,612	31,506
Allowance	<u>(40,643)</u>	<u>(94,298)</u>
	<u>\$ 506,044</u>	<u>\$ 279,622</u>

The effective tax rate for deferred income taxes as of June 30, 2004 and 2003 was 25%.

As of June 30, 2004, investment tax credits shown as deferred tax assets consisted of the following:

<u>Regulation</u>	<u>Items</u>	<u>Total Creditable Amounts</u>	<u>Remaining Creditable Amounts</u>	<u>Expiry Year</u>
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 12,453	\$ -	2004
		1,956	1,956	2005
		5,004	5,004	2006
		<u>2,432</u>	<u>2,432</u>	2007
		<u>\$ 21,845</u>	<u>\$ 9,392</u>	
Statute for Upgrading Industries	Research and development expenditures	\$ 71,418	\$ 8,470	2004
		55,263	55,263	2005
		177,474	177,474	2006
		189,636	189,636	2007
		<u>163,981</u>	<u>77,310</u>	2008
		<u>\$ 657,772</u>	<u>\$ 508,153</u>	

The income from separate expansion projects on the design, manufacture, test and sale of ICs for voice and music applications, telephone answering equipment, multimedia systems, wireless communications systems, digital signal processing controllers and special applications is exempt from income tax. The related tax-exemption periods are as follows:

<u>Project</u>	<u>Tax Exemption Period</u>
Third expansion	January 1, 2001 to December 31, 2004
Fourth expansion	January 1, 2002 to December 31, 2005
Fifth expansion	January 1, 2003 to December 31, 2006

Income from separate projects on design, manufacture and sale of control chips for digital cameras, scanners and PC cameras is exempt from income tax for five years from January 1, 2002.

Income tax returns for 1998 and 2001 had been examined by the tax authorities. However, the Company is contesting the assessment by the tax authorities for the 1997 returns.

d. Integrated income tax information:

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Balance of imputation credit account	<u>\$ 80,879</u>	<u>\$ 9,140</u>
Unappropriated earnings before 1998	<u>\$ 452,310</u>	<u>\$ 452,310</u>

The expected and actual creditable tax ratios for 2003 and 2002 were 3.21% and 0.4%, respectively.

The imputation credit allocated to the shareholders is based on the balance of the imputation credit account as of the date of dividend distribution. The expected creditable ratio may be adjusted when the actual distribution of the imputation credits are made.

15. EARNINGS PER SHARE

The numerators and denominators used in computing earnings per share (EPS) were as follows:

	<u>Amounts (Numerator)</u>		<u>Share (Denominator) (in Thousands)</u>	<u>EPS (Dollars)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
<u>Six months ended June 30, 2004</u>					
Net income	<u>\$ 1,318,828</u>	<u>\$ 1,361,147</u>			
Basic EPS					
Income of common shareholders	<u>\$ 1,318,828</u>	<u>\$ 1,361,147</u>	<u>772,182</u>	<u>\$ 1.71</u>	<u>\$ 1.76</u>
Pro-forma adjusted EPS for stock dividends with ex-dividend date after the issuance of financial statements	<u>\$ 1,318,828</u>	<u>\$ 1,361,147</u>	<u>869,826</u>	<u>\$ 1.52</u>	<u>\$ 1.56</u>

(Continued)

	<u>Amounts (Numerator)</u>		<u>Share (Denominator) (in Thousands)</u>	<u>EPS (Dollars)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
Income of common shareholders	\$ 1,318,828	\$ 1,361,147	772,182		
Effect of dilutive securities—stock options	<u> -</u>	<u> -</u>	<u>14,943</u>		
Diluted EPS					
Income of common shareholders	<u>\$ 1,318,828</u>	<u>\$ 1,361,147</u>	<u>787,125</u>	<u>\$ 1.68</u>	<u>\$ 1.73</u>
Pro-forma adjusted EPS for stock dividends with ex-dividend date after the issuance of financial statements	<u>\$ 1,318,828</u>	<u>\$ 1,361,147</u>	<u>888,767</u>	<u>\$ 1.48</u>	<u>\$ 1.53</u>
<u>Six months ended June 30, 2003</u>					
Net income	<u>\$ 599,732</u>	<u>\$ 633,471</u>			
Basic EPS					
Income of common shareholders	\$ 599,732	\$ 633,471	772,182	<u>\$ 0.78</u>	<u>\$ 0.82</u>
Effect of dilutive securities—stock options.	<u> -</u>	<u> -</u>	<u>1,034</u>		
Diluted EPS					
Income of common shareholders	<u>\$ 599,732</u>	<u>\$ 633,471</u>	<u>773,216</u>	<u>\$ 0.78</u>	<u>\$ 0.82</u>
Pro-forma adjusted EPS for stock dividends with ex-dividend date after the issuance of financial statements	<u>\$ 599,732</u>	<u>\$ 633,471</u>	<u>872,440</u>	<u>\$ 0.69</u>	<u>\$ 0.73</u>

16. RELATED-PARTY TRANSACTIONS

The Company's related parties were as follows:

- a. Global View Co., Ltd. ("Global View")—the Company's supervisor
- b. Giantplus Technology Co., Ltd. ("Giantplus")—equity-method investee
- c. Goldkey Technology Corp. ("Goldkey")—equity-method investee
- d. Waveplus Technology Co., Ltd. ("Waveplus")—equity-method investee
- e. Sunplus Technology (H.K.) Co., Ltd. ("Sunplus H.K.")—100% subsidiary
- f. Generaplus Technology Inc. ("Generaplus")—60% Subsidiary
- g. Ventureplus Cayman Inc. ("Ventureplus")—100% indirect subsidiary
- h. Sunplus Technology (Shanghai) Co., Ltd. (Sunplus Shanghai)—98% indirect subsidiary

- i. Sunxt Technology Co., Ltd. (“Sunxt”)—49.5% indirect investee
- j. Joing Tecnology Co., Ltd. (“Joing”)—39% indirect investee (liquidated in March 2004)
- k. Others—please refer to Note 19 for related parties that do not have business transactions with the Company in the current period.

The transactions with the foregoing parties in addition to those disclosed in other notes are summarized as follows:

a. Sales

	Six Months Ended June 30			
	2004		2003	
	Amount	%	Amount	%
Giantplus	\$ 204,784	2	\$ 98,921	2
Generaplus	81,358	1	-	-
Waveplus	77,080	1	52,574	1
Global View	66,644	1	145,919	3
Sunxt	62,276	1	67,878	2
Goldkey	21,640	-	8,507	-
Sunplus H.K.	9,126	-	77,591	2
Joing	-	-	2,169	-
	<u>\$ 522,908</u>	<u>6</u>	<u>\$ 453,559</u>	<u>10</u>

The prices and collection terms for products sold to related parties were similar to those for third parties.

b. Nonoperating income

	Six Months Ended June 30			
	2004		2003	
	Amount	%	Amount	%
Nonoperating income-other				
Joing	\$ 1,317	10	-	-

c. Notes and accounts receivable

	June 30			
	2004		2003	
	Amount	%	Amount	%
Giantplus	\$ 97,182	38	\$ 41,831	18
Generaplus	85,655	33	-	-
Waveplus	33,800	13	14,511	6
Global View	21,490	8	39,020	16
Goldkey	11,414	5	12,772	5
Sunplus H.K.	7,493	3	77,446	32
Sunxt	132	-	51,977	22
Joing	-	-	1,744	1
	<u>\$ 257,166</u>	<u>100</u>	<u>\$ 239,301</u>	<u>100</u>

(Continued)

	June 30			
	2004		2003	
	Amount	%	Amount	%
d. Guarantee deposits				
Global View	\$ 4,362	2	\$ -	-
Goldkey	86	-	-	-
Joing	<u>-</u>	<u>-</u>	<u>720</u>	<u>-</u>
	<u>\$ 4,448</u>	<u>2</u>	<u>\$ 720</u>	<u>-</u>

e. Deferred royalty income (current and noncurrent)

Sunext	<u>\$ 100,515</u>	<u>100</u>	<u>\$ -</u>	<u>-</u>
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f. Transactions of properties

As of June 30, 2004, the Company sold the properties to Sunnext and Generaplus for \$693 thousand and the resulting gain on sales of properties was \$53 thousand.

g. Endorsement/guarantee provided

h. Related-party borrowings guaranteed by the Company

	June 30	
	2004	2003
Giantplus	\$ 636,495	\$ 470,000
Sunplus Shanghai	164,950	-
Sunplus H.K.	17,252	17,252
Ventureplus	<u>-</u>	<u>174,890</u>
	<u>\$ 818,697</u>	<u>\$ 662,142</u>

17. SIGNIFICANT LONG-TERM OPERATING LEASES

The Company leases land from the Science-Based Industrial Park Administration under renewable operating lease agreements expiring in July 2015, December 2020 and 2021, with annual rentals aggregating \$6,919 thousand.

Future annual minimum rentals under the leases are as follows:

<u>Year</u>	<u>Amount</u>
2004 (3 rd to 4 th quarters)	\$ 3,460
2005	6,919
2006	6,919
2007	6,919
2008	6,919
2009 and thereafter	<u>70,087</u>
	<u>\$ 101,223</u>

18. PLEDGED TIME DEPOSITS

Time deposits of \$6,050 thousand as of June 30, 2003 had been pledged as guarantee deposits and \$4,840 thousand was recorded as other financial assets—current and \$1,210 thousand, as other assets—miscellaneous.

19. ADDITIONAL DISCLOSURES

Following are the additional disclosures required for the Company and its affiliates by the Securities and Futures Bureau:

- a. Endorsement/Guarantee provided: Table 1 (attached)
- b. Marketable securities held: Table 2 (attached)
- c. Marketable securities acquired and disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Table 3 (attached)
- d. Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 4 (attached)
- e. Names, locations, and related information of investees on which the Company exercises significant influence: Table 5 (attached)
- f. Investment in Mainland China: Table 6 (attached)
- g. Financial instrument transactions
 - 1) Derivative transactions

The Company entered into derivative transactions for the six months ended June 30, 2004 and 2003 to manage exposures related to foreign-currency receivables or payables and interest rate fluctuations. The strategy is to hedge most of the market price risks. Certain information on these contracts is as follows:

- a) Swap contracts

Sunplus (No. 0)

<u>Items</u>	<u>June 30, 2003</u>	
	<u>Contract Amount (In Thousands)</u>	<u>Credit Risk</u>
Currency swap contracts	US\$1,000 (US\$ to NT\$)	\$ 133

As of June 30, 2003, receivables from swap contracts (shown in the balance sheets as part of “other financial asset-current”) aggregated \$71 thousand. For the six months ended June 30, 2003, the realized net exchange loss on settled forward exchange contracts and foreign currency option contracts is \$6,960 thousand, presented under nonoperating expenses and losses.

b) Forward exchange contracts

Sunplus (No. 0)

Outstanding forward exchange contracts

<u>Items</u>	<u>June 30, 2004</u>	
	<u>Contract Amount (In Thousands)</u>	<u>Credit Risk</u>
Sell forward exchange contracts	US\$33,000 (US\$ to NT\$)	\$ 15,001

As of June 30, 2004, receivables from forward exchange contracts (shown in the balance sheets as part of "other current assets-current" account) aggregated \$15,638 thousand. As of June 2003, all the forward exchange contracts that the Company entered into had been settled.

For the six months ended June 30, 2004, the net exchange losses on settled exchange contracts forward and stock options were \$17,028 thousand, presented under nonoperating expenses and losses.

Giantplus (No. 1)

<u>Items</u>	<u>June 30</u>			
	<u>2004</u>		<u>2003</u>	
	<u>Contract Amount (In Thousands)</u>	<u>Credit Risk</u>	<u>Contract Amount (In Thousands)</u>	<u>Credit Risk</u>
Buy forward exchange contracts	US\$9,000 (US\$ to NT\$)	\$ 296	-	\$ -
Sell forward exchange contracts	-	-	US\$3,000 (US\$ to NT\$)	75

As of June 30, 2003 and 2004, receivables on forward exchange contracts (shown in the balance sheets as part of other current assets) aggregated \$62 thousand and \$60 thousand, respectively.

For the six months ended June 30, 2004 and 2003, the net exchange loss on settled exchange contracts forward and option contract was \$7,417 thousand and \$162 thousand, respectively, presented under nonoperating expenses and losses.

c) Stock and foreign-currency option contracts as of June 30, 2004.

Giantplus (No. 1)

Giantplus entered into foreign-currency option contracts to hedge risks of exchange rate fluctuations arising from its anticipated U.S. dollar cash receipts on export sales

Outstanding option contracts as of June 30, 2004.

<u>Type</u>	<u>Trade</u>	<u>Option</u>	<u>Contract Amount (In Thousands)</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>Execute Price (US\$ to NT\$)</u>	<u>Maturity Date</u>
Europe	Sell	Call	US\$48,000	\$920	-	32.90-33.82	2004.11

For the six months ended June 30, 2004 and 2003, Giantplus recognized net premium income of \$3,391 thousand and \$7,743 thousand, respectively.

d) Transaction risks

- i. Credit risk: Banks are the counter-parties of the foregoing derivative transactions. The potential for default by those counter-parties on the contracts is low.
- ii. Market price risk: All derivative financial instruments are intended as hedges for adverse fluctuations of currency exchange rates for foreign currency-denominated receivables or payables. Gains or losses on forward exchange contracts are likely to offset gains or losses on receivables and payables. Thus, market price risks from exchange rate fluctuations are minimal.
- iii. Liquidity and cash flows requirements: The cash flow requirements for derivative instruments are limited to the net differences between the spot rates and contracted forward rates on settlement dates. Management believes that the foregoing requirements are not material.

Sunplus (No. 0)

As of June 30, 2004 and 2003, respectively, the Company's future cash demand for derivative transactions was as follows:

(In Thousands)

<u>Term</u>	<u>June 30</u>			
	<u>2004</u>		<u>2003</u>	
	<u>Forward Exchange Contracts</u>		<u>Swap Outflow</u>	
	<u>Inflow</u>	<u>Outflow</u>	<u>Inflow</u>	<u>Outflow</u>
Within one year	NT\$ 1,096,556	US\$ 33,000	NT\$ 34,676	US\$ 1,000

The Company has sufficient operating capital to meet the above cash demand and the exchange rates for forward exchange contracts are fixed. So, there is no material fund-raising or cash flow risk.

Giantplus (No. 1)

As of June 30, 2004, the Company's future cash demand for derivative transactions was as follows:

(In Thousands)

<u>Term</u>	<u>June 30</u>			
	<u>2004</u>		<u>2003</u>	
	<u>Forward Exchange Contracts</u>		<u>Swap Outflow</u>	
	<u>Inflow</u>	<u>Outflow</u>	<u>Inflow</u>	<u>Outflow</u>
Within one year	NT\$ 303,045	US\$ 9,000	NT\$ 3,000	US\$ 103,754

The Company has sufficient operating capital to meet the above cash demand and the exchange rates for cross-currency swaps and forward exchange contracts are fixed. Therefore, there is no material fund-raising or cash flow risk.

e) Kinds and purpose of derivative financial instruments held and its related strategies

The Company entered into derivative transactions solely for hedging purposes. The Company entered into forward exchange contracts to hedge the effect of exchange rate fluctuations on net foreign currency-denominated assets and liabilities. The strategy is to hedge market risks to which the Company is exposed. The Company has designated instruments with high negative correlation with the fair value of the hedged item and periodically evaluates the effectiveness of the instruments.

2) Fair values of financial instruments

	June 30			
	2004		2003	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>Nonderivative financial instruments</u>				
Assets				
Cash	\$ 763,987	\$ 763,987	\$ 830,135	\$ 830,135
Short-term investments	3,154,263	3,154,263	4,008,852	4,013,300
Notes and accounts receivable				
Other	3,439,910	3,439,910	1,764,433	1,764,433
Related parties	257,166	257,166	239,301	239,301
Other financial assets—current	47,159	47,159	146,399	146,399
Long-term investments	4,284,877	4,379,983	4,395,976	4,441,117
Other assets—miscellaneous	6,990	6,990	6,770	6,770
Liabilities				
Short-term bank loans	185,680	185,680	-	-
Notes and accounts payable	2,621,979	2,621,979	1,015,997	1,015,997
Dividend and remuneration to directors and supervisors payable	1,187,233	1,187,233	1,411,675	1,411,675
Guarantee deposits	287,024	287,024	175,148	175,148
<u>Derivative financial instruments</u>				
Forward exchange contracts (sell)	15,638	15,001	-	-
Swaps	-	-	71	133

Fair values of financial instruments were based on the following assumptions and methods:

- a) Cash, notes and accounts receivable, other financial assets—current, other assets—miscellaneous, short-term bank loans, notes and accounts payable and dividend and remuneration to directors and supervisors payable—carrying amounts in the balance sheets since these amounts approximate their fair values.
- b) Short-term and long-term investments—quoted market prices. If quoted market prices are unavailable, fair value is based on the net asset value or book value of the investment.
- c) Long-term bank loans—forecasted cash flows discounted at interest rates of similar long-term liabilities; fair values of the Company's long-term loans are also their carrying values because they bear floating interest rates.
- d) Guarantee deposits—carrying values.

- e) Derivative instruments—estimated net receivable or (payable) if the contracts are terminated on the balance sheet date.

The fair values of some financial and nonfinancial instruments were not included in the fair values disclosed above. Thus, the sum of the fair values of the financial instruments listed above does not represent the fair value of the Company as a whole.

TABLE 1**SUNPLUS TECHNOLOGY COMPANY LIMITED****ENDORSEMENT/GUARANTEE PROVIDED
FOR THE SIX MONTHS ENDED JUNE 30, 2004****(In Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

No.	Endorsement/Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/Guarantee Amounts (Note 1)	Maximum Balance for the Period	Ending Balance	Value of Collateral Property, Plant, or Equipment	Percentage of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement	Maximum Collateral/Guarantee Amounts Allowable (Note 2)
		Name	Nature of Relationship						
0	Sunplus Technology Company Limited	Giantplus Technology Co., Ltd. Sunplus Technology (H.K.) Co., Ltd. Sunplus Technology (Shanghai) Co., Ltd.	Equity-method investee Subsidiary Subsidiary	\$ 1,410,976 1,410,976 1,410,976	\$ 636,495 17,252 164,950	\$ 636,495 17,252 164,950	\$ - - -	4.51% 0.12% 1.17%	\$ 2,821,952 2,821,952 2,821,952
1	Giantplus Technology Co., Ltd	Giantplus Holding L.L.C.	100% indirect subsidiary	390,268	166,600	166,600	-	8.54%	585,403
2	Giantplus (SAMOA) Holding Co., Ltd.	Kunshan Giantplus Optoelectronics Technology Co., Ltd.	100% indirect subsidiary	390,268	104,266	-	-	-	585,403
3	Giantplus Holding L.L.C.	Kunshan Giantplus Optoelectronics Technology Co., Ltd.	Subsidiary	195,134	166,600	166,600	-	8.54%	585,403

Note 1: For each transaction entity, up to 10% of the endorsement/guarantee provider's net equity as of the latest financial statements.

Note 2: Up to 20% of the endorsement/guarantee provider's net equity based on the latest financial statements.

TABLE 2

SUNPLUS TECHNOLOGY COMPANY LIMITED

MARKETABLE SECURITIES HELD

JUNE 30, 2004

(In Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Holding Company Name	Type and Name of Marketable Security	Relationship with the Holding Company	Financial Statement Account	June 30, 2004				Note
				Shares or Units (Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Sunplus Technology Company Limited	<u>Stock</u>							
	Giantplus Technology Co., Ltd.	Equity-method investee	Long-term investments	67,222	\$ 819,759	42	\$ 819,759	Note 1
	Sunplus Venture Capital Co., Ltd.	Subsidiary	Long-term investments	99,994	801,640	100	801,640	Note 1
	Lin Shih Investment Co., Ltd.	Subsidiary	Long-term investments	69,994	624,926	100	720,531	Notes 1 and 5
	Russell Holdings Limited	Subsidiary	Long-term investments	17,360	548,476	100	548,476	Note 1
	Ventureplus Group Inc.	Subsidiary	Long-term investments	10,000	260,321	100	260,321	Note 1
	Wei-Young Investment Inc.	Subsidiary	Long-term investments	20,000	203,225	100	203,225	Note 1
	Generaplus Technology Inc.	Subsidiary	Long-term investments	12,000	123,820	60	123,820	Note 1
	Goldkey Technology Corp.	Equity-method investee	Long-term investments	6,568	65,906	15	65,062	Notes 1 and 6
	Waveplus Technology Co., Ltd.	Equity-method investee	Long-term investments	2,856	24,298	10	23,542	Notes 1 and 6
	Techplus Capital Niue Inc.	Subsidiary	Long-term investments	200	6,752	100	6,752	Note 1
	Sunplus Management Consulting Inc.	Subsidiary	Long-term investments	500	4,666	100	4,666	Note 1
	Sunplus Technology (H.K.) Co., Ltd.	Subsidiary	Other current liabilities	11,075	(10,456)	100	(10,456)	Note 4
	Electric Energy Application Technology Inc.	Equity-method investee	Long-term investments	9,600	-	24	-	Note 1
	RITEK Corp.	Cost-method investee	Long-term investments	4,875	335,069	-	76,343	
	Global View Co., Ltd.	Cost-method investee)	Long-term investments	13,294	223,455	10	250,585	
	United Microelectronics Corp.	Cost-method investee	Long-term investments	2,244	45,887	-	55,729	
	Broadcom Corp.	Cost-method investee	Long-term investments	62	37,608	-	97,365	
	Harvatek Corp.	Cost-method investee	Long-term investments	3,314	37,488	4	144,609	
	Silicon Application Corp.	Cost-method investee	Long-term investments	906	26,700	1	20,900	
	Network Capital Global Fund	Cost-method investee	Long-term investments	6,000	60,000	7	60,000	Note 2
	Technology Partners Venture Capital Corp.	Cost-method investee	Long-term investments	5,000	50,000	11	50,000	Note 2
	Quality Test System Inc.	Cost-method investee	Long-term investments	648	6,652	2	6,652	Note 2
	<u>Convertible bond</u>							
	AIPTEK International Inc.	-	Long-term investments	200	20,000	-	21,100	
	Sin Bon Electronics Co., Ltd.	-	Long-term investments	-	16,642	-	18,906	
	<u>Fund</u>							
EnTrust Phoenix Bond Fund	-	Short-term investments	44,471	648,000	-	648,027		
Fuh Hwa Albatross Bond Fund	-	Short-term investments	37,969	412,000	-	412,023		
Fuh Hwa Bond Fund	-	Short-term investments	26,696	343,000	-	343,019		
NITC Taiwan Bond Fund	-	Short-term investments	19,765	269,000	-	269,009		
Fuhwa Advantage Bond Fund	-	Short-term investments	25,029	252,000	-	252,000		
TIIM Bond Fund	-	Short-term investments	13,152	180,000	-	180,000		

(Continued)

Holding Company Name	Type and Name of Marketable Security	Relationship with the Holding Company	Financial Statement Account	June 30, 2004				Note
				Shares or Units (Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Fuh Hwa You Li Fund	-	Short-term investments	14,018	\$ 167,167	-	\$ 167,177	
	Jin Fuh Wa Bond Fund	-	Short-term investments	12,954	160,000	-	160,006	
	President Home Run Fund	-	Short-term investments	9,358	127,000	-	127,000	
	Fuhwa Classical Fund	-	Short-term investments	9,794	100,000	-	99,162	
	Ta Chong Diamond Balance Fund	-	Short-term investments	9,554	100,000	-	97,357	
	En Trust Kirin Bond Fund	-	Short-term investments	6,734	72,000	-	72,000	
	Fuh Hwa Life Goal Fund	-	Short-term investments	5,000	53,300	-	54,104	
	Fuh Hwa Global Balance Fund	-	Short-term investments	5,000	50,000	-	49,700	
	INVESCO Free Life Balanced Fund	-	Short-term investments	5,000	50,000	-	48,900	
	KGI Einstein Balanced Fund	-	Short-term investments	3,551	50,000	-	49,112	
	JF (TW) Balance Fund	-	Short-term investments	3,360	50,000	-	48,253	
	Truswell Superior Bond Fund	-	Short-term investments	3,000	30,000	-	30,176	
	KGI Victory Fund.	-	Short-term investments	1,922	20,000	-	20,000	
	ABN AMRO Income Fund.	-	Short-term investments	928	14,000	-	14,123	
	HSBC TAIWAN Dragon Fund.	-	Short-term investments	880	13,000	-	13,115	
Giantplus Technology Co., Ltd.	Giantplus (SAMOA) Holding Co., Ltd. Stock	Subsidiary of Giantplus Technology Co., Ltd.	Long-term investments	20,000	795,183	100	794,556	Note 1.
Giantplus (SAMOA) Holding Co., Ltd	Giantplus Holding L.L.C. stock	Subsidiary of Giantplus (SAMOA) Holding Ltd.	Long-term investments	-	US\$ 23,448 thousand	100	US\$ 23,448 Thousand	Note 1
Giantplus Holding L.L.C.	Kunshan Giantplus Optoelectronics Technology Co., Ltd.	Subsidiary of Giantplus Holding L.L.C.	Long-term investments	-	US\$ 15,643 thousand	100	US\$ 15,643 thousand	Note 1

Note 1: Market value was based on net equity value.

Note 2: For stocks with no quoted market prices, market value was based on book value.

Note 3: As of June 30, 2004, no securities had been pledged or restricted.

Note 4: Credit balance of long-term investments was reclassified as other current liabilities.

Note 5: The investment carrying value excluded the carrying value (\$95,605 thousand) of the parent company's stock held by the subsidiary.

Note 6: The investment carrying value excluded the unamortized difference between cost and equity in the investee's net assets.

TABLE 3

SUNPLUS TECHNOLOGY COMPANY LIMITED

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Type and Name of Marketable Security	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Units (Thousands)	Amount	Units (Thousands)	Amount	Unit (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Unit (Thousands)	Amount
Sunplus Technology Company Limited	En Trust Phoenix Bond Fund	Short-term investments	-	-	30,591	\$ 442,000	96,703	\$ 1,406,000	82,823	\$ 1,204,590	\$ 1,200,000	\$ 4,590	44,471	\$ 648,000
	INVESCO GP Agressive Income Bond Fund	Short-term investments	-	-	24,650	270,295	29,178	321,407	53,828	593,174	591,702	1,472	-	-
	TIIM Bond Fund	Short-term investments	-	-	17,452	237,000	31,562	431,000	35,862	489,901	488,000	1,901	13,152	180,000
	Jin Fuh Wa Bond Fund	Short-term investments	-	-	-	-	72,463	727,000	47,434	476,427	475,000	1,427	25,029	252,000
	APIT Asia Pacific Bond Fund	Short-term investments	-	-	8,167	100,000	30,863	380,000	26,076	321,378	320,000	1,378	12,954	160,000
	United Bond Fund	Short-term investments	-	-	7,817	98,000	22,402	282,000	30,219	380,912	380,000	912	-	-
	NITC Taiwan Bond Fund	Short-term investments	-	-	-	-	57,247	777,000	37,482	508,934	508,000	934	19,765	269,000
	Yuan Ta Fixed Income Bond Fund	Short-term investments	-	-	-	-	15,904	255,000	15,904	255,389	255,000	389	-	-
	President Home Run Fund	Short-term investments	-	-	7,585	102,000	20,603	279,000	18,830	255,040	254,000	1,040	9,358	127,000
	KGI Victory Bond Fund	Short-term investments	-	-	-	-	51,917	538,500	49,995	519,062	518,500	562	1,922	20,000
	President James Bond Fund	Short-term investments	-	-	10,934	162,000	4,310	64,000	15,244	226,345	226,000	345	-	-
	IIT Increment Fund	Short-term investments	-	-	29,462	430,000	-	-	29,462	431,487	430,000	1,487	-	-
	Truswell Bond Fund	Short-term investments	-	-	8,682	105,910	16,383	201,500	25,065	307,971	307,410	561	-	-
	Cathay Bond Fund	Short-term investments	-	-	15,336	170,000	-	-	15,336	170,116	170,000	116	-	-
	Union Bond Fund	Short-term investments	-	-	2,142	25,000	32,236	378,000	34,378	403,431	403,000	431	-	-
	Fuh Hwa You Li Fund	Short-term investments	-	-	14,173	167,167	28,115	334,334	28,270	336,171	334,334	1,837	14,018	167,167
	Fuh Hwa Bond Fund	Short-term investments	-	-	26,966	343,000	53,529	686,000	53,799	689,454	686,000	3,454	26,696	343,000
	Huh Hwa Albatross Bond Fund	Short-term investments	-	-	38,351	412,000	76,133	824,000	76,515	828,135	824,000	4,135	37,969	412,000
	En Trust Kinin Bond Fund	Short-term investments	-	-	5,193	55,000	13,490	144,000	11,949	127,524	127,000	524	6,734	72,000
	Poaris De-Bao Fund	Short-term investments	-	-	8,646	92,000	8,982	96,000	17,628	188,252	188,000	252	-	-
	NT\$ High Yield Fund	Short-term investments	-	-	-	-	6,845	109,500	6,845	109,675	109,500	175	-	-
	Wei-Young Investment Inc.	Long-term investments	-	-	-	-	20,000	200,000	-	-	-	-	20,000	203,225 (Note 1)
	Generaplus Technology Inc.	Long-term investments	-	-	-	-	12,000	120,000	-	-	-	-	12,000	123,820 (Note 1)
Giantplus Technology Co., Ltd.	Giantplus (SAMOA) Holding Co., Ltd.	Long-term investments	Giantplus (SAMOA) Holding Co., Ltd.	Subsidiary	16,400	620,995	3,600	119,339	-	-	-	-	20,000	795,183 (Note 2)
Giantplus (SAMOA) Holding Co., Ltd.	Giantplus Holding L.L.C.	Long-term investments	Giantplus (SAMOA) Holding Co., Ltd.	Subsidiary	-	US\$ 16,698 thousand	-	US\$ 5,100 thousand	-	-	-	-	-	US\$ 23,448 thousand (Note 2)

Note 1: Includes investment gain recognized by the equity method.

Note 2: Includes equity-method investment gain and cumulative translation adjustments.

TABLE 4**SUNPLUS TECHNOLOGY COMPANY LIMITED****TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2004****(In Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Accounts Payable or Receivable		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Sunplus Technology Company Limited	Giantplus Technology Co., Ltd.	Equity-method investee	Sale	\$ 204,784	2	Net 45 days from monthly closing dates in principle.	-	-	\$ 97,182	3	

SUNPLUS TECHNOLOGY COMPANY LIMITED

NAMES, LOCATIONS, AND RELATED INFORMATION
OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCES
FOR THE SIX MONTHS ENDED JUNE 30, 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2004			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				June 30 2004	December 31, 2003	Shares (Thousands)	Percentage of Ownership (%)	Carrying Value			
Sunplus Technology Company Limited	Giantplus Technology Co., Ltd.	Tofen Chen, Miaoli, Taiwan	Manufacture of TN/STN LCDs and LCD modules	\$ 768,332	\$ 768,332	67,222	42	\$ 819,759	\$ 115,657	\$ 48,588	Investee
	Sunplus Venture Capital Co., Ltd.	Hsinchu, Taiwan	Investment	999,940	999,940	99,994	100	801,640	(52,678)	(52,673)	Subsidiary
	Lin Shih Investment Co., Ltd.	Hsinchu, Taiwan	Investment	699,940	699,940	69,994	100	624,926	(57,028)	(57,022)	Subsidiary
	Russell Holdings Limited	Cayman Islands, British West Indies.	Investment	583,436	583,436	17,360	100	548,476	(42,021)	(42,021)	Subsidiary
	Ventureplus Group Inc.	Belize	Investment	347,578	347,578	10,000	100	260,321	(27,806)	(27,806)	Subsidiary
	Wei-Young Investment Inc.	Taipei, Taiwan	Investment	200,000	-	20,000	100	203,225	3,225	3,225	Subsidiary
	Generaplus Technology Inc.	Hsinchu, Taiwan	Design of ICs	120,000	-	12,000	60	123,820	6,366	3,820	Subsidiary
	Goldkey Technology Corp.	Hsinchu, Taiwan	Design of ICs	52,538	52,538	6,568	15	65,906	16,427	1,690	Investee
	Waveplus Technology Co., Ltd.	Taipei, Taiwan	Design and sale of ICs	31,272	31,272	2,856	10	24,298	(62,673)	(6,350)	Investee
	Techplus Capital Niue Inc.	Niue	Investment	6,896	6,896	200	100	6,752	13	13	Subsidiary
	Sunplus Management Consulting Inc.	Hsinchu, Taiwan	Investment	5,000	5,000	500	100	4,666	(334)	(334)	Subsidiary
	Sunplus Technology (H.K.) Co., Ltd.	Kowloon Bay, Hong Kong	Marketing and engineering support	41,616	41,616	11,075	100	(10,456)	(3,663)	(3,663)	Subsidiary
Electric Energy Application Technology Inc.	Hsinchu, Taiwan	Design and manufacture of environment—friendly batteries	103,200	103,200	9,600	24	-	-	-	Investee	
Lin Shih Investment Co., Ltd.	Goldkey Technology Corp.	Hsinchu, Taiwan	Design of ICs	48,000	48,000	7,200	17	71,339	16,427	2,766	Investee
	Sunext Technology Co., Ltd.	Hsinchu, Taiwan	Design and sale of ICs	245,000	245,000	24,500	24	131,572	(199,822)	(48,956)	Investee
	Waveplus Technology Co., Ltd.	Taipei, Taiwan	Design and sale of ICs	90,178	79,578	5,742	19	54,319	(62,673)	(11,576)	Investee
	Generaplus Technology Inc.	Hsinchu, Taiwan	Design of ICs	65,000	-	6,500	32	67,069	6,366	2,069	Investee
Sunplus Venture capital Co., Ltd.	Joing Technology Co., Ltd.	Hsinchu, Taiwan	Design of ICs	51,000	51,000	3,400	39	-	-	-	Investee
	Sunext Technology Co., Ltd.	Hsinchu, Taiwan	Design and sale of ICs	250,000	250,000	25,000	25	134,257	(199,822)	(49,955)	Investee
	Han Young Technology Co., Ltd.	Taipei, Taiwan	Design of ICs	4,200	4,200	420	70	2,078	(1,352)	(946)	Subsidiary
	Waveplus Technology Co., Ltd.	Taipei, Taiwan	Design and Sale of ICs	74,869	74,869	4,271	14	35,214	(62,673)	(8,925)	Investee
	Gereraplus Technology Inc.	Hsinchu, Taiwan	Design of ICs	15,000	-	1,500	8	15,477	6,366	477	Investee
Russell Holdings Limited	Jet Focus Limited	Cayman Islands, British West Indies	Investment	95,164	95,164	2,294	60	23,321	(65,580)	(39,827)	Subsidiary
Jet Focus Limited	Coolsand	France	Design of ICs Investment	EUR 1,000 thousand	EUR 1,000 thousand	-	100	EUR 30 thousand	(EUR 59) thousand	(EUR 59) thousand	Subsidiary
Giantplus Technology Co., Ltd.	Giantplus (SAMOA) Holding Co., Ltd.	Samoa	Investment	US\$ 20,000 Thousand	US\$ 20,000 Thousand	20,000	100	795,183	55,217	54,849	Subsidiary
Giantplus (SAMOA) Holding Co., Ltd.	Giantplus Holding L.L.C.	U.S.A.	Investment	US\$ 20,000 thousand	US\$ 20,000 thousand	-	100	US\$ 23,448 thousand	US\$ 1,648 thousand	US\$ 1,648 thousand	Subsidiary
Giantplus Holding L.L.C.	Kunshan Giantplus Optoelectronics Technology, Co., Ltd.	Kunshan, China	Manufacture of TN/STN LCDs and LCD modules.	US\$ 12,206 thousand	US\$ 12,206 thousand	-	100	US\$ 15,643 thousand	US\$ 1,644 thousand	US\$ 1,644 thousand	Subsidiary
Sunext Technology Co., Ltd.	Great Sun Corp.	Samoa	Investment	34,820	34,820	1,000	100	40,153	4,134	4,134	Subsidiary
Great Sun Corp.	Sunext Design, Inc.	U.S.A.	Design of ICs	US\$ 1,000 thousand	US\$ 1,000 thousand	-	100	US\$ 1,184 thousand	US\$ 124 thousand	US\$ 124 thousand	Subsidiary
Ventureplus Group Inc.	Ventureplus Mauritius Inc.	Belize	Investment	US\$ 10,000 thousand	US\$ 10,000 thousand	-	100	US\$ 7,711 thousand	(US\$ 833) thousand	(US\$ 833) thousand	Subsidiary

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2004			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				June 30, 2004	December 31, 2003	Shares (Thousands)	Percentage of Ownership (%)	Carrying Value			
Ventureplus Mauritius Inc.	Ventureplus Cayman Inc.	Cayman Islands, British West Indies	Investment	US\$ 10,000 thousand	US\$ 10,000 thousand	-	100	US\$ 7,711 thousand	(US\$ 833) thousand	(US\$ 833) thousand	Subsidiary
Ventureplus Cayman Inc.	Sunplus Technology (Shanghai) Co., Ltd.	Shanghai, China	Design, manufacture and sale of ICs.	US\$ 10,000 thousand	US\$ 10,000 thousand	-	98	US\$ 7,669 thousand	(US\$ 850) thousand	(US\$ 833) thousand	Subsidiary
Waveplus Technology Co., Ltd.	Waveplus Holding Ltd.	Mauritius	Investment	17,205	\$ -	500	100	1,704	-	-	Subsidiary
Waveplus Holding Ltd.	Waveplus Design, Inc.	U.S.A	Design of ICs.	17,205	-	-	100	1,732	-	-	Subsidiary
Techplus Captial Niue Inc.	Techplus Samoa Inc.	SAMOA	Investment	US\$ \$150 thousand	US\$ 150 thousand	150,000	100	US\$ 150 thousand	-	-	Subsidiary
Techplus Samoa Inc.	Techplus Belize Inc.	Belize	Investment	US\$ \$150 thousand	US\$ 150 thousand	150,000	3	US\$ 150 thousand	-	-	Investee

SUNPLUS TECHNOLOGY COMPANY LIMITED

**INVESTMENT IN MAINLAND CHINA
 FOR THE SIX MONTHS ENDED JUNE 30, 2004
 (In Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (e.g., Direct or Indirect)	Accumulated Outflow of Investment from Taiwan as of January 1, 2004	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2004	% Ownership of Direct or Indirect Investment	Investment Loss	Carrying Value as of June 30, 2004	Accumulated Inward Remittance of Earnings as of June 30, 2004	Accumulated Investment in Mainland China as of June 30, 2004	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								Up to 40% of the Net Equity of the Company or \$80,000 (Whichever Is Higher)
Sunplus Technology (Shanghai) Co., Ltd.	Research, development, design, manufacturing and sale of consumer ICs	US\$10,200 thousand	Indirect	US\$10,000 thousand	\$ -	\$ -	US\$10,000 thousand	98%	US\$833 thousand	US\$7,669 thousand	\$ -	US\$10,000 thousand	US\$10,000 thousand	\$5,643,903