MACRONIX INTERNATIONAL CO., LTD.

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

AS OF DECEMBER 31, 2003 AND 2002

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

Independent Auditors' Report

The Board of Directors, Supervisors, and Shareholders
of Macronix International Co., Ltd.

We have audited the accompanying balance sheets of Macronix International Co., Ltd. as of December 31, 2003 and 2002, and the related statements of operations, changes in shareholders' equity, and cash flows for the years ended December 31, 2003 and 2002. 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. We did not audit the financial statements of Prominent Communications Inc., Magic Pixel Inc. and Biomorphic VLSI. Inc., (an investee company of Macronix (BVI) Co., Ltd., a subsidiary wholly owned by the Company) as of and for the years ended December 31, 2003 and 2002. As of December 31, 2003 and 2002, the Company's long-term investments in those companies amounted to NT$115.6 million and NT$11.7 million (after deducting a credit investment balance of NT$104.1 million), respectively, and the related investment losses recognized amounted to NT$47.3 million and NT$133.7 million for the years then ended. The financial statements of those investee companies have been audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to data included for those companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Macronix International Co., Ltd. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years ended December 31, 2003 and 2002, in conformity with generally accepted accounting principles in the Republic of China.

Diwan, Ernst & Young

Diwan, Ernst & Young
Taipei, Taiwan, R.O.C
January 31, 2004

Notice to Readers
The accompanying financial statements are intended only to present the financial position and 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.

MACRONIX INTERNATIONAL CO., LTD.
BALANCE SHEETS

December 31, 2003 and 2002

(Amounts in thousand New Taiwan Dollars)

ASSETS	Notes	As of December 31,2003	December 31,2002
Current assets			
Cash and cash equivalents	2, 4(1)	$ 9,859,272	$ 7,179,104
Notes receivable (net)	4(2)	158,327	95,947
Accounts receivable (net)	4(3)	2,268,404	2,301,743
Receivables from related parties (net)	4(4),5	426,987	257,785
Other receivables		205,503	337,088
Inventories (net)	2,4(5)	4,026,506	5,090,063
Prepaid expenses		412,333	592,457
Deferred income taxes-current (net)	2,4(19)	93,195	465,854
Restricted certificate of deposit - current	6	1,145,709	3,034,823
Total current assets		18,596,236	19,354,864
Long-term equity investments	2, 4(6)	4,133,570	3,388,474
Property, plant and equipment	2, 4(7),6		
Land		598,076	598,076
Buildings and facilities		23,552,912	18,313,706
Production equipment		45,315,031	42,935,570
Transportation equipment		27,334	30,263
Leased equipment		1,750,658	1,750,658
Leasehold improvements		4,468	4,468
Research and development equipment		1,884,938	1,518,588
Office furniture and fixtures		879,305	853,923
Total property, plant and equipment		74,012,722	66,005,252
Less: Accumulated depreciation		(42,608,553)	(34,291,327)
Add: Construction in progress		-	27,349
Prepayments for equipment		415,481	7,499,520
Net property, plant and equipment		31,819,650	39,240,794
Intangible assets	2		
Software		265,647	407,152
Deferred charges		637,268	641,698
Total intangible assets		902,915	1,048,850
Other assets			
Idle assets	2, 4(8)	-	-
Refundable deposits		12,997	37,945
Deferred income taxes-non-current (net)	2,4(19)	1,793,450	1,451,292
Restricted certificate of deposit - noncurrent	6	254,775	260,625
Other assets		92,170	169,730
Total other assets		2,153,392	1,919,592
Total assets		$ 57,605,763	$ 64,952,574

MACRONIX INTERNATIONAL CO., LTD.

BALANCE SHEETS

December 31, 2003 and 2002

(Amounts in thousand New Taiwan Dollars)

LIABILITIES & SHAREHOLDERS' EQUITY	Notes	December 31,2003	December 31,2002
Current liabilities			
Short-term debts	4(9)	$ 814,649	$ 696,176
Notes payable		197,650	-
Accounts payable		1,737,199	1,371,672
Payables to related parties	5	201,804	232,651
Income taxes payable	2,4(19)	215,216	300,783
Accrued expenses		1,581,226	1,726,498
Payables to equipment suppliers		541,755	1,551,915
Current portion of debentures	4(12),6	8,823,438	6,563,788
Current portion of long-term debts	4(10),6	1,706,859	2,157,640
Other current liabilities		68,126	57,004
Current portion of capital lease obligations	4(11),6	633,444	625,858
Total current liabilities		16,521,366	15,283,985
Long-term liabilities			
Debentures	4(12),6	4,204,106	12,288,061
Long-term debts	4(10),6	7,124,674	6,070,140
Capital lease obligations	4(11),6	325,073	980,525
Total long-term liabilities		11,653,853	19,338,726
Other liabilities			
Accrued pension cost	2,4(20)	182,867	115,420
Refundable deposits-in		143	149
Total other liabilities		183,010	115,569
Total liabilities		28,358,229	34,738,280
Shareholders' equity			
Capital	4(13)		
Common shares		44,027,583	36,912,769
Common shares to be registered		274,936	-
Capital Reserve	4(14)		
Additional paid-in capital		-	2,630,621
Adjustments to long-term equity investments		7,931	356
Retained earnings			
Legal reserve	4(15)	-	1,708,689
Special reserve		-	378,657
Accumulated deficits	4(16)	(14,062,333)	(9,469,175)
Other adjustments			
Unrealized losses on long-term investments	2,4(6)	(1,859)	(979,081)
Cumulative translation adjustments	2	189,712	219,894
Treasury stock	2,4(17)	(1,188,436)	(1,188,436)
Total shareholders' equity		29,247,534	30,214,294
Total liabilities and shareholders' equity		$ 57,605,763	$ 64,952,574

See accompanying notes to financial statements.

MACRONIX INTERNATIONAL CO., LTD.

STATEMENTS OF OPERATIONS

For the years ended December 31, 2003 and 2002

(Amounts in thousand New Taiwan Dollars except per share data)

Description	Notes	For the year ended December 31 2003	2002
Sales revenue	2,4(21),5,11	$ 17,746,534	$ 16,225,549
Less: Sales returns		(309,420)	(37,982)
Sales discounts		(42,077)	(112,411)
Net sales revenue		17,395,037	16,075,156
Cost of goods sold		(20,560,257)	(16,952,581)
Gross loss		(3,165,220)	(877,425)
Plus: Unrealized profit as of January 1	2	8,618	118,249
Less: Unrealized profit as of December 31	2	(2,141)	(8,618)
Realized gross loss		(3,158,743)	(767,794)
Operating expenses	2,4(22),5		
Selling expenses		(599,027)	(650,078)
Administrative expenses		(1,101,105)	(1,239,414)
Research and development expenses		(2,706,113)	(3,804,237)
Total operating expenses		(4,406,245)	(5,693,729)
Operating loss		(7,564,988)	(6,461,523)
Non-operating income			
Interest income		82,496	199,318
Gain on disposal of property, plant and equipment	2	1,728	3,070
Gain on disposal of investments		13,400	5,228
Foreign exchange gains	2	345,304	70,005
Reversal of allowance for bad debts	2	34,476	-
Reversal of inventory loss provision	2	1,176,421	-
Others		254,655	187,630
Total non-operating income		1,908,480	465,251
Non-operating expenses			
Interest expense		(987,660)	(1,166,598)
Net loss from equity investments	2,4(6)	(1,422,205)	(1,206,919)
Inventory loss provision	2	-	(2,923,861)
Others		(131,372)	(63,013)
Total non-operating expenses		(2,541,237)	(5,360,391)
Loss before taxes		(8,197,745)	(11,356,663)
Income tax expense	2,4(19)	-	-
Net loss		$ (8,197,745)	$ (11,356,663)
Net loss before taxes per share	2,4(18)	$ (2.13)	$ (3.10)
Net loss per share	2,4(18)	$ (2.13)	$ (3.10)
Pro-forma data: assuming that the Company's shares owned by subsidiaries were not treated as treasury stock			
Net loss		$ (8,222,374)	$ (11,426,697)
Net loss per share	2,4(18)	$ (2.13)	$ (3.11)

See accompanying notes to financial statements.

MACRONIX INTERNATIONAL CO., LTD.

STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31, 2003 and 2002

(Amounts in thousand New Taiwan Dollars)

Description	Common Shares	Common Stock to be Registered	Additional Paid-in Capital	Legal Reserve	Special Reserve	Retained Earnings (Accumulated Deficits)	Unrealized Losses on Long-term Investments	Cumulative Translation Adjustments	Treasury Stock	Total
Balance as of January 1, 2002	$ 33,593,426	$ -	$ 5,966,324	$ 1,707,053	$ 1,425	$ 2,249,996	$ (647,618)	$ 268,961	$ -	$43,139,567
Appropriation and distribution of 2001 retained earnings:										
Special reserve	-	-	-	-	377,232	(377,232)	-	-	-	-
Additional paid-in capital transferred to common stock	3,319,343	-	(3,319,343)	-	-	-	-	-	-	-
Unrealized losses on long-term investments	-	-	-	-	-	-	(331,463)	-	-	(331,463)
Common stock repurchased	-	-	-	-	-	-	-	-	(1,046,071)	(1,046,071)
Treasury stock owned by subsidiaries	-	-	-	-	-	-	-	-	(142,365)	(142,365)
Adjustments of capital reserve from equity investees	-	-	356	-	-	-	-	-	-	356
Gain on disposal of property, plant and equipment transferred to retained earnings	-	-	(16,360)	1,636	-	14,724	-	-	-	-
Net loss, 2002	-	-	-	-	-	(11,356,663)	-	-	-	(11,356,663)
Cumulative translation adjustments	-	-	-	-	-	-	-	(49,067)	-	(49,067)
Balance as of December 31, 2002	$ 36,912,769	$ -	$ 2,630,977	$ 1,708,689	$ 378,657	$ (9,469,175)	$ (979,081)	$ 219,894	$ (1,188,436)	$30,214,294
Balance as of January 1, 2003	$ 36,912,769	$ -	$ 2,630,977	$ 1,708,689	$ 378,657	$ (9,469,175)	$ (979,081)	$ 219,894	$ (1,188,436)	$30,214,294
Capital reserve used to cover accumulated deficits	-	-	(2,630,621)	-	-	2,630,621	-	-	-	-
Legal reserve used to cover accumulated deficits	-	-	-	(1,708,689)	-	1,708,689	-	-	-	-
Special reserve used to cover accumulated deficits	-	-	-	-	(378,657)	378,657	-	-	-	-
Stock issuance for cash	4,750,000	-	-	-	-	(927,496)	-	-	-	3,822,504
Conversion of convertible debentures	2,364,814	274,936	-	-	-	(185,884)	-	-	-	2,453,866
Adjustments of capital reserve from equity investees	-	-	7,575	-	-	-	-	-	-	7,575
Unrealized losses on long-term investments	-	-	-	-	-	-	977,222	-	-	977,222
Net loss, 2003	-	-	-	-	-	(8,197,745)	-	-	-	(8,197,745)
Cumulative translation adjustments	-	-	-	-	-	-	-	(30,182)	-	(30,182)
Balance as of December 31, 2003	$ 44,027,583	$ 274,936	$ 7,931	$ -	$ -	$ (14,062,333)	$ (1,859)	$ 189,712	$ (1,188,436)	$29,247,534

See accompanying notes to financial statements.

MACRONIX INTERNATIONAL CO., LTD.
STATEMENTS OF CASH FLOWS

For the years ended December 31, 2003 and 2002

(Amounts in thousand New Taiwan Dollars)

	For the year ended December 31	
Description	2003	2002
Cash flows from operating activities:		
Net loss	$ (8,197,745)	$ (11,356,663)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	8,603,013	8,097,740
(Reversal of) allowance for bad debts	(34,476)	16,144
Inventory loss provision (reversal)	(1,176,421)	2,923,861
Depreciation and market value decline on idle assets	91,530	-
Cash dividends	2,603	14,485
Net losses from equity investments	1,422,205	1,206,919
Gain on disposal of short-term investments	(11,125)	(5,228)
Gain on disposal of long-term investments	(2,275)	-
Amortization	666,468	628,822
Deferred income taxes	30,501	-
Gain on disposal of property, plant and equipment	(1,728)	(3,070)
Net changes in operating assets and liabilities:		
Accrued pension cost	67,447	92,716
Notes receivable	(62,380)	(27,149)
Accounts receivable	123,557	(305,930)
Receivables from related parties	(212,652)	118,078
Inventories	2,275,803	(822,497)
Other receivables	119,293	186,270
Prepaid expenses	95,629	7,366
Accounts payable	365,527	284,066
Notes payable	197,650	-
Payables to related parties	(30,847)	51,990
Accrued expenses	(145,272)	(101,220)
Income taxes payable	(85,567)	(57,293)
Other current liabilities	(13,760)	(151,212)
(Decrease) increase in reserve for redemption of debentures	(989,775)	184,993
Net cash provided by operating activities	3,097,203	983,188
Cash flows from investing activities:		
Decrease (increase) in restricted certificate of deposit	1,894,964	(1,539,647)
Decrease in short-term investments	11,125	5,228
Additions to long-term equity investments	(1,183,211)	(1,158,207)
Purchase of property, plant and equipment	(2,597,717)	(8,427,407)
Proceeds from disposal of long-term investments	9,197	-
Proceeds from disposal of property, plant and equipment	6,979	6,023
Proceeds from disposal of intangible assets	454	-
Decrease (increase) in refundable deposits	33,198	(7,234)
Additions to intangible assets	(206,377)	(431,278)
Decrease in other assets	77,560	9,917
Net cash used in investing activities	(1,953,828)	(11,542,605)

MACRONIX INTERNATIONAL CO., LTD.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2003 and 2002

(Amounts in thousand New Taiwan Dollars)

	For the year ended December 31	
Description	2003	2002
Cash flows from financing activities:		
Net increase in short-term debts	118,473	696,176
(Decrease) increase in refundable deposits-in	(6)	61
Common stock repurchased	-	(1,046,071)
Stock issuance for cash	3,822,504	-
Net increase in long-term debts	603,753	108,795
Net decrease in capital lease obligations	(647,866)	(331,179)
Net (decrease) increase in debentures	(2,360,065)	6,015,580
Net cash provided by financing activities	1,536,793	5,443,362
Net increase (decrease) in cash and cash equivalents	2,680,168	(5,116,055)
Cash and cash equivalents at the beginning of the year	7,179,104	12,295,159
Cash and cash equivalents at the end of the year	$ 9,859,272	$ 7,179,104
Supplemental disclosures of cash flow information:		
Interest paid during the year (excluding capitalized interest)	$ 976,166	$ 1,143,482
Income tax paid during the year	$ 34,950	$ 76,346
Non-cash activities:		
Current portion of debentures transferred to current liabilities	$ 8,823,438	$ 6,563,788
Current portion of long-term debts transferred to current liabilities	$ 1,706,859	$ 2,157,640
Current portion of capital lease obligations transferred to current liabilities	$ 633,444	$ 625,858
Convertible debentures converted to common shares and accumulated deficits	$ 2,453,866	$ -
Unrealized losses on long-term investments	$ (977,222)	$ 331,463
Cumulative translation adjustments	$ 30,182	$ 49,067
Adjustment of capital reserve from eqinty investees	$ (7,575)	$ (356)
Capital reserve, legal reserve and special reserve used to cover accumulated deficit	$ 4,717,967	$ -
Stock issuance for capital reserve and retained earnings	$ -	$ 3,319,343
Treasury stock owned by a subsidiary	$ -	$ 142,365
Cash paid for purchase of property, plant and equipment:		
Purchases of property, plant and equipment	$ 1,587,557	$ 8,968,959
Decrease (increase) in payables to equipment suppliers	1,010,160	(541,552)
Cash paid	$ 2,597,717	$ 8,427,407

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

(Amounts in thousands except shares, per share data and percentages)

1. Organization and Business

The Company

Macronix International Co., Ltd. (the "Company") was incorporated in the Hsinchu Science Park ("HSP"), Taiwan, under the laws of the Republic of China (the "R.O.C.") on December 9, 1989. The Company operates principally as a designer, manufacturer and supplier of integrated circuits and memory chips. As of December 31, 2003 and 2002, the Company's employees totaled 3,434 and 3,792, respectively.

2. Summary of Significant Accounting Policies

The accompanying financial statements are prepared in accordance with the R.O.C.'s "Guidelines Governing the Preparation of Financial Reports by Securities Issuer" and generally accepted accounting standards. Significant accounting policies are summarized as follows:

Cash Equivalents

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

Short-term Investments

Short-term investments are recorded at cost and carried at lower of cost or market value on the balance sheet date using the weighted average cost method.

Foreign Currency Translation and Transaction

The Company maintains its accounting records in New Taiwan dollars ("NT Dollars" or "NT$"), the national currency of the Republic of China. Transactions denominated in foreign currencies are recorded in NT Dollars using the exchange rates in effect at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into NT Dollars using the exchange rates in effect at the balance sheet date. Foreign exchange gains and losses are included in the statements of operations.

The assets and liabilities of the foreign subsidiaries are translated into NT Dollars, with the local currency of each foreign subsidiary as its functional currency, at current exchange rates in effect at the balance sheet date. Revenue and expense accounts are translated using a weighted average exchange rate for the relevant period. Translation gains and losses are included as a component of shareholders' equity.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based on the Company's credit policy, the collectibility and aging analysis of notes and accounts receivable and other receivables.

Other Financial Assets

Other financial assets are credit-linked notes that are recorded at cost using the specific identification method. Interest income is calculated based on the contracted interest rate.

Inventories

Inventories are carried at the lower of cost or market value using the weighted average cost method. Replacement cost is used to determine the market value of raw materials and supplies, and unallocated freight-in. Net realizable value is used to determine the market value of work in process, finished goods and commodities purchased. The lower of cost or market method is applied to each major category of inventory.

Long-term Investments

(1) Long-term investments in which the Company holds an interest of 20% or more and has the ability to exercise significant influence are accounted for under the equity method of accounting. The difference between the cost of the investment and the fair value of the identifiable assets at the date of acquisition is amortized over five years. Adjustment to capital reserve is required when holding percentage changes due to unproportional subscription to investee's new shares issued. If the capital reserve is insufficient, retained earning is adjusted. Other long-term investments are carried at the lower of cost or market value, with unrealized losses recorded as a separate component of shareholders' equity. There is no recognition of unrealized gains.

(2) The unrealized profits and losses from intercompany transactions between the investor company and investee company during the period are eliminated. If the transaction is downstream (a sale to the investee company) and the investor company has controlling power over the investee company, unrealized profits and losses should all be eliminated; if the investor company has no controlling power, the unrealized profits and losses should be eliminated based on the investor's percentage ownership interest in the investee. If the transaction is upstream (a sale to the investor), unrealized profits and losses should be eliminated based on the inventor's percentage ownership interest in the investee.

(3) Consolidated financial statements are prepared if the Company owns more than 50% of the invested company's shares. However, the financial statements of any subsidiary in which the total assets and total revenues for the current year are less than 10% of the Company's total assets and revenues, respectively, may be excluded from the company's consolidated financial statements. If the sum of the total assets or revenues of all unconsolidated subsidiaries exceeds 30% of the Company's assets or sales, each subsidiary with over 3% of sales or assets of the Company should be consolidated.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and facilities	5 to 20 Years
Production equipment	5 Years
Transportation equipment	5 Years
Leased equipment	5 Years
Leasehold improvements	5 Years
Research and development equipment	5 Years
Office furniture and fixtures	3 to 5 Years

Properties still used in operations beyond their original estimated service lives are further depreciated over their newly estimated service lives based on the residual value.

Major improvements and replacements are capitalized over their estimated useful lives, while ordinary repairs and maintenance are expensed as they incur. Gains and losses resulting from the disposal of property, plant and equipment are presented under non-operating income or expenses.

Equipment not held for operating purposes is transferred to idle asset account based on the lower of net realizable value or book value. Depreciation derived from idle assets is recorded under non-operation expenses.

Lease Agreements

Provided a lease agreement meets the capitalization criteria, the present value of the minimum lease payments, net of executory costs, are capitalized as an asset along with a corresponding liability. Leased equipment is depreciated using the straight-line method over the estimated useful life. The lease obligation is amortized over the lease term using the effective interest method. A lease that does not qualify as a capital lease is classified as an operating lease and the lease payments are recorded as rental expense.

Intangible Assets

Intangible assets are originally recorded at cost and amortized over their estimated useful lives using the straight-line method. Royalties and issuing costs of debentures are amortized over the related contracts' lives and durations of the debentures, respectively. Computer software is amortized over three years, while other intangible assets are amortized over 1~5 years.

Revenue Recognition

Revenue is recognized in accordance with R.O.C. Statement of Financial Accounting Standards No. 32, "Accounting for Revenue Recognition."

Capital Expenditures vs. Expenses

If the expenditure increases the future service potential of the plant assets and the purchase price exceeds a certain monetary threshold, the expenditure is capitalized, while the others are expensed as incurred.

Convertible Bonds

The interest-premium of puttable convertible bonds, which is the difference between the specified put price and the par value, is amortized using the interest method and is recognized as a liability over the period from the issuance date of the bonds to the expiry date of the put option. If the bondholder does not exercise the put option, the interest-premium, which has been recognized as a liability, is amortized over the period from the expiry date to the maturity date using the interest method. However, if at the expiry date, the market value of the common stork under conversion exceeds the put price, the interest-premium should be credited to additional paid-in capital.

The cost of issuing convertible bonds is recorded as deferred assets and is amortized over the period from the issuance date of the convertible bonds and the expiry date of the put option.

When bondholders exercise their conversion rights, the book value of convertible bonds is credited to common stock at an amount equal to the par value of the common stock and the excess is credited to capital reserve; no gain or loss is recognized on bond conversion.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their tax bases, including investment and research and development tax credits. A valuation allowance is provided based on the expected realization of the deferred tax assets. Undistributed earnings generated after 1997 are subject to a 10% tax in compliance with the Income Tax Law of the R.O.C. The 10% tax on undistributed earnings is recorded as an expense at the time the shareholders resolve that the Company's earnings shall be retained.

Income tax credits resulting from the acquisition of equipment, research and development expenditures, employee training and investment in equity stock are recognized in the year that such expenditures, training and investment occur.

Employee Retirement Benefits

The Company has a defined benefit pension plan covering substantially all of its employees. The plan provides for a lump sum payment upon retirement based on years of service and the employee's compensation during the last six months of employment. In accordance with the Labor Standards Law of the R.O.C., the Company makes monthly contributions equal to 2 % of its wages and salaries. On the basis of an actuarial report, the monthly contribution was changed in May 1996 to 5% of the wages and salaries paid. Effective from January 1, 2002, the Company was authorized to change the monthly contribution rate to 2%. The fund, established during 1990 to meet employees' retirement benefit entitlements, is administered by the Employees' Retirement Fund Committee and is registered in this committee's name. Accordingly, the pension fund is not included in the financial statements of the Company.

The Company adopted, on a prospective basis, R.O.C. Statement of Financial Accounting Standards No. 18, "Accounting for Pensions" in 1996. The Statement requires that the pension plan assets and the benefit obligations be determined on an actuarial basis. Net transition asset or obligation, prior service cost, and gains or losses from the plan assets are amortized on a straight-line basis over the employees' average remaining service period of about twenty-five years.

Derivative Financial Instruments

(1) Foreign exchange forward contracts

A forward foreign exchange contract obligates the Company to exchange predetermined amounts of specified foreign currencies at specified exchange rates for another currency on a specified date. The Company's forward contracts are designated as hedges; discounts or premiums, being the difference between the spot exchange rate and the forward exchange rate at the inception of the contract, are accreted or amortized to the statement of operations over the contract lives using the straight-line method. Realized gains and losses from settlement or unrealized gains and losses resulting from changes in the spot exchange rate at the balance sheet date are recorded in the statement of operations as foreign exchange gains or losses in the period in which they relate. The related amounts due to or from counter-parties are included in other current assets or other current liabilities.

(2) Option contracts

At maturity the Company or the financial institution, depending upon which party has the right of the option, may exercise the option to receive a said amount denominated in one currency and pay a said amount in a different currency. The conversion rate is stated in the contract.

For options, premiums are amortized over the contract lives using the straight-line method. Gains and losses are dealt with in the statement of operations upon exercise in the periods in which such options are exercised.

(3) Other derivative financial instruments

The Company has entered into other derivative financial instruments for trading and hedging purposes. The related gains and losses on hedging instruments are recorded in the statement of operations upon the exercise of the contracts or in the same period as the hedged transaction. The changes in the fair value of trading instruments are recorded in the period of change.

Earnings Per Share

In accordance with R.O.C. Statement of Financial Accounting Standards No.24, "Earnings per Share," the Company presents basic earnings per share if a simple capital structure exists; or both basic earnings per share and diluted earning per share if a complex capital structure exists. Basic earnings per share is equal to the net income (loss) attributable to common shares divided by the weighted-average number of common shares. When calculating diluted earnings per share, the numerator includes or adds back potential common stock dividends, interest and other conversion revenues (expenses). The denominator includes all potential dilutive common shares.

Treasury Stock

In accordance with the R.O.C. Statement of Financial Accounting Standards No.30, "Accounting for Treasury Stock," treasury stock is accounted for under the cost method. Under the cost method, the gross cost of shares reacquired is charged to treasury stock, which is presented as a contra-equity account in the financial statements. Any surplus or deficit on treasury stock transactions are credited or charged to capital reserves. In addition, the Company's shares owned by its subsidiaries were treated as treasury stock.

3. Reason and Effect of Accounting Changes

None.

4. Significant Accounts

(1) *Cash and Cash Equivelents*

	2003.12.31	2002.12.31
Petty cash	$ 330	$ 380
Checking and savings accounts	1,706,429	5,603,963
Time deposits	6,690,322	1,025,330
Cash equivalents-short-term notes	1,462,191	549,431
Total	$ 9,859,272	$ 7,179,104

(2) *Notes Receivable*

	2003.12.31	2002.12.31
Notes receivable	$ 158,327	$ 95,947
Less: Allowance for doubtful accounts	-	-
Net	$ 158,327	$ 95,947

(3) *Accounts Receivable*

	2003.12.31	2002.12.31
Accounts receivable	$ 2,374,201	$ 2,512,136
Less: Allowance for sales returns and discounts	-	(14,378)
Allowance for doubtful accounts	(105,797)	(196,015)
Net	$ 2,268,404	$ 2,301,743

(4) *Receivables from Related Parties*

	2003.12.31	2002.12.31
Accounts receivable	$ 477,437	$ 264,785
Less: Allowance for doubtful accounts	(50,450)	(7,000)
Net	$ 426,987	$ 257,785

(5) *Inventories*

	2003.12.31	2002.12.31
Commodities	$ 231,759	$ 82,102
Raw materials	170,435	229,587
Supplies	112,227	119,484
Work in process	5,815,498	8,038,324
Finished goods	2,042,555	2,328,591
Unallocated freight-in	487	483
Total	8,372,961	10,798,571
Less: Allowance for market value decline and obsolescence	(4,346,455)	(5,708,508)
Net	$ 4,026,506	$ 5,090,063

a. Inventories were not pledged.

b. The insurance coverage for inventories amounted to NT$5,005,000 and NT$6,500,000 as of December 31, 2003 and 2002, respectively.

(6) *Long-term Equity Investments*

	2003.12.31		2002.12.31	
	Amount	%	Amount	%
Accounted for under equity method:				
Macronix (BVI) Co., Ltd.	$ 1,925,132	100.00%	$ 2,210,493	100.00%
Kang Bao Investment, Ltd.	520,758	100.00%	503,658	100.00%
Hui Ying Investment, Ltd.	446,123	100.00%	410,929	100.00%
Run Hong Investment, Ltd.	380,575	100.00%	494,891	100.00%
Macronix America Inc.	177,177	100.00%	157,331	100.00%
Macronix (Hong Kong) Co., Ltd.	49,917	100.00%	-	-

MaxNova Inc.	35,661	100.00%	-	-
Magic Pixel Inc.	94,643	48.76%	49,948	100.00%
Prominent Communications, Inc.	20,961	35.23%	65,864	35.23%
Joyteck Co., Ltd.	16,963	18.18%	-	-
Caesar Technology Inc.	-	-	-	-
Less: Treasury stock owned by subsidiariesSubsubsidiaries	(142,365)		(142,365)	
Subtotal	3,525,545		3,750,749	
Accounted for under cost method:				
Chien Cheng Venture Capital Co., Ltd.	80,000	15.38%	80,000	15.38%
Honbond Venture Capital Co., Ltd.	120,000	15.00%	-	-
Quality Test System, Inc.	0	14.64%	0	14.64%
Ardentec Corporation	237,500	10.49%	237,500	11.78%
Chantek Electronic Co., Ltd.	0	3.72%	0	3.72%
United Industry Gas Co., Ltd.	58,500	3.31%	58,500	3.38%
Powertech Technology Inc.	76,213	2.72%	83,135	2.99%
Chipbond Technology Inc.	37,590	1.28%	37,590	1.28%
Taiwan Mask Corporation	81	-	81	-
Subtotal	609,884		496,806	
Prepaid Investment:				
Honbond Venture Capital Co., Ltd.	-		120,000	
Subtotal	-		120,000	
Total	4,135,429		4,367,555	
Less: Allowance for market value decline	(1,859)		(979,081)	
Net	$ 4,133,570		$ 3,388,474	

a. Hui Ying Investment Ltd. held 6,023,152 shares of the Company which amounted to NT$142,365 as of December 31, 2003 and 2002. These shares were accounted for as treasury stock.

b. The Company recognized NT$1,422,205 and NT$1,206,919 of long-term equity investment losses for the years ended December 31, 2003 and 2002, respectively, on the basis of the equity investees' audited financial statements for the relevant years.

c. The financial statements of the foreign equity investees were translated into NT Dollars. As of December 31, 2003 and 2002, translation adjustments decreased by NT$30,182 and NT$49,067, respectively.

d. Caesar Technology Inc. applied for formal compulsory liquidation in January 2002 and completed the liquidation process on May 10, 2003.

e. The Company has provided the investment loss in full for the permanent diminution of value in the investment of Quality Test System, Inc.

f. The Company has provided the investment loss in full for the permanent diminution of value in the investment of Chantek Electronic Co., Ltd. Chantek Electronic Co., Ltd. applied for a financial restructuring to the Hsinchu District Court in December 2001. The application was revoked in August 2002. On August 21, 2003, Chantek Electronic Co., Ltd. reduced its paid-in capital by 84.25%.

g. The auditors of Prominent Communicaitons Inc. included a "going concern" emphasis paragraph in their audit reports accompanying the financial statements of 2003. However, the impact on the Company's long-term investment account is not material.

h. The auditors of Biomorphic VSLI, Inc. (an investee of Macronix (BVI) Co., Ltd.) included a "going concern" emphasis paragraph in their audit reports accompanying the financial statements of 2003 and 2002. However, the impact on the Company's long-term investment account is not material.

i. Chipbond Technology Inc.'s shares commenced trading on GreTai Securities Exchange in 2002. The Company, being the director of Chipbbond Technology Inc., deposited 1,790,000 shares with book value of NT$37,590 in Taiwan Securities Central Depository Co. Such deposited shares cannot be transferred or pledged. As of December 31, 2003, no deposited shares have been withdrawn.

j. Powertech Technology Inc.'s shares commenced trading on GreTai Securities Exchange in 2002. The Company, being the director of Powertech Technology Inc., deposited 6,771,225 shares with book value of NT$72,584 in Taiwan Securities Central Depository Co. Such deposited shares cannot be transferred or pledged. As of December 31, 2003, no deposited shares have been withdrawn.

k. Except for those shares compulsorily deposited, no other long-term equity investments were pledged or restricted as of December 31, 2003 and 2002.

l. The financial statements of the Company's subsidiaries were not consolidated in accordance with ROC GAAP since the total revenue and total assets of each of these subsidiaries are less than 10% of those of the Company and collective total of assets or revenues of such subsidiaries do not exceed 30% of those of the Company.

(7) *Property, Plant and Equipment*

a. The total interest expense (including capitalized interest) for the years ended December 31, 2003 and 2002 amounted to NT$1,066,774 and NT$1,530,268, respectively. Interest was capitalized on the following property, plant and equipment accounts:

	For the year ended December 31,	
	2003	2002
Buildings and facilities	$ 1,801	$ 86,929
Production equipment	77,313	276,741
Total	$ 79,114	$ 363,670
Effective interest rates	4.01%	5.59%

b. The insurance coverage for property, plant and equipment amounted to NT$60,321,010 and NT$59,680,105 as of December 31, 2003 and 2002, respectively.

c. Please refer to note 6 "Assets Pledged as Collateral" for a summary of those assets included in property, plant and equipment that have been used as security for loans.

(8) *Idle Assets*

	2003.12.31	2002.12.31
Cost:		
Production Equipment	$ 257,895	$ -
Accumulated Depreciation:		
Production Equipment	(216,233)	-
Less: Allowance for scrap loss	(41,662)	-
Net	$ -	$ -

The depreciation expenses of idle assets for the years ended December 31, 2003 and 2002 were NT$49,868 and NT$0, respectively. The Company recognized a disposal loss of NT$41,662 for certain idle assets as such assets were in the process of disposition in late 2003. Depreciation and market value decline on idle assets for the years ended December 31, 2003 and 2002 amounted to NT$91,530 and NT$0, respectively. Such depreciation was recorded under non-operating expenses.

(9) *Short-term Debts*

	2003.12.31	2002.12.31
Working capital loans	$ 700,000	$ -
Letter of credit loans (Due within 180 days)	114,649	696,176
Total	$ 814,649	$ 696,176

a. The Company's unused short-term lines of credit amounted to NT$6,103,350 and NT$15,075,526 as of December 31, 2003 and 2002, respectively.

b. The interest rates of short-term debts ranged from 1.30% to 1.85% and from 2.0719% to 2.48% as of December 31, 2003 and 2002, respectively.

c. There were no assets pledged as collateral for short-term debts.

(10) *Long-term Debts*

	Interest Rate		Amount	
Secured Loan	2003.12.31	2002.12.31	2003.12.31	2002.12.31
Loan from one bank, repayable in 21 quarterly installments from May 1998 to May 2003 with variable interest rates	-	5.64%	$ -	$ 38,000
Medium term loans from one bank, repayable in 96 monthly installments from May 1999 to April 2007 with variable interest rates	4.35%	5.695%	146,000	189,800
Medium term loans from 14 banks, repayable in 19 quarterly installments from July 1999 to January 2004 with variable interest rates	1.872% ~3.940%	2.525% ~5.635%	1,418,483 (includes US$34, 560,000)	3,181,570 (includes US$68,120,000)
Medium term loan from one bank, repayable in 156 monthly installments from May 2003 to April 2016 with variable interest rates	4.35%	5.695%	843,410	889,000
Medium term loan from one bank, repayable in 8 semi-annual installments with variable interest rates	3.519%	3.00%	25,400	150,000

Medium term loan from one bank, repayable in 8 semi-annual installments with variable interest rates	-	6.7%	-	50,000
Medium term loan from one bank, repayable in 17 quarterly installments from April 2002 with variable interest rates	5.155%	5.365%	188,240	329,410
Medium term loan from one bank, repayable in 8 semi-annual installments from June 2003 with variable interest rates	5.025%	5.025%	300,000	400,000
Medium term loan from 20 banks, repayable in 10 semi-annual installments from March 2005 with variable interest rates	2.548%	2.854%	5,910,000	3,000,000
Total			8,831,533	8,227,780
Less: current portion			(1,706,859)	(2,157,640)
Net			$ 7,124,674	$ 6,070,140

a. The Company's unused long-term lines of credit amounted to NT$6,090,000 and NT$9,000,000 as of December 31, 2003 and 2002, respectively.

b. Please refer to note 6 for "Assets Pledged As Collateral" for long-term debts.

(11) *Capital Lease Obligations*

In 2001, the Company entered into a capital lease agreement with Nintendo for equipment with a cost of NT$1,750,658. The lease term is from July 31, 2001 to June 30, 2005. The lease obligations are repayable in 36 monthly installments from July 31, 2002 to June 30, 2005. During the lease period, the Company is not allowed to modify or sublease the equipment. The ownership of the equipment must be unconditionally transferred to the Company at the end of the lease term.

Lease obligations resulted from the agreement were as follows:

Year	2003.12.31
2004	$ 656,760
Less: unrealized interest expense	(23,316)
Current portion	633,444
2005	328,380
Less: unrealized interest expense	(3,307)
Lease obligations - long-term	325,073
Total capital lease obligations	$ 958,517

Year	2002.12.31
2003	$ 671,840
Less: unrealized interest expense	(45,982)
Current portion	625,858
2004	671,840
2005	335,920
Subtotal	1,007,760
Less: unrealized interest expense	(27,235)
Lease obligations - long-term	980,525
Total capital lease obligations	$ 1,606,383

Please refer to note 6 for the leased assets pledged as collateral.

(12) *Debentures*

	2003.12.31	2002.12.31
CB I	$ 766,900	$ 3,200,000
Secured II	3,000,000	3,000,000
ECB II	-	2,780,000
ECB III	-	2,505,370
ECB IV	5,748,539	5,880,534
ECB V	3,057,300	-
Add: Reserve for redemption of convertible bonds	454,805	1,485,945
Total	13,027,544	18,851,849
Less: Current portion of debenture payable	(8,401,596)	(5,285,370)
Current portion of reserve for redemption	(421,842)	(1,278,418)
Net	$ 4,204,106	$ 12,288,061

a. The Company issued five-year unsecured domestic convertible bonds ("CB I") on December 12, 2002. Main terms of the issue are as follows:

(a) Total amount: NT$3,200,000. As of December 31, 2003, an aggregate principal amount of NT$2,433,100 of CB I has been converted.

(b) The interest rate at par: 0%.

(c) Redemption at maturity/Redemption at the option of the Company

(i) Redemption at maturity

Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each bond at its redemption amount on the maturity date.

(ii) Redemption at the option of the Company

The bonds may be redeemed, in whole or in part, at the option of the Company at any time on or after March 13, 2003 and prior to November 1, 2007 at an early redemption price, ranging from 100% to 103.75% of the principal amount, if (i) the closing price of the Company's shares for each of the 30 consecutive trading days is at least 150% of the conversion price then in effect; or (ii) the bonds outstanding are less than 10% of the issue amount.

(d) Redemption at the option of the bondholders

The bonds are redeemable at the option of the bondholders, in whole or in part, at 110.07% and 115.87% of par from 30 days before December 11, 2005 and December 11, 2006, respectively.

(e) Conversion period/Conversion price and adjustment

(i) Conversion Period: Subject to certain exceptions, conversion may be made at any time on or after March 12, 2003 and ten days before maturity.

(ii) Conversion Price: The conversion price was NT$11 per share at the issuance date. However, the conversion price will be subject to adjustments in the event that changes occur to the capital structure. The conversion price was NT$11 from the issuance date to June 26, 2003 and then was reset to NT$8.8 after June 27, 2003. As of December 31, 2003, the conversion price was NT$8.7.

(iii) Adjustment to conversion price: The conversion price will be subject to adjustment (in the manner set forth in the Indenture) upon the occurrence of certain events set out in the Indenture, including, among other things, the declaration of dividend in common shares, subdivisions, consolidations, and the issuance of common shares in cash.

(iv) Conversion price reset: Besides the adjustments to conversion price as stated in (iii) above, conversion price is also subject to "special conversion price reset" in a manner set forth in the offering circular.

(f) Trading place: Taiwan

b. On October 29, 2001, the Company issued NT$3,000,000 of five-year secured debentures ("Secured II") due in October 2006 with a stated interest rate of 3.3%. The interest expense is repayable annually and the bonds are to be repaid in full at maturity.

c. The Company issued five-year secured convertible bonds ("ECB II") on May 5, 1998. Main terms of issuance are as follows:

(a) Total amount: US$150,000. As of April 22, 2003, an aggregate principal amount of US$70,000 of ECB II was converted. In addition, with the resolution of the board of directors, the Company repurchased the residual outstanding bonds in an aggregate principal amount of US$80,000 from the market. The related debt extinguishment loss of NT$22,765 from the above repurchase was included in other expense account.

(b) The interest rate at par: 0%.

(c) Type of debentures: Secured convertible bonds, guaranteed by standby letters of credit issued by the banks.

(d) Duration: 5 years (From February 1, 2000 to February 1, 2005)

(e) Redemption at maturity/Redemption at the option of the Company

(i) Redemption at maturity

Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each bond at its redemption amount on the maturity date.

(ii) Redemption at the option of the Company

The Company may redeem the bonds at any time beginning three years after the issue date in accordance with the agreement.

(f) Redemption at the option of the bondholders:

The bonds are redeemable at the option of the bondholders, in whole or in part, on May 5, 2003 at 129.775% of par.

(g) Conversion period/Conversion price and adjustment

(i) Subject to certain exceptions, conversion may be made at any time after the 30th day following the initial issuance of the bonds, up to April 2003.

(ii) The conversion price was NT$53.7280 per share at the issue date. However, the conversion price will be subject to adjustments in the event that changes occur to the capital structure.

(h) Trading Place: U.S.A., Europe and Asia (except Taiwan)

d. The Company issued five-year unsecured overseas convertible bonds ("ECB III") on February 1, 2000. Major terms of the issuance are as follows:

(a) Total amount: US$200,000. In 2000, an aggregate principal amount of US$41,078 of the bonds was converted. No bonds were converted in any periods thereafter. In the first half of 2003, the Company repurchased US$61,277 of the bonds from the market that resulted in a debt extinguishment loss of NT$12,275. In addition, under the request of bondholders, the Company has redeemed an aggregate principal amount of US$10,820 of ECB III during the same period that resulted in a gain of NT$2,442. Debt extinguishment gain and loss are recorded under Non-operating expenses account.

(b) Method of interest payment and redemption as of the maturity date: 1.0% per annum, net of a 20% withholding tax. Interest is paid on February 1 and August 1 each year. On the maturity date, the bondholder may present the bonds to the Company for repayment of principal and interest on the bonds in cash.

(c) Duration: 5 years (From February 1, 2000 to February 1, 2005)

(d) Redemption at maturity/Redemption at the option of the Company

(i) Redemption at maturity

Unless previously redeemed, converted, purchased or cancelled, the Company will redeem each bond at its redemption amount on the maturity date.

(ii) Redemption at the option of the Company

The Company may redeem the bonds at any time beginning two years after the issuance date in accordance with the agreement.

(e) Redemption at the option of the bondholders

The bonds are redeemable at the option of the bondholders, in whole or in part, on February 1, 2003 at 121.422% of par.

(f) Conversion period/Conversion price and adjustment

(i) Subject to certain exceptions, conversion may be made at any time after the 30th day following the initial issuance of the bonds up to January 1, 2004.

(ii) The conversion price was NT$69 per share at the issue date. However, the conversion price will be subject to adjustments in the event that changes occur to the capital structure.

(g) Trading places: U.S.A., Europe and Asia (except Taiwan).

e. The Company issued five-year unsecured convertibles bonds (named "ECB IV") on February 7, 2002. Major terms of the issuance are as follows:

(a) Total amount: US$169,224. As of December 31, 2003, no bonds were converted.

(b) Method of interest payment and redemption on the maturity date: 0.5% per annum. Interest is to be paid on February 7 of each year. Upon maturity, the bondholder may present the bonds to the Company for repayment at 116.372% of the principal amount and interest on the bonds in cash.

(c) Duration: 5 years (From February 7, 2002 to February 7, 2007)

(d) Redemption at maturity/Redemption at the option of the Company

(i) Redemption at maturity

Unless previously redeemed, converted, purchased or cancelled, the Company will redeem each bond at its redemption amount on the maturity date.

(ii) Redemption at the option of the Company

The Company may redeem the bonds at any time beginning three years after the issue date in accordance with the agreement.

(e) Redemption at the option of the bondholders

The bonds are redeemable at the option of the bondholders, in whole or in part, on August 9, 2004 at 107.845% of par.

(f) Conversion

(i) Subject to certain exceptions, conversion may be made at any time after the 30th day following the initial issuance of the bonds and up to January 8, 2007.

(ii) Conversion price and adjustment: The conversion price was NT$31.32 per share at the issuance date. However, the conversion price will be subject to adjustments in the event that changes occur to the capital structure. As of December 31, 2003, the conversion price was NT$28.2329 per share.

(g) Trading places: U.S.A., Europe and Asia (except Taiwan), listed on the Luxembourg Stock Exchange.

f. The Company issued five-year unsecured overseas zero coupon convertible bonds ("ECB V") on February 10 and March 4, 2003. Major terms of issuance are as follows:

(a) Total amount: US$90,000. As of January 10, 2004, the bondholders have requested the Company to redeem the debentures on February 10, 2004, in an aggregate principal amount of US$78,100, which was reclassified into current portion of the debentures account.

(b) The interest rate at par: 0%.

(c) Duration: 5 years (From February 10, 2003 to February 10, 2008)

(d) Redemption at maturity/Redemption at the option of the Company

(i) Redemption at maturity

Unless previously redeemed, converted, purchased, or cancelled, the Company will redeem each bond at its redemption price equal to 100% of the outstanding principal amount on the maturity date.

(ii) Redemption at the option of the Company

The Company may redeem the bonds at any time on or after November 11, 2003 and prior to August 10, 2004, and any time on or after August 11, 2004 and prior to February 10, 2008, at a price equal to the Early Redemption Amount (as defined in the offering circular) of the principal amount. The Company may also redeem the bonds, in whole but not in part, at any time prior to February 10, 2008 at the Early Redemption Amount, if at least 90% of the bonds have already been redeemed, repurchased and cancelled, or converted.

(iii) Redemption at the option of the bondholders

The bonds are redeemable at the option of the bondholders, in whole or in part, on February 10, 2004, February 10, 2005, February 10, 2006 and February 10, 2007 at the redemption price equal to 100%, 102%, 104% and 106% of the outstanding principal amount, respectively.

(e) Conversion period

(i) Conversion period: Conversion may be made at any time on or after March 12, 2003 and on or before January 11, 2008.

(ii) Conversion price: The initial conversion price is NT$12.06 per share, subject to adjustments in the event that changes occur to the capital structure. As of December 31, 2003, the conversion price was NT$ 11.9584 per share.

(iii) Adjustment to the conversion price: The conversion price will be subject to adjustment (in the manner set forth in the Indenture) upon the occurrence of certain events set out in the Indenture, including, among other things, the declaration of dividend in common shares, subdivisions, consolidations, and the issue of common shares in cash.

(iv) Conversion price reset: Besides the adjustment to conversion price as stated in (iii), conversion price is also subject to "special conversion price reset" in a manner set forth in the offering circular.

(f) Trading places: listed on the Luxembourg Stock Exchange

(13) *Capital Stock*

As of January 1, 2002, the Company's authorized and issued common shares amounted to NT$45,000,000 and NT$33,593,426, divided into 4,500,000,000 and 3,359,342,613 shares at NT$10 par value, respectively.

The Company has three stock option plans ("2001 plan", "2002 plan" and "2003 plan") that provide for the granting of options to qualified employees for the purchase of the Company's common shares at the market price of the grant date. Stock options expire in six years from the date granted and vest over service periods that range from two to four years. The Company is authorized to grant options for up to 80,000,000 shares, 170,000,000 shares and 200,000,000 shares under the 2001 plan, 2002 plan and 2003 plan, respectively. As of December 31, 2003, no stock option has been exercised. Please also refer to Note 10.

On May 30, 2002, the Company's shareholders resolved in the Shareholder's Annual Meeting to increase the capital stock to NT$53,500,000, divided into 5,350,000,000 shares (including 450,000,000 and 400,000,000 shares reserved for future exercise of stock options and conversion of convertible bonds, respectively). In addition, the shareholders also resolved to declare a 10% stock dividend, resulting in the issuance of 331,934,262 common shares.

For the year ended December 31, 2003, unsecured domestic convertible bonds in the aggregate principal amount of NT$2,433,100 were converted into the Company's common shares which resulted in the issuance of 263,975,068 additional common of which 27,493,638 shares remained unregistered and were recorded under common stock to be registered account.

On June 27, 2003, the Company's shareholders resolved in the Shareholder's Annual Meeting to increase the authorized share capital to NT$65,500,000, divided into 6,550,000,000 shares (including 650,000,000 and 1,120,650,500 shares reserved for future exercise of stock options and conversion of convertible bonds, respectively). The capital increase has been registered.

On November 4, 2003, the Company's Board of Directors approved a resolution of a rights offering for the issuance of 475,000,000 common shares at NT$8.11 per share for a total consideration of NT$3,852,250 on November 11, 2003. New shares have been registered.

As of December 31, 2003, the Company's authorized and issued common shares amounted to NT$65,500,000 and NT$44,027,583, divided into 6,550,000,000 shares (including 650,000,000 and 972,241,695 shares reserved for future exercise of stock options and conversion of convertible bonds, respectively) and 4,402,758,305 shares at NT$10 par value, respectively.

(14) *Capital Reserve*

According to the R.O.C. Company Law, the capital reserve can only be used for making up deficits or distribution of stock dividends. The Company cannot use the capital reserve to offset accumulated deficits unless the legal reserve is insufficient for offsetting such deficits.

On May 30, 2002, the Company's shareholders resolved in the Shareholder's Annual Meeting to transfer the capital reserve of NT$16,360 resulting from disposal of property, plant and equipment to retained earnings.

On June 27, 2003, the Company's shareholders resolved in the Shareholder's Annual Meeting to use the capital reserve of NT$2,630,621 to make up its accumulated deficits.

(15) *Legal Reserve*

According to the R.O.C. Company Law, 10% of the Company's net income, after deducting previous years' losses, if any, must be set aside as a legal reserve prior to any distribution until such reserve is equal to the Company's paid-in capital. When the legal reserve is equal to 50% of the paid-in capital, 50% of such reserve may be distributed to the Company's shareholders through the issuance of additional common shares in the form of a stock dividend.

On June 27, 2003, the Company's shareholders resolved in the Shareholder's Annual Meeting to use the legal reserve of NT$1,708,689 to make up its accumulated deficits.

(16) *Income Distributions*

a. The Company's articles of incorporation, revised on May 3, 2000, provide that the net income, after deducting the previous years' losses and the appropriation to the legal reserve ("Distributable Earnings"), may be appropriated or distributed proportionally as follows:
   (a) Dividend to shareholders at 83% of Distributable Earnings;
   (b) Employee bonuses at 15% of Distributable Earnings; and
   (c) Remuneration for directors' and supervisors' services at 2% of Distributable Earnings.

   Income Distributions, except for the remuneration for directors and supervisors, which must be made in cash, may be made in cash, in the form of common shares or a combination thereof, as determined by the shareholders at the Annual General Meeting. The Company articles of incorporation provide that no more than 20% of any distribution to shareholders and employees should be made in cash and employee bonuses will be distributed in the same form as the distribution of dividends to shareholders on a proportionate basis. Furthermore, with the approval of the shareholders at such meetings, the dividend and bonuses may be held wholly or partially as retained earnings for distribution in future years. Distributions are not deductible in the determination of taxable income.

b. Information related to the distributions of the remuneration for directors and supervisors and employees' bonuses is as follows:
   (a) No distribution in 2002 due to the Company's accumulated deficits;
   (b) Information related to employees' bonuses and remuneration for directors' and supervisors' services, approved by the Board of Directors' and the Shareholders' Annual Meetings, is accessible on the website of Taiwan Stock Exchange Corporation;

c. The discounts of NT$185,884 and NT$927,496 for shares issued for the conversion of CB I and for new shares offering in November 2003, respectively, were charged against retained earnings.

(17) *Treasury Stock*

a. According to the Stock Exchange Regulations of Taiwan, the total common shares repurchase cannot exceed 10% of the Company's issued common shares. Further, the total repurchase amount cannot exceed the sum of retained earnings and the realized capital reserve.

b. In accordance with the Stock Exchange Regulations of Taiwan, treasury stock cannot be pledged, voted and be eligible to receive dividends.

c. Based on the reviewed financial statements of the Company for the nine months ended September 30, 2003, the maximum common shares allowed to repurchase were 392,776,000 shares. The Company repurchased 40,000,000 common shares for NT$1,046,071 as of December 31, 2003.

d. Effective from January 1, 2002, the Company's shares owned by subsidiaries were treated as treasury stock. The treasury stock transactions for the years ended December 31, 2003 and 2002 are as follow:

Subsidiary	Beginning balance		Additions		Disposals			Ending balance		
	Shares	Amount	Shares	Amount	Shares	Amount	Selling price	Shares	Amount	Market Value
For the year ended December 31, 2003										
Huiv Ying Investment, Ltd.	6,023,152	$142,365	-	$-	-	$-	-	6,023,152	$142,365	$47,703
For the year ended December 31, 2002								(note)		
Huiv Ying Investment, Ltd.	5,475,593	$142,365	-	$-	-	$-	-	6,023,152	$142,365	$72,332

(note) Hui Ying Investment, Ltd. received the stock dividend of 547,559 shares from the Company in 2002.

(18) *Basic Earnings Per Share*

The capital structure of the Company is considered complex as it has convertible bonds and stock options outstanding. Nevertheless, the Company presented only basic earnings per share for the years ended December 31, 2003 and 2002 as the convertible bonds and stock options possessed an anti-dilutive effect on the Company's earnings per share. The calculation of the weighted-average numbers of shares is as follows:

	For the year ended December 31, 2003	2002
Numbers of common shares outstanding as of January 1	3,691,276,875	3,359,342,613
Weighted-average numbers of treasury stock	(40,000,000)	(26,205,248)
Capital reserve transferred to common shares (3,333,137,365 shares*10%)	-	333,313,737
Weighted-average numbers of shares due to bonds conversion	134,088,222	-
Issuance of common shares for cash on November 11, 2003(475,000,000 shares*51/365)	66,369,863	-
Retroactive adjustment for bonus element included in the rights offering on November 11, 2003	6,388,732	6,188,969
Subtotal	3,858,123,692	3,672,640,071
Less: Treasury stock owned by subsidiaries	(6,023,152)	(6,023,152)
Retroactive adjustment of treasury stock owned by the subsidiary for bonus element included in the rights offering on November 11, 2003	(10,167)	(10,167)
Weighted-average numbers of shares outstanding	3,852,090,373	3,666,606,752

For the year ended December 31, 2003:

	Amount (numerator)		Shares (denominator)	Net income (loss) per share	
	Before tax	After tax		Before tax	After tax
Basic EPS					
Net loss	$ (8,197,745)	$ (8,197,745)	3,852,090,373	$ (2.13)	$ (2.13)

For the year ended December 31, 2002:

Basic EPS					
Net loss	$ (11,356,663)	$ (11,356,663)	3,666,606,752	$ (3.10)	$ (3.10)

Per Forma Information:

Assuming that the Company's shares owned by its subsidiaries were not treated as treasury stock:

For the year ended December 31, 2003:

	Amount (numerator)		Shares(denominator)	Net income (loss) per share	
	Before tax	After tax		Before tax	After tax
Basic EPS					
Net loss	$ (8,222,374)	$ (8,222,374)	3,858,123,692	$ (2.13)	$ (2.13)

For the year ended December 31, 2002:

Basic EPS					
Net loss	$ (11,426,697)	$ (11,426,697)	3,672,640,071	$ (3.11)	$ (3.11)

(19) *Income Taxes*

a. The Company is entitled to a four-year income tax exemption period on income generated from the cost of the expansion of operations located in HSP. The Company has elected the four-year tax exemption period to run from January 1, 2001 to December 31, 2004.

b. The Company's unused investment tax credits are as follow:

Year incurred	Unused amount	Year expired
1999	$ 134,441	2004
2000	1,192,770	2005
2001	1,359,358	2006
2002	550,083	2007
Total	$ 3,236,652	

Such tax credits were included in Deferred Income Tax Assets.

c. As of December 31, 2003, net operating losses that can be carried forward for a period of five years were as follows:

Year incurred	Unused amount	Year expired
2002	$6,044,712	2007
2003(estimated)	8,559,287	2008
Total	$14,603,999	

The tax effects of such amounts were included in Deferred Income Tax Assets.

d. The Company's income tax returns for the years after 1999 have not been assessed by the Taiwan Tax Authority. The Company was not satisfied with the tax assessment results for 1998, 1997, 1996, and 1995 and therefore, filed for the administrative remedies identified as follow:

(a) The Taiwan Tax Authority re-assessed the tax return for 1995 and requested the additional tax payment of NT$ 91,772. The Company had paid the half of the requested tax payment and filed a petition with the Ministry of Finance.

(b) The Taiwan Tax Authority re-assessed the tax return for 1996 and requested the additional tax payment of NT$114,585. The Company had paid half of the requested tax payment and filed a petition with the Ministry of Finance. In May 2003, the petition was denied. The Company then filed an administrative lawsuit on July 11, 2003. The administrative lawsuit is still pending.

(c) The Company applied for recheck after the Taiwan Tax Authority assessed the additional tax for 1997 to be NT$93,246. The Taiwan Tax Authority has not reached a decision yet.

(d) The Taiwan Tax Authority assessed and deducted the Company's loss carry-forward by NT$55,822 for 1998. The Company has recognized the effect on the financial statements and also applied for recheck. The tax authority has not reached a decision yet.

e. Deferred tax assets and liabilities as of December 31, 2003 and 2002 were as follows:

	2003.12.31	2002.12.31
(a) Total deferred tax liabilities	$ 8,185,195	$ 7,004,254
(b) Total deferred tax assets	$ 590,897	$ 298,974
(c) Valuation allowance for deferred tax assets	$ 5,707,653	$ 4,788,134

(d) Temporary differences that generated deferred tax assets or liabilities:

	2003.12.31		2002.12.31	
	Amount	Tax effect	Amount	Tax effect
Recognition of depreciation expense	$ (2,718,172)	$ (570,837)	$(3,265,476)	$ (253,074)
Recognition of amortization expense	$ 33,711	$ 4,125	$ -	$ -
Unrealized inventory provision	$ 4,404,543	$ 341,352	$ 5,730,772	$ 444,135
Unrealized investment losses	$ 3,141,755	$ 785,439	$ 2,197,372	$ 170,296
Unrealized royalty expense	$ 675,457	$ 52,348	$ 672,604	$ 52,127
Unrealized loss of idle assets	$ 49,869	$ 3,865	$ -	$ -
Unrealized lawyer fees	$ 70,490	$ 5,463	$ -	$ -
Unrealized pension expense	$ 67,446	$ 16,862	$ -	$ -
Unrealized bad debt expense	$ 141,350	$ 10,955	$ 176,901	$ 13,710
Unrealized exchange gains	$ (258,838)	$ (20,060)	$ (592,256)	$ (45,900)
Unrealized exchange losses	$ 1,799	$ 450	$ 152,947	$ 11,854
Amortization of capacity variance	$ 982,996	$ 76,182	$ -	$ -
Others	$ 6,477	$ 502	$ 22,995	$ 1,782
Loss carry-forward	$ 14,603,999	$ 3,651,000	$ 8,976,608	$ 2,244,152
Investment tax credits		$ 3,236,652		$ 4,066,198

	2003.12.31	2002.12.31
(e) Deferred tax assets - current	$ 627,040	$ 1,671,997
Valuation allowance for deferred tax assets - current	(464,947)	(1,160,243)
Net deferred tax assets - current	162,093	511,754
Deferred tax liabilities - current	(68,898)	(45,900)
Net deferred tax assets and liabilities - current	$ 93,195	$ 465,854

	2003.12.31	2002.12.31
Deferred tax assets - non-current	$ 7,558,155	$ 5,332,257
Valuation allowance for deferred tax assets - non-current	(5,242,706)	(3,627,891)
Net deferred tax assets - non-current	2,315,449	1,704,366
Deferred tax liabilities - non-current	(521,999)	(253,074)
Net deferred tax assets and liabilities - non-current	$ 1,793,450	$ 1,451,292

	2003.12.31	2002.12.31
(f) Income taxes payable from continuing operations	$ -	$ -
Tax expense (benefit) from recognition of depreciation expense	317,764	(282,941)
Tax expense from recognition of unrealized inventory provision	102,783	57,169
Tax expense (benefit) from recognition of unrealized royalty expense	(4,346)	80,416
Tax benefit from recognition of unrealized losses of idle assets	(3,865)	-
Tax benefit from recognition of unrealized lawyer fees	(5,463)	-
Tax benefit from recognition of unrealized pension expense	(16,862)	-
Tax expense from recognition of unrealized bad debt expense	2,755	12,207
Tax benefit from recognition of unrealized investment losses	(615,143)	(15,447)
Tax benefit from recognition of unrealized foreign exchange gains	(25,840)	45,900
Tax expense from recognition of unrealized foreign exchange losses	11,404	102,607
Tax benefit from amortization of capacity variance	(76,182)	-
Tax expense (benefit) from investment credits	829,546	(1,086,690)
Tax expense from allowance for valuation	919,518	3,311,411
Tax benefit from losses carry-forward	(1,406,848)	(2,244,152)
Over accrual of prior year's tax expense	(30,501)	-
Others	1,280	19,520
Income tax expense	$ -	$ -

(g) Information relating to the imputation of shareholders' income taxes:	2003.12.31	2002.12.31
Available shareholders' tax credits	$ 98,151	$ 94,553
Expected (actual) ratio of shareholders' tax credits	-	-

(h) Information related to undistributed retained earnings	2003.12.31	2002.12.31
After 1998 (inclusive)	$(14,062,333)	$(9,469,175)

(19) *Pension Fund*

The components of net pension cost are as follows:

	For the year ended December 31,	
	2003	2002
Service cost	$ 117,595	$ 114,324
Interest cost	26,963	30,577
Expected return on plan assets	(24,483)	(25,010)
Amortization of prior service cost	4,394	4,394
Net pension cost	$ 124,469	$ 124,285

The key assumptions underlying the value of the pension assets and obligations are as follows:

	2003.12.31	2002.12.31
Discount rate	3.5%	4.0%
Rate of increase in future compensation levels	3.0%	3.5%
Expected long-term rate of return on plan assets	3.5%	4.0%

The funded status of the Company's pension plan on December 31, 2003 and 2002 is as follows:	2003.12.31	2002.12.31
Pension obligation		
Vested benefit obligation	$ (205)	$ -
Non-vested benefit obligation	(496,239)	(397,536)
Accumulated benefit obligation	(496,444)	(397,536)
Effects of future payment increase	(372,259)	(367,091)
Projected benefit obligation	(868,703)	(764,627)
Plan assets at fair value	636,062	589,501
Plan assets in excess of projected benefit obligation	(232,641)	(175,126)
Unrecognized net transition obligation	52,567	55,659
Unrecognized prior service cost	26,806	28,108
Unrecognized net loss (gain)	(38,426)	(13,835)
Understate (overstate)	5,781	(13,614)
Included under accrued expenses	3,046	3,388
Accrued pension cost	$ (182,867)	$ (115,420)

As of December 31, 2003 and 2002, the Company's Employee's Retirement Fund deposited in the Central Trust Bank amounted to NT$636,062 and NT$589,501, respectively.

(21) *Sales Revenues*

	For the year ended December 31,	
	2003	2002
Revenues from sales of manufactured products	$ 17,575,468	$ 16,045,196
Service revenues	16,717	34,459
Others	154,349	145,894
Total	17,746,534	16,225,549
Less:Sales returns and sales discount	(351,497)	(150,393)
Net sales revenues	$ 17,395,037	$ 16,075,156

(22) *Personnel, Deprecation and Amortization Expenses*

	For the year ended December 31,					
	2003			2002		
	Under cost of goods sold	Under operating expense	Total	under cost of goods sold	Under operating expense	Total
Personnel Expense						
Salary expense	$ 1,292,376	$ 1,034,765	$ 2,327,141	$ 1,267,999	$ 1,089,010	$ 2,357,009
Insurance expense	98,966	71,295	170,261	96,614	70,447	167,061
Pension expense	55,355	49,719	105,074	65,584	61,462	127,046
Meal expense	62,116	37,142	99,258	63,928	38,916	102,844
Total	$ 1,508,813	$ 1,192,921	$ 2,701,734	$ 1,494,125	$ 1,259,835	$ 2,753,960
Depreciation	$ 8,078,650	$ 524,363	$ 8,603,013	$ 7,565,618	$ 532,122	$ 8,097,740
Amortization	$ 31,126	$ 477,479	$ 508,605	$ 39,504	$ 429,461	$ 468,965

5. Related Party Transactions

(1) Related parties and their relationships associated with the Company:

Related parties	Relationship
Macronix America Inc. ("MXA")	The Company's equity investee
Macronix (BVI) Co., Ltd. ("BVI")	The Company's equity investee
Magic Pixel Inc. ("Magic")	The Company's equity investee
MaxNova Inc. ("Maxnova")	The Company's equity investee
Macronix (Hong Kong) Co., Ltd. ("MX (HK)")	The Company's equity investee
Prominent Communications, Inc. ("Prominent")	The Company's equity investee
Joyteck Technology Co., ("Joyteck")	The Company's equity investee
Wedgewood International Ltd. ("Wedgewood")	A subsidiary's equity investee
New Trend Technology Inc. ("NTTI")	A subsidiary's equity investee
Macronix Europe, NV. ("MXE")	A subsidiary's equity investee
Biomorphic VLSI, Inc. ("Biomorphic")	A subsidiary's equity investee
Macronix Pte Ltd. ("MPL")	A subsidiary's equity investee
Tower Semiconductor Ltd. ("Tower")	A subsidiary served as a director of Tower
FueTrek Co., Ltd. ("FueTrek")	A subsidiary served as a director of Fue Trek
Raio Technology Co., Ltd. ("Raio")	A subsidiary's equity investee
United Industry Gas Co., Ltd. ("UIG")	The Company served as a supervisor of UIG
Powertech Technology Inc.("Powertech")	The Company served as a director of Powertech
Ardentec Corporation ("Ardentec")	The Company served as a director of Ardentec
Chiao Tung Bank	Chiao Tung Bank served as a director of the Company (note)
Macronix Education Foundation	Same president for the Company as well

(note): On November 26, 2002, Chiao Tung Bank resigned from the Company's Board of Director.

(2) Significant Transactions with Related Parties:

a. Sales to related parties were as follows:

Related parties	For the year ended December 31, 2003	2002
MXA	$ 679,788	$ 1,036,424
MX(HK)	591,741	-
MXE	378,788	344,885
Raio	174,466	158,194
Magic	116,941	-
Biomorphic	45,953	15,298
FueTrek	5,591	-
Prominent	341	155,923
Others	5	-
Total	$ 1,993,614	$ 1,710,724

Sales to MXA, MXE and MX (HK) are priced approximately at 88%, 88% and 94% of prices charged on the end-users, respectively. Sales to Magic are priced approximately with 6% mark-up from the product cost. Sales prices to Raio, Biomorphic, FueTrek, and Prominent are not comparable with those to regular customers because the Company is the sole provider for them.

The payment term with the related parties is month end 30 to 60 days, similar to that with regular customers.

b. Expenses paid to related parties were as follows:

Related parties	Account	For the year ended December 31, 2003	2002
MXA	Selling expenses	$ 148,394	$ 141,055
BVI	Selling expenses	113,006	95,772
MXE	Selling expenses	15,096	-

MPL	Selling expenses	14,000	13,641
NTTI	Research and development expenses	83,673	91,570
Magic	Research and development expenses	15,474	-
MXIC Education Foundation	Administrative expenses	22,360	2,000
Total		$ 412,003	$ 344,038

c. Disposals of assets for the year ended December 31, 2003 were as follows:

Related parties	Item	Book value	Gain (loss)
Magic	Fixed assets	$ 3,204	$ 114
	Software	440	14
MaxNova Inc.	Fixed assets	884	-
Ardentec	Fixed assets	-	48
Joyteck (note)	Deferred assets	12,698	1,420
Total		$ 17,226	$ 1,596

(note) In 2003, the Company transferred certain intangible assets to Joyteck in exchange for Joyteck's new common stock of 2,000,000 shares, which were valued at NT$10 per share. Such transaction resulted in a net unrealized disposal gain of NT$5,882.

There was no transaction related to disposal of assets to related parties for the year ended December 31, 2002.

d. Subcontract processing charges from related parties for the years ended December 31, 2003 and 2002 were as follows:

	For the year ended December 31,	
Related parties	2003	2002
Powertech	$ 211,188	$ 172,778
Ardentec	130,270	240,686
Total	$ 341,458	$ 413,464

Subcontract processing charges were recorded as manufacturing expenses.

e. Operating leases to related parties:

	For the year ended December 31,	
Related parties	2003	2002
Magic	$ 2,604	$ -
Joytech	987	-
Raio	587	1,510
Total	$ 4,178	$ 1,510

The lease income from the related parties was charged monthly and recorded as other income under non-operating income.

f. The Company purchased industrial gas from UIG totaling NT$100,016 and NT$109,940 for the years ended December 31, 2003 and 2002, respectively. Such purchases form a part of cost of goods sold.

g. The Company purchased wafers from Tower totaling NT$36,600 and NT$136,047 for the years ended December 31, 2003 and 2002. Such purchases form a part of cost of goods sold.

h. Commodities purchased from the related parties were as follows:

	For the year ended December 31,	
Related parties	2003	2002
Prominent	$ 63,798	$ 404,717
Biomorphic	55,935	46,716
Raio	3,257	13,863
Total	$ 122,990	$ 465,296

Such purchases form a part of cost of goods sold.

i. The Company entered into an IP license agreement with FueTrek in 2002 and paid in full at the amount of NT$10,050 (JPY34,300) as of December 31, 2003. The Company recorded such amount as a deferred asset and amortized it over the contract term.

(3) Receivables and Payables with the Related Parties:

a. Accounts Receivable

Related parties	2003.12.31	2002.12.31
MX(HK)	$ 197,874	$ -
MXE	70,241	51,653
MXA	51,941	105,555
Raio	49,216	27,498
Biomorphic	45,910	16,000
Magic	38,149	282
UIG (note)	11,347	21,200
Prominent	1,305	33,237
Others	11,454	9,360
Total	477,437	264,785
Less: Allowance for doubtful accounts	(50,450)	(7,000)
Net	$ 426,987	$ 257,785

(note) Electricity charges

b. Accounts Payable

Related parties	2003.12.31	2002.12.31
Powertech	$ 56,623	$ 60,292
MXA	44,672	35,725
UIG	29,929	8,517
NTTI	19,206	22,403
Magic	16,247	-
Ardentec	13,890	31,255
BVI	12,001	15,173
Tower	378	17,070
Prominent	-	32,091
Others	8,858	10,125
Total	$ 201,804	$ 232,651

(4) In 2002, the Board of Directors resolved for the Company, for the total amount capped under US$154,000, to act as a guarantor for loans and the derivative transactions made by BVI and BVI's subsidiaries. The Company then guaranteed the loan to Biomorphic up to US$4,000. The loan to Biomorphic, guaranteed by the Company, matured on July 14, 2003. On April 28, 2003, the Board of Directors resolved for the Company, for the total amount capped under NT$100,000, to act as a guarantor for letters of credit issued to MX(HK).

As of December 31, 2003 and 2002, the guarantees that the Company made for related parties were summarized as follows:

Related parties	2003.12.31	2002.12.31
Wedgewood	US$ 95,000	US$ 85,000
BVI	31,600	19,000
Biomorphic	-	3,400
Subtotal	US$ 126,600	US$ 107,400
MX(HK)	NT$ 100,000	NT$ -

(5) Please refer to note 4(10) for the Company's long-term loan agreement with Chao Tung Bank.

6. Assets Pledged as Collateral

The Company's assets were pledged as the collateral for security to foreign labor employment, customs clearance deposits, deposits for executing technology agreement with government, compensated deposits, guarantees for investees, capital leases and long-term loans were as follows:

Accounts	2003.12.31	2002.12.31
Restricted certificate of deposits-current	$ 1,145,709	$ 3,034,823
Restricted certificate of deposits-non-current	254,775	260,625
Property, plant and equipment	15,882,664	14,986,581
Total	$17,283,148	$18,282,029

7. Commitments and Contingencies

The Company's commitments and contingencies, not included in the financial statements, as of December 31, 2003 were as follows:

a. Letters of credit issued for future deliveries of equipment amounted to NT$306,208.

b. The Company's significant construction and machinery contracts totaled approximately NT$9,022,739. As of December 31, 2003, the Company has paid NT$6,839,544 pursuant to these contracts.

c. The land on which the Company located was leased from the HSP. The lease term is from 1990 to 2020 and is renewable at the Company's option. The irrevocable lease payments will be NT$64,384 for 2004, NT$321,922 in total for the years from 2005 to 2009, and NT$291,785 in total for the years from 2010 to 2020.

d. Certain debt agreements, entered into by the Company with several banks including Chiao Tung Bank, require the Company to issue additional common shares for cash under the condition when the Company's debt to equity ratio is greater than 1.2 or when the Company's current ratio exceeds 1.0.

e. The Company entered into an operating lease agreement of US$2,608 for R&D software. The lease term is from 2003 to 2006. The lease obligations shall be paid annually in four installments, starting from November 31, 2003 to October 31, 2006. As of December 31, 2003, the Company had paid US$329 pursuant to the agreements. Future irrevocable payments are US$901, US$901 and US$477 for 2004, 2005, and 2006, respectively.

f. The license fees for the products license agreements entered into by the Company with A company and B company totaled US$46,000. As of December 31, 2003, the Company had paid US$31,000 pursuant to the agreements.

g. The Company entered into a technology agreement with C company. As of December 31, 2003, the fixed license fees for the technology agreement have been fully paid while running royalties would be charged based on the percentage of the net sales from the licensed products pursuant to the agreement. According to the agreement, the Company is required to prepay US$14,000 of running royalties in 2003 and 2004. As of December 31, 2003, US$3,000 has been paid while US$11,000, guaranteed by standby letters of credit, remained unpaid.

h. In August 1997, Atmel Corporation ("Atmel") filed a complaint against MXA for infringement of Atmel's patents No. 096 and 747. MXA applied for summary judgment for both patents. On January 14, 2002, the Court issued an order denying Atmel's motion to correct inventorship of the 747 patent. Based on that order, MXA has sought a ruling of invalidity of the 747 patent due to incorrect inventorship, and is awaiting the Court's decision. On May 14, 2003, the Court granted the Company's motion for summary judgment of invalidity of the 747 patent due to nonjoinder of co-inventor. Specifically, the Court's Order found that all claims of the 747 patent are invalid for nonjoinder of a co-inventor. The Court has also granted the Company's motion for summary judgment against three of the four asserted claims of the 096 patent, leaving only one claim to be litigated on the 096 patent. Both parties applied for summary judgment for infringement of the 096 patent. The case is now examined by the court. MXA and its attorney will adduce substantial contestation in order to win the lawsuit.

8. Significant Disaster Losses

No significant disasters occurred during the period.

9. Significant Subsequent Events

On November 17, 2003, the Board of Directors resolved to issue 525,000,000 common shares with NT$ 10 at par by means of 13,125,000 global deposit shares ("GDR"). The application of this GDR offering was approved by Taiwan Securities and Futures Commission ("SFC") on January 30, 2004. However, as of January 31, 2004, such offering has not been completed.

10. Financial Instruments

a. Contract amount or notional amount and credit risk:

Financial Instrument	2003.12.31 Contract amount or Notional amount	2003.12.31 Credit risk	2002.12.31 Contract amount or Notional amount	2002.12.31 Credit risk
Options purchased for hedging purpose	¥1,597,500	-	-	-
	US$15,000	-	-	-
Options written for hedging purpose	¥2,396,250	-	-	-
	US$22,500	-	-	-
Cross currency interest rate swaps for hedging purpose	-	-	US$4,000	-

Credit risk amount represents forward exchange contracts with a positive fair value factoring in the offsetting effect of the master netting arrangement as of balance sheet date. If the credit risk amount is positive and the transaction party breaches the contract, the Company will incur a loss. However, the possibility of incurring a loss is remote since the Company's counter parties are reputable.

b. Market value risk:

Market value risk is insignificant due to the hedging purpose of the forward exchange contracts, option contracts and cross currency swaps. The gains or losses from fluctuations of interest and exchange rates will be offset by the gains or losses from the underlying assets and liabilities denominated in foreign currencies. In addition, market value risk in the dual currency deposits contracts shall be considered low because the range of foreign exchange rates is fixed.

c. Liquidity risk:

No significant cash flow risks are expected as the exchange rates on the forward contracts are fixed, and the Company expects to have sufficient Japanese Yen assets to meet the cash requirements.

d. Types of derivative financial instruments, purpose of holding the derivative financial instruments and the strategy for achieving the hedging purpose:

The Company's derivative financial instruments are entered into mainly for hedging purposes. The purpose of holding forward exchange contracts, option contracts and cross currency swaps is to hedge exchange rate risk resulting from assets, liabilities or commitments denominated in foreign currency. The Company's hedging strategy is to mitigate into market price risk. Derivative financial instruments selected for hedging purposes are reviewed and anti-correlated with the fluctuation of the fair value of derivatives hedged. Derivatives are evaluated periodically. In addition, the primary purpose of holding dual currency deposit option contracts is to earn higher interest revenue within a fixed range of foreign exchange rates.

e. Presentation of derivative financial instruments:

Forward exchange contracts receivable and payable are reported under current assets and liabilities on a net basis if any right of offset exists.

Foreign exchange gains earned for the year ended December 31, 2003 amounted to NT$236 and recorded as other income under non-operating income. Gains and losses related to option contracts are recorded upon the contracts are exercised.

f. Fair value of financial instruments:

Non-derivative	2003.12.31 Carrying value NT$	2003.12.31 Fair value NT$	2002.12.31 Carrying value NT$	2002.12.31 Fair value NT$
Assets				
Cash, cash equivalents and restricted certificate of deposits	11,259,756	11,259,756	10,474,552	10,474,552
Notes and accounts receivable (including receivables from related parties)	2,853,718	2,853,718	2,655,475	2,655,475
Other receivables	205,503	205,503	337,088	337,088
Long-term investments-market value unavailable	4,021,545	4,021,545	4,329,884	4,329,884
Long-term investments-with market value	113,884	480,943	37,671	44,174
Liabilities				
Short-term debts	814,649	814,649	696,176	696,176
Payables	4,474,850	4,474,850	5,183,159	5,183,159
Long-term debts -with variable interest rates	8,831,533	8,831,533	8,227,780	8,227,780
Capital lease obligations (including current portion)	958,517	937,931	1,606,383	1,518,683
Bond payable (including current portion)	3,000,000	3,107,345	3,000,000	3,051,224
Convertible debentures (including current portion)	10,027,544	10,123,560	15,851,849	16,081,148

Derivatives	2003.12.31 Carrying value NT$	2003.12.31 Fair value NT$	2002.12.31 Carrying value NT$	2002.12.31 Fair value NT$
Hedging:				
(1) Asset				
Cross currency interest rate swaps	-	-	20,425	20,895
(2) Liabilities				
Purchased options for hedging purpose	-	2,552	-	-
Written options for hedging purpose	-	(7,391)	-	-

The methods and assumptions used to estimate the fair value of derivative financial instruments are as follows:

(1) The fair value of the Company's short-term financial instruments is based on the book value of those instruments at the reporting date due to the short maturity of those instruments. This method was applied to cash and cash equivalents, restricted certificate of deposits, receivables, payables and short-term debts and short-term notes.

(2) The fair value of the Company's marketable securities is based on the market prices at the reporting date if the market prices are available. The fair value of the Company's marketable securities is based on financial data or any other information if market prices are not available.

(3) The fair value of the Company's long-term borrowings bearing variable interest rates, which includes the current portion of long-term debts, is estimated using the book value of the debt at the reporting date.

(4) The fair value of bonds payable and convertible bonds payable is based on the market prices at the reporting date if market prices are available or estimated using the discounted cash flow method based on the Company's borrowing rates for similar types of borrowings.

(5) The fair value of derivative financial instruments (normally includes unrealized gains or losses from outstanding forward exchange contracts) is assumed to be based on the amount that the Company is entitled to receive or obligated to pay if the Company terminated the contracts at the balance sheet date.

g. Stock options:

The stock option plans (the "2001 plan", "2002 plan" and "2003 plan") approved by SFC provide the option rights with each unit representing one common share to qualified employees of the Company. The option rights are valid for four years and exercisable at certain percentages subsequent to the second anniversary of issuance. Under each stock option plan, stock options are granted at an exercise price equal to the closing price of the Company's common shares on the date of grant. The Company will issue additional common shares for the exercised stock rights. Unless the granted stock options was revoked due to illegal acts or violation of the Company's regulations, the stock options may be exercised by up to 50%, 75% and 100% in the third year, fourth year and fifth year (and thereafter) of option lives. Information with respect to each stock option plan is as follows:

(1) 2001 plan

Grant Date	Total Units Issued	Shares to Be Exercised	Outstanding Units (Note 1)	Beginning Date of Exercise	Exercise Deadline	Exercise Price (Note 2)	Market Price	
							High	Low
2002.01.16	71,768,500	71,768,500	-	2004.01.16	2008.01.15	21.2	13.15	3.88
2002.05.06	560,000	560,000	-	2004.05.06	2008.05.05	20.8	13.15	3.88
2002.10.01	1,507,000	1,507,000	141,000	2004.10.01	2008.09.30	11.1	13.15	3.88
2002.12.16	6,164,500	6,164,500	739,000	2004.12.16	2008.12.15	11.3	13.15	3.88
Total	80,000,000	80,000,000	880,000	Total issuable units: 80,000,000				

(2) 2002 plan

Grant Date	Total Units Issued	Shares to Be Exercised	Outstanding Units (Note 1)	Beginning Date of Exercise	Exercise Deadline	Exercise Price (Note 2)	Market Price	
							High	Low
2002.10.01	150,000,000	150,000,000	111,878,900	2004.10.01	2008.09.30	11.1	13.15	3.88
2002.12.16	10,284,500	10,284,500	6,521,500	2004.12.16	2008.12.15	11.3	13.15	3.88
2003.04.07	2,753,500	2,753,500	2,284,000	2005.04.07	2009.04.06	9.2	13.15	3.88
Total	163,038,000	163,038,000	120,684,400	Total issuable units: 170,000,000				

(3) 2003 plan

Grant Date	Total Units Issued	Shares to Be Exercised	Outstanding Units (Note 1)	Beginning Date of Exercise	Exercise Deadline	Exercise Price (Note 2)	Market Price	
							High	Low
2003.06.13	193,212,000	193,212,000	168,095,772	2005.06.13	2009.06.12	7.75	13.15	3.88
2003.11.04	829,000	829,000	640,000	2005.11.04	2009.11.03	9.00	13.15	3.88
Total	194,041,000	194,041,000	168,735,772	Total issuable units: 200,000,000				

(Note 1) As of December 31, 2003, no stock option plan has been exercised. However, some of stock option rights were forfeited by the resigned employees or waived at the options of the grantees, which resulted in less outstanding units than total issued units.

(Note2) The exercise price will be subject to adjustments due to the changes occurred to the Company's capital structure.

11. Segment Information

a. Major customers:

Sales to customers representing over 10% of gross sales were as follows:

	For the year ended December 31,			
	2003		2002	
Customer	NT$	%	NT$	%
A	$ 4,458,538	25.12%	$ 6,022,198	35.39%
B	2,010,204	11.33%	1,095,915	6.44%
C	1,804,416	10.17%	379,412	2.23%
Total	$ 8,273,158	46.62%	$ 7,497,525	44.06%

b. Export sales:

The Company's export sales amounted to NT$13,623,200 and NT$13,593,327, representing 78.32% and 84.56% of net sales for the years ended December 31, 2003 and 2002, respectively.

c. Geographic data:

The Company has no significant foreign operations.

d. Industry data:

The Company operates primarily in one industry segment, which being designing, manufacturing and supplying of integrated circuits and memory chips.

12. Others

Certain accounts in the financial statements of the Company as of December 31, 2002 have been reclassified to conform to the presentation of the current period.

Macronix Worldwide

Headquarters

16, Li-Hsin Road,
Science Park,
Hsinchu, Taiwan, R.O.C.
Tel: +886-3-578-6688
Fax: +886-3-563-2888

Taipei Office

19F/20F, 4, Min-Chuan E. Road,
Sec. 3, Taipei, Taiwan, R.O.C.
Tel: +886-2-2509-3300
Fax: +886-2-2509-2200

Macronix (BVI) Co., Ltd.

Japan Branch
NKF Kawasaki Building 8F
1-2 Higashida-cho,
Kawasaki-ku, Kawasaki-shi,
Kanagawa-Pref. 210-0005, Japan
Tel: +81-44-246-9100
Fax: +81-44-246-9105

Macronix Pte Ltd. (Singapore)

46 East Coast Road,
#06-01 East Gate
Singapore 428766
Tel: +65-6346-5505
Fax: +65-6348-8096

Macronix Europe N.V.

Koningin Astridlaan 59, Bus 1
1780 Wemmel, Belgium
Tel: +32-2456-8020
Fax: +32-2456-8021

Macronix America

491 Fairview Way, Milpitas
CA 95035, U.S.A.
Tel: +1-408-453-8088
Fax: +1-408-453-8488

MXIC
MACRONIX INTERNATIONAL CO., LTD.

MX
MACRONIX AMERICA, INC.

http://www.macronix.com