Formosa Petrochemical Corporation

(incorporated as a company limited by shares in Taiwan, Republic of China)

U.S.$200,000,000 Zero Coupon Convertible Notes due 2011

Formosa Plastics Corporation

(incorporated as a company limited by shares in Taiwan, Republic of China)

U.S.$200,000,000 Zero Coupon Exchangeable Notes due 2011

Nan Ya Plastics Corporation

(incorporated as a company limited by shares in Taiwan, Republic of China)

U.S.$200,000,000 Zero Coupon Exchangeable Notes due 2011

Formosa Chemicals & Fibre Corporation

(incorporated as a company limited by shares in Taiwan, Republic of China)

U.S.$200,000,000 Zero Coupon Exchangeable Notes due 2011

Formosa Petrochemical Corporation ("Formosa Petrochemical") is offering U.S.$200,000,000 principal amount of zero coupon convertible notes due 2011 (the "Formosa Petrochemical Convertible Notes"). Formosa Plastics Corporation ("Formosa Plastics") is offering U.S.$200,000,000 principal amount of zero coupon exchangeable notes due 2011 (the "Formosa Plastics Exchangeable Notes"). Nan Ya Plastics Corporation ("Nan Ya Plastics") is offering U.S.$200,000,000 principal amount of zero coupon exchangeable notes due 2011 (the "Nan Ya Plastics Exchangeable Notes"). Formosa Chemicals & Fibre Corporation ("Formosa Chemicals & Fibre", together with Formosa Petrochemical, Formosa Plastics and Nan Ya Plastics, the "Issuers") is offering U.S.$200,000,000 principal amount of zero coupon exchangeable notes due 2011 (the "Formosa Chemicals & Fibre Exchangeable Notes"). The Formosa Plastics Exchangeable Notes, the Nan Ya Plastics Exchangeable Notes and the Formosa Chemicals & Fibre Exchangeable Notes are collectively known as the "Exchangeable Notes". The Exchangeable Notes and the Formosa Petrochemical Convertible Notes are collectively known as the "Notes".

The Notes are being offered hereby by the Purchasers (as defined herein) outside the United States to non-U.S. persons in accordance with Regulation S under the United States Securities Act of 1933, as amended (the "Securities Act"). The Notes are not being offered in the Republic of China (the "ROC").

Each of the Notes constitutes senior, direct, unconditional, unsubordinated and unsecured obligations of the respective Issuers, and will rank at least pari passu in right of payment with all other present and future senior, direct, unconditional, unsubordinated and unsecured obligations of such Issuer, except as otherwise provided herein. The Notes will not bear interest except in the limited circumstances set forth herein. The Notes will be issued only in registered book-entry form and in minimum denominations of U.S.$1,000 and integral multiples of U.S.$1,000 in excess thereof.

Holders of the Formosa Petrochemical Convertible Notes may convert the Formosa Petrochemical Convertible Notes into new ordinary shares of Formosa Petrochemical of par value NT$10 each, to be issued by Formosa Petrochemical upon conversion (the "New Shares"), at any time after July 30, 2004 and up to 10 days prior to the maturity of the Formosa Petrochemical Convertible Notes. The initial conversion price for the Formosa Petrochemical Convertible Notes is NT$58.3 per New Share, determined at the fixed exchange rate of NT$33.733 = U.S.$1.00 (the "Fixed Exchange Rate"), subject to adjustment in certain circumstances. Holders of the Exchangeable Notes may exchange the Exchangeable Notes into existing ordinary shares of Formosa Petrochemical of par value NT$10 each (the "Existing Shares"), or Exchange Property Securities (as defined herein), if applicable, at an initial exchange price per Existing Share (subject to adjustments as described herein) of NT$58.3, determined at the Fixed Exchange Rate, at any time after December 26, 2004 and up to 10 days prior to the maturity of the Exchangeable Notes. The New Shares and the Existing Shares are collectively known as the "Common Shares". The Common Shares are listed on the Taiwan Stock Exchange (the "TSE") and application will be made to list the New Shares on the TSE. The closing price per Common Share on the TSE on June 28, 2004 was NT$53.0.

Unless the Notes have been previously converted, exchanged, redeemed or purchased and cancelled, holders of the Notes will have the right, on June 30, 2006 and June 30, 2009, to require each respective Issuer of the relevant Notes to redeem such Notes at their Early Redemption Amount (as defined herein). Holders of the Notes will also have the right to require each of the Issuers to redeem their respective Notes at their Early Redemption Amount, upon the Common Shares ceasing to be listed on the TSE or the occurrence of a Change of Control (as defined herein) with respect to Formosa Petrochemical.

Unless the Notes have been previously converted, exchanged, redeemed or purchased and cancelled, each of the Issuers of the relevant Notes shall redeem their respective Notes on June 30, 2011 at a price equal to 103.6 per cent. of their outstanding principal amount. Each of the Notes may also be redeemed, at the option of the respective Issuer of such Notes, at their Early Redemption Amount (i) (in whole or in part), at any time after June 30, 2006 and prior to June 30, 2011, if the closing price of the Common Shares (translated into U.S. dollars at the prevailing exchange rate) on 20 out of 30 consecutive trading days prior to the redemption date, is at least 120 per cent. of the relevant conversion price or exchange price then in effect (translated into U.S. dollars at the Fixed Exchange Rate), or (ii) (in whole but not in part), at any time, if at least 90 per cent. in principal amount of the respective Notes have been converted, exchanged, redeemed or purchased and cancelled, or (iii) (in whole but not in part), at any time, in the event of certain changes relating to ROC taxation.

Standard & Poor's Ratings Services, a division of The McGraw Hill Companies Inc., on June 11, 2004 assigned a "BBB+" foreign currency corporate rating on each of the Issuers. On June 23, 2004, Standard & Poor's Ratings Services assigned a "BBB+" rating on each of the Exchangeable Notes, and a "BBB" rating on the Formosa Petrochemical Convertible Notes. A credit rating is not a recommendation to buy, sell or hold any securities of such companies, and may be subject to revision, suspension or withdrawal at any time by the relevant rating organization.

Approval in-principle has been received for the listing of the Notes on the Singapore Exchange Securities Trading Limited ("SGX-ST"). The SGX-ST takes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of any of the Notes or any of the Issuers.

See "Risk Factors" on page 40 for a discussion of certain factors to be considered in connection with an investment in the Notes.

Offering Price: 100 per cent.

The Representative (as defined herein) may, at its option, purchase up to an additional U.S.$50,000,000 in aggregate principal amount of Formosa Petrochemical Convertible Notes from Formosa Petrochemical, and/or up to an additional U.S.$50,000,000 in aggregate principal amount of Formosa Plastics Exchangeable Notes from Formosa Plastics, and/or up to an additional U.S.$50,000,000 in aggregate principal amount of Nan Ya Plastics Exchangeable Notes from Nan Ya Plastics, and/or up to an additional U.S.$50,000,000 in aggregate principal amount of Formosa Chemicals & Fibre Exchangeable Notes from Formosa Chemicals & Fibre.

The Notes and the Common Shares have not been and will not be registered under the Securities Act or any state securities laws. The Notes are only being sold outside the United States to non-U.S. persons in accordance with Regulation S under the Securities Act. Because the Notes and the Common Shares are not, and will not be, registered under the Securities Act, they are subject to certain restrictions on resale described under "Notice to Investors".

Global Coordinator and Sole Bookrunner

Goldman Sachs International

Joint-Lead Managers

ABN AMRO Rothschild **Citigroup**

Co-Manager

Capital Securities (Hong Kong) Ltd.

Offering Circular dated June 28, 2004

The Formosa Petrochemical Convertible Notes, the Formosa Plastics Exchangeable Notes, the Nan Ya Plastics Exchangeable Notes and the Formosa Chemicals & Fibre Exchangeable Notes will be respectively represented by beneficial interests in a global certificate, each in registered form (referred to herein as the "Formosa Petrochemical Global Certificate", the "Formosa Plastics Global Certificate", the "Nan Ya Plastics Global Certificate" and the "Formosa Chemicals & Fibre Global Certificate", respectively, and collectively known as the "Global Certificates"). Each of the Global Certificates will be registered in the name of a nominee of, and deposited on or about June 30, 2004 (the "Closing Date"), being two days after the date of this Offering Circular, with a common depositary (the "Common Depositary") for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, International"). Except as described in this Offering Circular, individual certificates for the Notes will not be issued in exchange for interests in the Global Certificates.

Each of the Issuers, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Issuers, the Issuers and their respective subsidiaries and affiliates taken as a whole, the Notes and the Common Shares which is material in the context of the issue and offering of the Notes, (ii) the information contained herein is true and accurate in all material respects and is not misleading, (iii) the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) there are no other facts the omission of which would, in the context of the issue and offering of the Notes, make this Offering Circular as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect, (v) all reasonable enquiries have been made by each of the Issuers to verify the accuracy of such information and (vi) this Offering Circular does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary in order to make the statements herein, in the light of the circumstances under which they are made, not misleading. Each of the Issuers accepts responsibility accordingly. Information provided herein with respect to the ROC, its political status and economy, has been derived from governmental and other public sources, such as statistical data published by the TSE, and each of the Issuers accepts responsibility only for accurately extracting information from such sources.

This Offering Circular has been prepared by the Issuers solely for use in connection with the proposed offering of the Notes described in this Offering Circular. The distribution of this Offering Circular and the offering and sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuers and the Purchasers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the Notes and distribution of this Offering Circular, see "Underwriting". This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuers or the Purchasers to subscribe for or purchase, any of the Notes in any jurisdiction in which such offer or invitation would be unlawful.

No person has been or is authorized to give any information or to make any representation in connection with the issue, offering or sale of the Notes other than as contained in this Offering Circular and any such other information or representation not contained herein must not be relied upon as having been authorized by the Issuers or the Purchasers. Neither the delivery of this Offering Circular nor any sale or allotment made in connection with the issue of the Notes shall, under any circumstances, constitute a representation or create any implication that there has been no change or development reasonably likely to involve a change in the affairs of the Issuers since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof.

In connection with this issue of the Notes, Goldman Sachs International or any person acting for it, on behalf of the Purchasers, may, to the extent permitted by applicable laws and regulations, over-allot or effect transactions with a view to supporting the market price of the

Notes at a level higher than that which might otherwise prevail, for a limited period of time after the Closing Date. However, there may be no obligation on Goldman Sachs International or any of its agents to do this. Such stabilization, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. See "Underwriting".

The Purchasers make no representations or warranties as to the accuracy or completeness of the information contained herein and nothing contained in this Offering Circular is, or shall be relied upon, as a promise or representation by any of the Purchasers. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuers or any of the Purchasers that any recipient of this Offering Circular should purchase the Notes.

Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Notes should be based upon such investigations with its own tax, legal and business advisers as it deems necessary. In making an investment decision, investors must rely on their own examination of the Issuers and the terms of the offering of the Notes, including the merits and risks involved. See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Notes. Each person receiving this Offering Circular acknowledges that such person has not relied on the Purchasers or any person affiliated with the Purchasers in connection with its investigation of the accuracy of such information or its investment decision.

Each of the Issuers has prepared audited financial statements as at and for the three years ended December 31, 2001, 2002 and 2003 and has prepared unaudited non-consolidated financial statements as at and for the three months ended March 31, 2003 and 2004 contained herein. See "Index to Financial Statements". These financial statements were prepared in conformity with generally accepted accounting principles in the ROC ("ROC GAAP") which differ in certain material respects from generally accepted accounting principles in the United States ("U.S. GAAP"). See "Summary of Certain Differences between ROC GAAP and U.S. GAAP".

The Formosa Petrochemical Convertible Notes, the Formosa Plastics Exchangeable Notes, the Nan Ya Plastics Exchangeable Notes and the Formosa Chemicals & Fibre Exchangeable Notes are all separate securities and will trade separately. Although all of the Issuers are members of the Formosa Group and all of the Notes are convertible or exchangeable, as the case may be, into Common Shares of Formosa Petrochemical, each of the Issuers is a separate legal entity with its own business and the Notes may trade at different prices and in a different manner.

ENFORCEABILITY OF FOREIGN JUDGMENTS IN THE ROC

Each of the Issuers is a company limited by shares and incorporated under the Company Law of the ROC (the "ROC Company Law"). Substantially all of the Issuers' directors and executive officers, their supervisors and certain other parties named herein are residents of the ROC and a substantial portion of the assets of the Issuers and such persons are located in the ROC. As a result, it may not be possible for investors to effect service of process upon the Issuers or such persons outside of the ROC, or to enforce against any of them judgments obtained in courts outside of the ROC. The Issuers have been advised by Lee and Li, their legal advisers in the ROC, that any final judgment obtained against the Issuers or such persons in any court other than the courts of the ROC in respect of any legal suit or proceeding arising out of or relating to the Notes will be enforced by the courts of the ROC without further review of the merits only if the court of the ROC in which enforcement is sought is satisfied that: (i) the court rendering the judgment has jurisdiction over the subject matter according to the laws of the ROC; (ii) the judgment and the court procedures resulting in the judgment are not contrary to the public order or good morals of the ROC; (iii) if the judgment was rendered by default by the court rendering the judgment, (a) the Issuers or such persons were served in the jurisdiction of such court within a reasonable period of time in accordance with the laws and regulations of such jurisdiction, or (b) process was served on the Issuers or such persons with judicial assistance of the ROC; and (iv) judgments of the courts of the ROC are recognized and enforceable in the court rendering the judgment on a reciprocal basis. Remittance out of the ROC of any amount recovered from enforcing a foreign judgment in the ROC is also subject to the Foreign Exchange Control Statute and regulations as described in "Appendix A — Foreign Investment and Exchange Controls in the ROC" herein.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements under "Summary", "Management's Discussion and Analysis of Financial Condition and Results of Operations of Formosa Petrochemical Corporation", "Management's Discussion and Analysis of Financial Condition and Results of Operations of Formosa Plastics Corporation", "Management's Discussion and Analysis of Financial Condition and Results of Operations of Nan Ya Plastics Corporation", "Management's Discussion and Analysis of Financial Condition and Results of Operations of Formosa Chemicals & Fibre Corporation" and elsewhere herein constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause any of the actual results, performance or achievements of Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics or Formosa Chemicals & Fibre to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: changes in political, social and economic conditions in the ROC and elsewhere; changes in the regulatory environment in respect of any of the Issuers or any of their businesses; changes in currency exchange rates; changes in market prices for any of the Issuers' products, changes in the availability or prices of raw materials; changes in customer preferences; changes in competitive conditions; and various other factors beyond the Issuers' control.

NOTICE TO INVESTORS

The Notes, the New Shares to be issued upon conversion of the Formosa Petrochemical Convertible Notes and the Existing Shares to be delivered upon exchange of the Exchangeable Notes have not been and will not be registered under Securities Act and, subject to certain exceptions, may not be offered or sold in the United States or to or for the account or benefit of U.S. persons. Terms used in this section have the meanings given to them by Regulation S under the Securities Act.

Each purchaser of the Notes, by accepting delivery of this Offering Circular, will be deemed to have acknowledged, represented and agreed:

(1) it is not a U.S. person or a person located in the United States and, as far as it is aware, its purchase of the Notes is not part of a plan or scheme to evade the registration requirements of the Securities Act;

(2) it is purchasing the Notes for its own account or for an account with respect to which it exercises sole investment discretion, and it and any such account is outside the United States and is not a U.S. person;

(3) it acknowledges that neither the Notes, the New Shares to be issued upon conversion of the Formosa Petrochemical Convertible Notes or the Existing Shares to be delivered upon exchange of the Exchangeable Notes have been or will be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States except as set forth below;

(4) it understands and agrees that if in the future it decides to resell, pledge or otherwise transfer any Note or beneficial interest therein, any New Shares to be issued upon conversion of the Formosa Petrochemical Convertible Notes or any Existing Shares to be delivered upon exchange of the Exchangeable Notes, it may do so only (i) in an offshore transaction meeting the requirements of Rule 903 or Rule 904 of Regulation S under the Securities Act, (ii) pursuant to an exemption from registration under the Securities Act, if available, or (iii) pursuant to an effective registration statement under the Securities Act, and in each of cases (ii) and (iii), in accordance with applicable securities laws of the states of the United States;

(5) it has not relied in connection with this investment upon any representations, warranties or agreements given by any of the Issuers, or any of the Issuer's agents, employees or affiliates, other than those set forth in this Offering Circular; and

(6) it acknowledges that the Issuers, the Purchasers, the Trustee and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements; and if it is acquiring the Notes as a fiduciary or agent for one or more accounts, it represents that it has the sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

CERTAIN CONVENTIONS, CURRENCY OF PRESENTATION AND INDUSTRY DATA

Except where the context otherwise requires, all references herein to the "Issuers" are references to Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre and their respective consolidated subsidiaries (if any). All references to "Formosa Petrochemical" are references to Formosa Petrochemical Corporation. All references to "Formosa Plastics" are references to Formosa Plastics Corporation and its consolidated subsidiaries. All references to "Nan Ya Plastics" are references to Nan Ya Plastics Corporation and its consolidated subsidiaries. All references to "Formosa Chemicals & Fibre" are references to Formosa Chemicals & Fibre Corporation. All references to "Formosa Group" are references to Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics, Formosa Chemicals & Fibre and certain other companies described in "The Formosa Group" herein. All references herein to "Taiwan" or the "ROC" are to the island of Taiwan and other areas under the effective control of the ROC. All references herein to "U.S.", "US" or "United States" are to the United States of America. All references herein to the "ROC Government" and the "ROC Company Law" are references to the government of the ROC and the Company Law of the ROC, respectively. All references herein to "ROC GAAP" and "U.S. GAAP" are to accounting principles generally accepted in the ROC and the United States, respectively. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre publish their financial statements in New Taiwan dollars, the lawful currency of the ROC. All references herein to "United States dollars", "U.S. dollars" and "U.S.$" are to United States dollars and all references to "New Taiwan dollars", "NT dollars" and "NT$" are to New Taiwan dollars. All translations from New Taiwan dollars to United States dollars were made (unless otherwise indicated) on the basis of the noon buying rate in The City of New York for cable transfers in NT dollars per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York (i) on March 31, 2004 of NT$33.00 = U.S.$1.00 and (ii) on December 31, 2003 of NT$33.99 = U.S.$1.00. On June 25, 2004, the noon buying rate between New Taiwan dollars and United States dollars was NT$33.57 = U.S.$1.00. See "Exchange Rates". All amounts translated into United States dollars as described above are provided solely for the convenience of the reader, and no representation is made that the NT$ amounts or U.S.$ amounts referred to herein could have been or could be converted into U.S. dollars or NT dollars, as the case may be, at any particular rate, the above rates, or at all.

Industry data, including market share information, used throughout this Offering Circular was obtained from various industry publications, public information released by the Issuers' competitors and the Issuers' internal company reports. Industry publications generally state that the information contained in those publications has been obtained from sources believed to be reliable but that their accuracy and completeness are not guaranteed and their reliability cannot be assured. Although the Issuers believe industry data used in this Offering Circular is reliable, it has not been independently verified. Similarly, the Issuers' internal company reports have not been verified by any independent source.

SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements appearing elsewhere herein.

Formosa Group

The Formosa Group is one of the largest private business groups in Taiwan. The companies within the Formosa Group are engaged primarily in the petroleum refining, petrochemical, plastics, fiber, textiles and electronics-related industries. In addition to engaging in these core businesses, certain group members have in recent years expanded into investments in increasingly higher technology industries, such as semiconductors, dynamic random access memory chips and other electronics components. In addition to its commercial businesses, the Formosa Group has also established one of the largest networks of hospitals in Taiwan, a medical university, a nursing college and an engineering college. Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre are the four core members of the Formosa Group.

Formosa Petrochemical

Formosa Petrochemical is involved primarily in the business of refining crude oil, selling refined petroleum products and producing and selling olefins (including ethylene, propylene, butadiene and BTX) from its naphtha cracking operations. It also sells electricity, steam and certain other products generated from its co-generation power plants, which also generate electricity and steam for its oil refinery and naphtha cracking operations. Formosa Petrochemical is the only privately held oil refinery in Taiwan and the second largest gasoline and gasoil producer in Taiwan. Its refined petroleum products are both sold domestically and overseas. Formosa Petrochemical is also the largest olefins producer in Taiwan and its olefins products are mostly sold to companies within the Formosa Group, primarily Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre. Excess electricity from Formosa Petrochemical's co-generation power plants is sold to other companies located within the No. 6 Naphtha Cracker Complex and to Taiwan Power Company.

Revenues from the sale of Formosa Petrochemical's refined petroleum products, olefins products and utilities represented 61.1 per cent., 25.9 per cent. and 6.4 per cent., respectively, of Formosa Petrochemical's total operating revenues for the year ended December 31, 2003, with other products and services representing 6.5 per cent. of Formosa Petrochemical's total operating revenues for such period. Revenues from the sale of Formosa Petrochemical's refined petroleum products, olefins products and utilities represented 60.2 per cent., 29.4 per cent. and 5.5 per cent., respectively, of Formosa Petrochemical's total operating revenues for the three months ended March 31, 2004, with other products and services representing 4.9 per cent. of Formosa Petrochemical's total operating revenues for such period. For the year ended December 31, 2003, Formosa Petrochemical's total operating revenues were NT$236,520.2 million (U.S.$6,958.5 million) and its net income was NT$18,934.9 million (U.S.$557.1 million). For the three months ended March 31, 2004, Formosa Petrochemical's total operating revenues were NT$73,946.2 million (U.S.$2,240.8 million) and its net income was NT$8,956.7 million (U.S.$271.4 million).

A significant proportion of Formosa Petrochemical's refined petroleum products and olefins products sales are to the domestic market in Taiwan. All of Formosa Petrochemical's utilities sales are domestic sales to Taiwan Power Company and to other customers located within the No. 6 Naphtha Cracker Complex. Domestic sales accounted for 76.9 per cent. of Formosa Petrochemical's total operating revenues for the year ended December 31, 2003 and 73.4 per cent. of Formosa Petrochemical's total operating revenues for the three months ended March 31, 2004.

Formosa Petrochemical's principal refined petroleum products include gasoline, gasoil, naphtha, fuel oil (including pyrolysis fuel oil), jet fuel/kerosene and liquefied petroleum gas ("LPG"). As of March 31, 2004, Formosa Petrochemical's oil refinery consisted of three crude oil distillation units ("CDUs") with a combined nameplate processing capacity of 450,000 barrels of crude oil per day (or 21 million MTY based on 333 days a year). As of March 31, 2004, Formosa Petrochemical sold all of these products, known generally as refined petroleum products, primarily to wholesale buyers both domestically and overseas. Some of these products are then sold to the retail market through gasoline service stations, including those owned by Formosa Petrochemical's direct subsidiary, Formosa Oil (Asia Pacific) Corp. ("Formosa Oil"), its indirect subsidiary, Whale Home International Corp. ("Whale Home"), and its affiliate Formosa Taffeta Co., Limited ("Formosa Taffeta") as well as franchise gasoline service stations owned by unrelated third parties. Refined petroleum products are produced in Formosa Petrochemical's oil refinery located within the No. 6 Naphtha Cracker Complex.

Formosa Petrochemical's principal olefins products include ethylene, propylene, BTX and butadiene. Formosa Petrochemical currently operates two naphtha crackers in the No. 6 Naphtha Cracker Complex, with a combined ethylene nameplate capacity of 1.6 million MTY. Almost all of Formosa Petrochemical's ethylene, propylene and BTX production is sold to companies within the Formosa Group (in particular, Nan Ya Plastics and Formosa Plastics) for further downstream processing.

The principal products of Formosa Petrochemical's utilities division are electricity and steam. Formosa Petrochemical currently operates three co-generation power plants, all of which are coal-fired, with a combined installed capacity of 1,820 MW.

In addition to its three operating business divisions, Formosa Petrochemical also has an engineering division and a maintenance division. Formosa Petrochemical's engineering division typically carries out planning, engineering and construction tasks. Its maintenance division provides day-to-day maintenance services for Formosa Petrochemical's existing facilities.

As at March 31, 2004, Formosa Petrochemical employed 3,241 employees, of which 1,198 were employed in its refinery division, 284 were employed in its olefins division and 286 were employed in its utilities division.

Formosa Petrochemical's registered address is 1-1, Formosa Plastics Group Industrial Zone, Mailiao, Yun Lin County, Taiwan.

Formosa Petrochemical was incorporated in April 6, 1992 as a company organized under the laws of the ROC. Formosa Petrochemical's initial shareholders were Formosa Plastics (31.8 per cent.), Nan Ya Plastics (26.2 per cent.), Formosa Chemicals & Fibre (27.6 per cent.) and Formosa Taffeta (4.0 per cent.), with certain other entities in the Formosa Group and certain employees of Formosa Petrochemical holding the remainder. The shareholdings of the initial shareholders were sold down, when 179,500,000 Common Shares were offered to the public in Taiwan and the Common Shares were listed on the TSE on December 26, 2003. As at June 28, 2004, the total market capitalization of Formosa Petrochemical, based on a closing price of NT$53.0 per Common Share on the TSE, was NT$415.5 billion.

Formosa Plastics

Formosa Plastics is one of the world's leading manufacturers of PVC resins, one of Asia's leading manufacturers of polyolefins (including HDPE, EVA, LDPE and LLDPE) and caustic soda and Taiwan's leading manufacturer of acrylic acid and esters, acrylic fiber and acrylonitrile. Formosa Plastics estimates that it supplies approximately 70 per cent. of Taiwan's requirements of PVC resins and is a principal supplier of such raw material to the Formosa Group. Formosa Plastics develops, manufactures and markets products in six product categories: plastics (including PVC resins and related products), polyolefins, acrylic acid and esters and related products, chemicals, polypropylene and carbide. For the year ended December 31, 2003, sales of PVC resins and related products, polyolefins, acrylic acid and esters and related products, chemicals, polypropylene and carbide accounted for 39.0 per cent., 18.9 per cent., 13.6 per cent., 10.1 per cent., 3.7 per cent. and 1.3 per cent., respectively, of Formosa Plastics' total consolidated operating revenues. For the three months ended March 31, 2004, sales of PVC resins and related products, polyolefins, acrylic acid and esters and related products, chemicals, polypropylene and carbide accounted for 41.7 per cent., 21.9 per cent., 14.3 per cent., 10.0 per cent., 9.4 per cent. and 1.3 per cent., respectively, of Formosa Plastics' total non-consolidated operating revenues. For the year ended December 31, 2003, Formosa Plastics' consolidated operating revenues were NT$95,156.5 million (U.S.$2,799.6 million) and its consolidated net income was NT$16,606.1 million (U.S.$488.6 million). For the three months ended March 31, 2004, Formosa Plastics' non-consolidated operating revenues were NT$26,461.0 million (U.S.$801.8 million) and its non-consolidated net income was NT$8,043.7 million (U.S.$243.7 million).

Formosa Plastics also engages in the production and sale of EDC and caustic soda through its wholly-owned U.S. subsidiary, Formosa Plastics Corp. America. For the year ended December 31, 2003, sales revenues from Formosa Plastics Corp. America accounted for 11.9 per cent. of Formosa Plastics' total consolidated operating revenues.

Formosa Plastics operates in-house co-generation power plants which supply electricity and steam to its production facilities. It also sells, to affiliates and other third parties, excess electricity produced from internal sources which are not required by its own operations. Sales of electricity and steam to affiliates and other third parties outside the Formosa Group accounted for 1.6 per cent. (of which 1.2 per cent is derived from the engineering and construction division and 0.4 per cent. is derived from the polyolefin division) of Formosa Plastics' total consolidated operating revenues for the year ended December 31, 2003 and 0.6 per cent. (of which 0.5 per cent. is derived from the engineering and construction division and 0.1 per cent. is derived from the polyolefin division) of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2004.

Formosa Plastics' products are sold primarily to secondary processors in Taiwan. Domestic sales comprised 46.1 per cent. of Formosa Plastics' total consolidated operating revenues for the year ended December 31, 2003 and 51.9 per cent. of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2004. Sales to affiliates in the Formosa Group, primarily Nan Ya Plastics and Formosa Chemicals & Fibre, accounted for 29.0 per cent. of Formosa Plastics' total consolidated operating revenues for the year ended December 31, 2003 and 26.2 per cent. of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2004. In the export market, Formosa Plastics' products are sold primarily to secondary plastics processors in the PRC. Exports to the PRC accounted for 33.2 per cent. of Formosa Plastics' total consolidated operating revenues for the year ended December 31, 2003 and 37.9 per cent. of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2004.

From its inception, Formosa Plastics has sought to vertically integrate its manufacturing processes and to increase production capacity in order to reduce production costs and enhance its competitive position. In line with that strategy, Formosa Plastics, together with other members of the

Formosa Group, founded Formosa Petrochemical, which has constructed two naphtha crackers as the centerpiece of the No. 6 Naphtha Cracker Complex. Formosa Plastics believes that the naphtha crackers have ensured reliable supply and reduced the cost of key raw materials for certain of its principal products, including PVC resins, polyolefins, acrylic acid and esters. As part of its investments under the No. 6 Naptha Cracker Complex, Formosa Plastics had constructed twelve petrochemical plants at Mailiao which Formosa Plastics believes have enabled it to further expand its production capacity, reduce its manufacturing costs and extend the range and diversity of its products.

As at March 31, 2004, Formosa Plastics, on a consolidated basis, employed over 4,700 full-time employees and operated 34 manufacturing plants and seven co-generation power plants on five production sites in Taiwan as well as two manufacturing plants in the United States. Formosa Plastics maintains seven operating business divisions: plastics, Tairylan, polyolefin, carbide, chemicals, polypropylene and engineering and construction. The first six divisions are organized primarily along product lines while the engineering and construction division is principally concerned with installing and operating power supply facilities and designing and constructing Formosa Plastics' production facilities. Formosa Plastics' registered office is at 39 Chung Shan Third Road, Kaohsiung, Taiwan, ROC.

Formosa Plastics was incorporated on October 30, 1954 as a company organized under the laws of the ROC. Formosa Plastics' ordinary shares have been listed on the TSE since 1964. As at June 28, 2004, Formosa Plastics' total market capitalization was NT$235.9 billion.

Nan Ya Plastics

Nan Ya Plastics develops and produces a broad range of products in the following principal categories: plastics, polyesters, electronics materials and printed circuit boards. Nan Ya Plastics believes, based on public information released by its competitors, that it is the world's largest manufacturer of secondary plastics in terms of production capacity and the world's second largest manufacturer of copper clad laminates in terms of production capacity. Nan Ya Plastics is also a leading manufacturer of polyester fiber and printed circuit boards in Taiwan. Nan Ya Plastics' products are sold primarily to distributors and tertiary processors operating in Taiwan, the PRC, the United States and Japan.

Sales of Nan Ya Plastics' plastics, polyester, electronics materials and printed circuit board products represented 24.9 per cent., 40.7 per cent., 14.0 per cent. and 8.9 per cent., respectively, of Nan Ya Plastics' consolidated operating revenues for the year ended December 31, 2003, with other products and services representing 11.5 per cent. of Nan Ya Plastics' consolidated operating revenues for such period. Domestic sales accounted for 43.2 per cent. of Nan Ya Plastics' consolidated operating revenues for the year ended December 31, 2003. Sales of plastics, polyester, electronics materials products represented 29.4 per cent., 35.8 per cent. and 19.8 per cent., respectively, of Nan Ya Plastics' non-consolidated operating revenues for the three months ended March 31, 2004, with other products and services representing 15.0 per cent. of Nan Ya Plastics' non-consolidated operating revenues for such period. Domestic sales accounted for 60.5 per cent. of Nan Ya Plastics' non-consolidated operating revenues for the three months ended March 31, 2004. Because Nan Ya Plastics conducts its printed circuit board business exclusively through its consolidated subsidiary, Nan Ya Printed Circuit Board Corp. ("Nan Ya PCB"), a manufacturer of printed circuit boards and IC substrates, sales of Nan Ya Plastics' printed circuit board products are not reflected in Nan Ya Plastics' non-consolidated operating revenues. For the year ended December 31, 2003, Nan Ya Plastics' consolidated operating revenues was NT$171,643.8 million (U.S.$5,049.8 million) and its consolidated net income was NT$17,180.0 million (U.S.$505.4 million). For the three months ended March 31, 2004, Nan Ya Plastics' non-consolidated operating revenues were NT$36,575.8 million (U.S.$1,108.4 million) and its non-consolidated net income was NT$8,677.4 million (U.S.$263.0 million).

The principal products of Nan Ya Plastics' plastics business are flexible PVC sheeting, PVC leather, rigid PVC film, BOPP film, rigid PVC pipes and BPA. Nan Ya Plastics principally sells these products, which are known generally as secondary plastics, to tertiary plastics processors near Nan Ya Plastics' manufacturing plants. Nan Ya Plastics' production sites in the PRC focus primarily on the production of commodity plastics, such as rigid PVC film and flexible PVC sheeting, while Nan Ya Plastics' production sites in Taiwan focus primarily on the production of new applications and high value-added products with unique features, such as TPU leather for inflatable products and shoes, EVA sponge sheets for stationery and tablemats and metal-lined PET for solar window film. Nan Ya Plastics started producing DVDs in 2003, with plans to substantially increase its production capacity within the next two years.

The principal products of Nan Ya Plastics' polyester business are polyester filament, polyester fiber and polyester chips. Nan Ya Plastics focuses on the production of specialized, high-quality fibers, such as low-melting-point staple fiber, microfiber and fine denier multi-filament yarn. Nan Ya Plastics also produces EG, a principal raw material for the production of polyester, a majority of which is used internally for the production of Nan Ya Plastics' polyester products.

The principal products of Nan Ya Plastics' electronics materials business are copper clad laminates, glass fiber cloth and epoxy resin, all of which are principal raw materials for the production of printed circuit boards.

Nan Ya Plastics' printed circuit board business includes the production of printed circuit boards and IC substrates by Nan Ya PCB.

As at March 31, 2004, Nan Ya Plastics employed over 15,000 full time employees and operated 64 manufacturing plants and four co-generation plants in Taiwan. In addition, Nan Ya Plastics also operated ten manufacturing plants in Taiwan, four manufacturing plants in the United States through its subsidiaries and sixteen manufacturing plants in the PRC through subsidiaries and affiliates of its subsidiary Nan Ya Plastics (H.K.) Co., Ltd. ("NYPC HK"). In addition, Nan Ya Plastics operates one manufacturing plant in Indonesia through its interest in a local joint venture. Nan Ya Plastics' registered office is at 35-1 Chung Shan Third Road, Kaohsiung, Taiwan, ROC.

Prior to 2003, Nan Ya Plastics owned over 50 per cent. of the outstanding voting shares of Nanya Technology, a producer of DRAM and other memory semiconductors, and had consolidated it for the year ended December 31, 2002 and prior years. However, as of December 31, 2003, Nan Ya Plastics no longer consolidates Nanya Technology because its shareholding in Nanya Technology had fallen to 45.1 per cent. In accordance with ROC GAAP, the financial statements for the years ended December 31, 2001 and 2002 have been restated to conform with the change in consolidated entities. Therefore, the operating results of Nanya Technology are not reflected in the consolidated or non-consolidated financial or operating information for any period presented in this Offering Circular. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Nan Ya Plastics — Consolidation."

Nan Ya Plastics was incorporated on August 22, 1958 as a company organized under the laws of the ROC. Nan Ya Plastics' ordinary shares have been listed on the TSE since 1967, and as at June 28, 2004, Nan Ya Plastics' total market capitalization was NT$284.5 billion.

Formosa Chemicals & Fibre

Formosa Chemicals & Fibre is one of Taiwan's leading manufacturers of petrochemical products, plastics products, fiber products and textile products. Its major businesses include the development, manufacture and sale of petrochemical products (including pure terephthalic acid ("PTA"), phenol, ortho-xylene ("OX"), styrene monomer ("SM"), acetone, raffinate, dimethyl formamide ("DMF"), para-xylene ("PX") and toluene), plastics products (including acrylonitrile butadiene styrene co-polymer ("ABS"), polystyrene ("PS"), polypropylene ("PP") and polycarbonate ("PC")), fiber products (including rayon staple fiber and nylon filament) and textile products (including spun yarn, rayon fabric and nylon tafetta). For the year ended December 31, 2003, sales of petrochemical products, plastics products, fiber products and textile products accounted for 45.2 per cent., 26.6 per cent., 17.4 per cent. and 4.2 per cent., respectively, of Formosa Chemicals & Fibre's total operating revenues for the same period. For the three months ended March 31, 2004, sales of petrochemical products, plastics products, fiber products and textile products accounted for 47.4 per cent., 26.9 per cent., 16.9 per cent., and 4.0 per cent., respectively, of Formosa Chemicals & Fibre's total operating revenues. For the year ended December 31, 2003, Formosa Chemicals & Fibre's total operating revenues and net income were NT$106,421.4 million (U.S.$3,131.0 million) and NT$17,696.5 million (U.S.$520.6 million), respectively. For the three months ended March 31, 2004, Formosa Chemicals & Fibre's total operating revenues and net income were NT$30,245.7 million (U.S.$916.5 million) and NT$7,414.5 million (U.S.$224.7 million), respectively.

Formosa Chemicals & Fibre is a principal supplier of the raw materials used by its affiliates in the Formosa Group to produce downstream petrochemical and plastics products. Sales to affiliated companies in the Formosa Group, primarily Nan Ya Plastics and Formosa Taffeta Co., Limited, comprised 30.6 per cent. and 31.9 per cent. of Formosa Chemicals & Fibre's total operating revenues for the year ended December 31, 2003 and for the three months ended March 31, 2004, respectively. Outside the Formosa Group, Formosa Chemicals & Fibre's products are sold principally to secondary and tertiary producers which operate in Taiwan, the PRC, Indonesia, Hong Kong, the United States, Pakistan, Japan and several European countries. Sales outside Taiwan comprised 40.3 per cent. and 36.6 per cent. of Formosa Chemicals & Fibre's total operating revenues for the year ended December 31, 2003 and for the three months ended March 31, 2004, respectively.

Formosa Chemicals & Fibre also operates in-house power generating units which supply water, electricity, and steam to its production facilities for use in its manufacturing processes. It sells electricity generated from internal sources not required by its operations to its affiliates and to Taiwan Power Company. Sales of electricity constituted 5.4 per cent. and 4.4 per cent. of Formosa Chemicals & Fibre's total operating revenues for the year ended December 31, 2003 and for the three months ended March 31, 2004, respectively.

At its inception, Formosa Chemicals & Fibre's initial focus was on the production of fiber and fabric products and textiles processing. Formosa Chemicals & Fibre believes that it has been, and still is, one of the world's largest manufacturers of rayon staple fiber and nylon filament and Taiwan's largest integrated textiles manufacturer. Although the manufacture of fiber and textile products still constitute a significant part of Formosa Chemicals & Fibre's business, the company has over the years expanded and diversified into the petrochemical and plastics businesses and has become one of Taiwan's leading manufacturers of petrochemical and plastics products.

As at March 31, 2004, Formosa Chemicals & Fibre employed 6,462 full-time employees and operated 28 manufacturing plants and three co-generation power plants at five production sites in Taiwan located at Ilan, Changhwa, Dongshan, Chiayi Hsin Kang and Mailiao. Formosa Chemicals & Fibre's business is conducted through five operating business divisions: petrochemicals (which includes the first chemicals division, second chemicals division and third chemicals division), plastics, fibers (which includes the nylon division), textiles and engineering and utilities. Each of the first four operating business divisions is responsible for a particular product or group of products while the engineering and utilities division is principally concerned with installing and operating power supply facilities and designing equipment and production facilities for Formosa Chemicals & Fibre. Formosa Chemicals & Fibre's registered office is at 359 Chung-Shan Road, Section 3, Chang-Hwa, Taiwan, ROC.

Formosa Chemicals & Fibre was incorporated on March 5, 1965 as a company organized under the laws of the ROC. The ordinary shares of Formosa Chemicals & Fibre have been listed on the TSE since 1984, and, as at June 28, 2004, Formosa Chemicals & Fibre's total market capitalization was NT$228.0 billion.

The Offering

The Formosa Petrochemical Convertible Notes

The following is only a summary and is qualified in its entirety by reference to the "Terms and Conditions of the Formosa Petrochemical Convertible Notes". Capitalized terms used herein and not defined have the meaning given to them in the "Terms and Conditions of the Formosa Petrochemical Convertible Notes".

Issuer	Formosa Petrochemical Corporation.
Offering	U.S.$200,000,000 aggregate principal amount of zero coupon convertible notes due 2011 is being offered by the Purchasers outside the United States to non-U.S. persons in accordance with Regulation S under the Securities Act. Formosa Petrochemical has not registered, and will not register, the Formosa Petrochemical Convertible Notes or any of the Common Shares under the securities laws of the United States.
Representative's Option	Formosa Petrochemical has granted the Representative an option to be exercised no later than 30 days after the Closing Date to purchase up to an additional U.S.$50,000,000 principal amount of the Formosa Petrochemical Convertible Notes. See "Underwriting".
Issue Price	100 per cent. of the principal amount.
Closing Date	June 30, 2004.
Maturity Date	June 30, 2011
Status	The Formosa Petrochemical Convertible Notes will constitute senior, direct, unconditional, unsubordinated and, subject to Formosa Petrochemical's negative pledge covenant, unsecured debt obligations of Formosa Petrochemical ranking *pari passu* without any preference or priority among themselves and, subject to Formosa Petrochemical's negative pledge covenant, with all other present and future senior, direct, unconditional, unsubordinated and unsecured obligations of Formosa Petrochemical.
Withholding Tax	Premium (if any) or interest (if any) payable on the Formosa Petrochemical Convertible Notes to non-ROC residents is currently subject to a withholding tax in the ROC equal to 20 per cent. of the gross amount of premium (if any) or interest (if any). Formosa Petrochemical will pay such additional amounts as will result in the receipt by holders of the Formosa Petrochemical Convertible Notes of the net amounts after such withholding or deduction being equal to the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

Conversion	Subject to prior redemption and except as otherwise provided herein, the Formosa Petrochemical Convertible Notes are convertible at any time on or after July 30, 2004 and prior to the close of business (at the place at which the Formosa Petrochemical Convertible Notes are deposited for conversion) on the day which is 10 days prior to the Maturity Date, into Common Shares at an initial conversion price per Common Share of NT$58.3 (subject to adjustment as described herein) (the "Conversion Price"), determined on the basis of a fixed exchange rate of NT$33.733 = U.S.$1.00. On the Conversion Date, Formosa Petrochemical will register the converting holder of the Formosa Petrochemical Convertible Notes in Formosa Petrochemical's register of shareholders as the owner of the number of Common Shares to be issued upon such conversion and, subject to applicable ROC laws and regulations, Formosa Petrochemical shall, as soon as practicable but in any event within five Trading Days, deliver the relevant Common Shares to the converting holders of the Formosa Petrochemical Convertible Notes or its designee. See "Terms and Conditions of the Formosa Petrochemical Convertible Notes — Conversion — Conversion Procedures".
Cash Payment Option	Within three ROC Business Days after the Conversion Date, Formosa Petrochemical may elect to pay the Cash Equivalent in lieu of the Common Shares to any converting holder of the Formosa Petrochemical Convertible Notes to satisfy the conversion of any Formosa Petrochemical Convertible Notes. The Cash Equivalent will be an amount in U.S. dollars equal to the product of (x) the average closing prices of the Common Shares on the TSE for the 20 consecutive Trading Days starting from the applicable date of the Cash Payment Notice (or such fewer number of Trading Days as available within 30 days after the applicable date of the Cash Payment Notice) converted to U.S. dollars at the Prevailing Rate of each such Trading Day and (y) the number of Common Shares specified in the Cash Payment Notice.
Conversion on Default.	If Formosa Petrochemical defaults in making payment in respect of the Formosa Petrochemical Convertible Notes, holders of the Formosa Petrochemical Convertible Notes will continue to have the right to convert the Formosa Petrochemical Convertible Notes at the then applicable Conversion Price.
Final Redemption	Unless previously redeemed, repurchased and cancelled, or converted, the Formosa Petrochemical Convertible Notes will be redeemed on the Maturity Date at 103.6 per cent. of their principal amount.
Early Redemption	The Formosa Petrochemical Convertible Notes may be redeemed at their Early Redemption Amount prior to the Maturity Date under certain circumstances described below.

Redemption at the Option of Formosa Petrochemical . . .	Formosa Petrochemical may, at its option at any time after June 30, 2006 and prior to the Maturity Date, redeem the Formosa Petrochemical Convertible Notes in whole or, from time to time, in part, at their Early Redemption Amount, if the Closing Price of the Common Shares, translated into U.S. dollars at the Prevailing Rate, for any 20 Trading Days out of the 30 consecutive Trading Days immediately preceding the date of the redemption notice, is at least 120 per cent. of the Conversion Price then in effect, translated into U.S. dollars at a fixed exchange rate of NT$33.733 = U.S.$1.00. Formosa Petrochemical may, at its option at any time, redeem, in whole but not in part, the Formosa Petrochemical Convertible Notes at their Early Redemption Amount if at least 90 per cent. of the principal amount of the Formosa Petrochemical Convertible Notes has already been redeemed, repurchased and cancelled, or converted. See "Terms and Conditions of the Formosa Petrochemical Convertible Notes — Redemption, Repurchase and Cancellation — Redemption at the Option of Formosa Petrochemical".
Tax Redemption	Formosa Petrochemical may, at any time, redeem the Formosa Petrochemical Convertible Notes, in whole but not in part, at their Early Redemption Amount in the event of certain changes in ROC taxation that would require Formosa Petrochemical to gross up for payment of principal or to gross up for payment of interest (if any) or premium (if any) at a rate greater than 20 per cent.. See "Terms and Conditions of the Formosa Petrochemical Convertible Notes — Redemption, Repurchase and Cancellation — Redemption for Taxation Reasons".
Non-Redemption Option of the holders of the Formosa Petrochemical Convertible Notes	If Formosa Petrochemical gives a notice of redemption of the Formosa Petrochemical Convertible Notes for taxation reasons, each holder of the Formosa Petrochemical Convertible Notes shall have the right to elect that all or a portion (being U.S.$1,000 in principal amount or an integral multiple thereof) of such holder's Formosa Petrochemical Convertible Notes not be redeemed. Upon the exercise of the Non-Redemption Option, no Additional Amounts shall be payable on the payments due after the relevant date and, subject to certain conditions, such payments shall be made subject to deduction or withholding as required under ROC laws or regulations. See "Terms and Conditions of the Formosa Petrochemical Convertible Notes — Redemption, Repurchase and Cancellation — Redemption for Taxation Reasons".

Redemption at the Option of the holders of the Formosa Petrochemical Convertible Notes . . . .

Until and unless previously redeemed, repurchased and cancelled, or converted, each holder of the Formosa Petrochemical Convertible Notes has the right, at such holder's option, to require Formosa Petrochemical to redeem all or a portion (in an aggregate principal amount of at least U.S.$1,000 or an integral multiple thereof) of such holder's Formosa Petrochemical Convertible Notes on June 30, 2006 at their Early Redemption Amount and on June 30, 2009 at their Early Redemption Amount. In the event that the Common Shares cease to be listed on the TSE, or upon the occurrence of a Change of Control with respect to Formosa Petrochemical, each holder of the Formosa Petrochemical Convertible Notes has the right, at such holder's option, to require Formosa Petrochemical to redeem such holder's Formosa Petrochemical Convertible Notes at their Early Redemption Amount. See "Terms and Conditions of the Formosa Petrochemical Convertible Notes — Redemption, Repurchase and Cancellation — Redemption at the Option of the Holders".

Conversion Price Reset . . . . .

If the average of the Closing Prices of the Common Shares on the TSE, for the period of 5 consecutive Trading Days prior to December 26, 2004 and each anniversary thereafter (each a "Reset Date"), converted into U.S. dollars at each such Trading Day at the Prevailing Exchange Rate, is less than the Conversion Price then in effect converted into U.S. dollars at a fixed exchange rate of NT$33.733 = U.S.$1.00, the Conversion Price will be adjusted downwards, provided that the adjusted Conversion Price shall not be less than 80 per cent. of the Initial Conversion Price. Any such adjustment shall be effective as of the relevant Reset Date and notified to holders of the Formosa Petrochemical Convertible Notes within five days of the relevant Reset Date. See "Terms and Conditions of the Formosa Petrochemical Convertible Notes — Conversion — Conversion Price Reset".

Form and Denomination of the Formosa Petrochemical Convertible Notes . . . .

The Formosa Petrochemical Convertible Notes will be issued in registered form in the minimum denomination of U.S.$1,000 or an integral multiple thereof.

The Formosa Petrochemical Convertible Notes will be represented by beneficial interests in a global certificate, which will be registered in the name of a nominee of, and be deposited on or about the Closing Date with, a common depositary for Euroclear and Clearstream, International.

Transfers of the Formosa Petrochemical Convertible Notes or the Common Shares	All transfers of the Formosa Petrochemical Convertible Notes and entries on the register of holders of the Formosa Petrochemical Convertible Notes shall be made subject to the detailed provisions set forth in the Agency Agreement in respect of Formosa Petrochemical. In addition, transfers of interests in the Formosa Petrochemical Convertible Notes and the Common Shares will be subject to certain other restrictions. For a discussion of these restrictions, see "Terms and Conditions of the Formosa Petrochemical Convertible Notes — Transfers of Notes" and "Underwriting".
Governing Law	The laws of the State of New York.
Trustee	The Hongkong and Shanghai Banking Corporation Limited
Principal Paying, Conversion and Transfer Agent	The Hongkong and Shanghai Banking Corporation Limited
Registrar	The Hongkong and Shanghai Banking Corporation Limited
Listing	Approval in-principle has been received for the listing of the Formosa Petrochemical Convertible Notes on the SGX-ST. Application will be made for the new Common Shares issuable upon conversion of the Formosa Petrochemical Convertible Notes to be listed on the TSE.
Lock-up	Formosa Petrochemical has agreed that from the date of this Offering Circular until 90 days after the Closing Date, it will not, directly or indirectly, issue, offer for sale, sell or otherwise dispose of (or enter into any transaction or device which is designed to, or could be expected to, result in the disposition by any person at any time in the future of) (a) any convertible bonds, exchangeable bonds or straight bonds denominated in U.S. dollars, and (b) any Formosa Petrochemical Convertible Notes or Common Shares or securities of the same class as the Formosa Petrochemical Convertible Notes or Common Shares (other than (i) the issuance and sale of the Formosa Petrochemical Convertible Notes, (ii) the issuance of New Shares by Formosa Petrochemical upon conversion of the Formosa Petrochemical Convertible Notes, (iii) pursuant to employee benefits plans or distributions of stock dividends or employee dividends in the form of Common Shares) or in any securities convertible into, exchangeable for or which carry rights to subscribe for or purchase the Formosa Petrochemical Convertible Notes, Common Shares or securities of the same class as the Formosa Petrochemical Convertible Notes, Common Shares or other instruments representing interests in the Formosa Petrochemical Convertible Notes, Common Shares or other securities of the same class as them, or announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Representative.

The Formosa Plastics Exchangeable Notes

The following is only a summary and is qualified in its entirety by reference to the "Terms and Conditions of the Formosa Plastics Exchangeable Notes". Capitalized terms used herein and not defined have the meaning given to them in the "Terms and Conditions of the Formosa Plastics Exchangeable Notes".

Issuer	Formosa Plastics Corporation.
Offering	U.S.$200,000,000 aggregate principal amount of zero coupon exchangeable notes due 2011 is being offered by the Purchasers outside the United States to non-U.S. persons in accordance with Regulation S under the Securities Act. Formosa Plastics has not registered, and will not register, the Formosa Plastics Exchangeable Notes or any of the Reference Shares or Exchange Property Securities, under the securities laws of the United States.
Representative's Option	Formosa Plastics has granted the Representative an option to be exercised no later than 30 days after the Closing Date to purchase up to an additional U.S.$50,000,000 principal amount of the Formosa Plastics Exchangeable Notes. See "Underwriting".
Issue Price	100 per cent. of the principal amount.
Closing Date	June 30, 2004.
Maturity Date	June 30, 2011.
Status	The Formosa Plastics Exchangeable Notes will constitute senior, direct, unconditional, unsubordinated and, subject to Formosa Plastics' negative pledge covenant, unsecured debt obligations of Formosa Plastics, ranking *pari passu* without any preference or priority among themselves and, subject to Formosa Plastics' negative pledge covenant, with all other present and future senior, direct, unconditional, unsubordinated and unsecured obligations of Formosa Plastics.
Withholding Tax	Premium (if any) or interest (if any) payable on the Formosa Plastics Exchangeable Notes to non-ROC residents is currently subject to a withholding tax in the ROC equal to 20 per cent. of the gross amount of premium (if any) or interest (if any). Formosa Plastics will pay such additional amounts as will result in the receipt by holders of the Formosa Plastics Exchangeable Notes of the net amounts after such withholding or deduction being equal to the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

Exchange	Subject to prior redemption and except as otherwise provided herein, the Formosa Plastics Exchangeable Notes are exchangeable at any time on or after December 26, 2004 and prior to the close of business (at the place at which the Formosa Plastics Exchangeable Notes are deposited for exchange) on the day which is 10 days prior to the Maturity Date, into Reference Shares or Exchange Property Securities (if applicable) at an initial exchange price per Reference Share of NT$58.3 (subject to adjustment as described herein) (the "Exchange Price"), determined on the basis of a fixed exchange rate of NT$33.733 = U.S.$1.00. If the Exchange Date falls within five ROC Business Days before the beginning of, and during, any Closed Period, the right of an exchanging holder of the Formosa Plastics Exchangeable Notes to attend a shareholders meeting and to vote with respect to the Reference Shares it receives will be subject to certain restrictions. See "Terms and Conditions of the Formosa Plastics Exchangeable Notes — Exchange — Exchange Procedures".
Delivery of the Exchange Property Following a Change of Control of Formosa Petrochemical	Following a Change of Control of Formosa Petrochemical, the Exchange Right attaching to each Formosa Plastics Exchangeable Note shall entitle the holder of such Formosa Plastics Exchangeable Note only to the Exchange Property which shall consist solely of either (i) the Reference Shares, if Formosa Petrochemical is the surviving entity, or (ii) such securities or assets (including cash) as are receivable by Formosa Plastics as the holder of the Reference Shares in connection with such Change of Control, if Formosa Petrochemical is not the surviving entity. On the exercise of Exchange Rights following a Change of Control, holders of the Formosa Plastics Exchangeable Notes shall be entitled to a *pro rata* share of the Exchange Property per U.S.$1,000 principal amount of Formosa Plastics Exchangeable Notes outstanding as of the Deposit Date and at the Exchange Price in effect at the time of the Change of Control. See "Terms and Conditions of the Formosa Plastics Exchangeable Notes — Exchange — Exchange Right — Delivery of Exchange Property Following a Change of Control of Formosa Petrochemical".

Share Custody	Formosa Plastics will deposit 115,722,120 Reference Shares with the Trustee on December 26, 2004. Formosa Plastics will also deposit additional Reference Shares and Exchange Property with the Trustee as necessary to maintain the number of Reference Shares and other Exchange Property on deposit with the Trustee that would be deliverable upon exchange of the outstanding Formosa Plastics Exchangeable Notes. Additionally, Formosa Plastics will not transfer or deliver any Custody Property to any third party except for the purpose of delivering the Custody Property to exchanging holders of the Formosa Plastics Exchangeable Notes. Under ROC law, this is not an escrow arrangement nor does it create a charge in favor of the holders of the Formosa Plastics Exchangeable Notes. In addition, the Reference Shares remain an asset of Formosa Plastics subject to third party claims.
Cash Payment Option	Within three ROC Business Days after the Exchange Date, Formosa Plastics may elect to pay the Cash Equivalent in lieu of the Reference Shares or Exchange Property Securities (as applicable) to any exchanging holder of the Formosa Plastics Exchangeable Notes to satisfy the exchange of any Formosa Plastics Exchangeable Notes. The Cash Equivalent will be an amount in U.S. dollars equal to the product of (x) the average closing prices of the Reference Shares or Exchange Property Securities on the TSE or other applicable stock exchange for the 20 consecutive Trading Days starting from the applicable date of the Cash Payment Notice (or such fewer number of Trading Days as available within 30 days after the applicable date of the Cash Payment Notice) converted into U.S. dollars at the Prevailing Rate of each such Trading Day and (y) the number of Reference Shares or Exchange Property Securities specified in the Cash Payment Notice.
Exchange on Default.	If Formosa Plastics defaults in making payment in respect of the Formosa Plastics Exchangeable Notes, holders of the Formosa Plastics Exchangeable Notes will continue to have the right to exchange the Formosa Plastics Exchangeable Notes at the then applicable Exchange Price.
Final Redemption	Unless previously redeemed, repurchased and cancelled, or exchanged, the Formosa Plastics Exchangeable Notes will be redeemed on the Maturity Date at 103.6 per cent. of their principal amount.
Early Redemption	The Formosa Plastics Exchangeable Notes may be redeemed at their Early Redemption Amount prior to the Maturity Date under certain circumstances described below.

Redemption at the Option of Formosa Plastics	Formosa Plastics may, at its option at any time after June 30, 2006 and prior to the Maturity Date, redeem the Formosa Plastics Exchangeable Notes in whole or, from time to time, in part, at their Early Redemption Amount, if the Closing Price of the Reference Shares, translated into U.S. dollars at the Prevailing Rate, for any 20 Trading Days out of the 30 consecutive Trading Days immediately preceding the date of the redemption notice, is at least 120 per cent. of the Exchange Price then in effect, translated into U.S. dollars at a fixed exchange rate of NT$33.733 = U.S.$1.00. Formosa Plastics may, at its option at any time, redeem, in whole but not in part, the Formosa Plastics Exchangeable Notes at their Early Redemption Amount if at least 90 per cent. of the principal amount of the Formosa Plastics Exchangeable Notes has already been redeemed, repurchased and cancelled, or exchanged. See "Terms and Conditions of the Formosa Plastics Exchangeable Notes — Redemption, Repurchase and Cancellation — Redemption at the Option of Formosa Plastics".
Tax Redemption	Formosa Plastics may, at any time, redeem the Formosa Plastics Exchangeable Notes, in whole but not in part, at their Early Redemption Amount in the event of certain changes in ROC taxation that would require Formosa Plastics to gross up for payment of principal or to gross up for payment of interest (if any) or premium (if any) at a rate greater than 20 per cent.. See "Terms and Conditions of the Formosa Plastics Exchangeable Notes — Redemption, Repurchase and Cancellation — Redemption for Taxation Reasons".
Non-Redemption Option of the holders of the Formosa Plastics Exchangeable Notes	If Formosa Plastics gives a notice of redemption of the Formosa Plastics Exchangeable Notes for taxation reasons, each holder of the Formosa Plastics Exchangeable Notes shall have the right to elect that all or a portion (being U.S.$1,000 in principal amount or an integral multiple thereof) of such holder's Formosa Plastics Exchangeable Notes not be redeemed. Upon the exercise of the Non-Redemption Option, no Additional Amounts shall be payable on the payments due after the relevant date and, subject to certain conditions, such payments shall be made subject to deduction or withholding as required under ROC laws or regulations. See "Terms and Conditions of the Formosa Plastics Exchangeable Notes — Redemption, Repurchase and Cancellation — Redemption for Taxation Reasons".

Redemption at the Option of the holder of the Formosa Plastics Exchangeable Notes	Until and unless previously redeemed, repurchased and cancelled, or exchanged, each holder of the Formosa Plastics Exchangeable Notes has the right, at such holder's option, to require Formosa Plastics to redeem all or a portion (in an aggregate principal amount of at least U.S.$1,000 or an integral multiple thereof) of such holder's Formosa Plastics Exchangeable Notes on June 30, 2006 at their Early Redemption Amount and on June 30, 2009 at their Early Redemption Amount. In the event that the Reference Shares cease to be listed on the TSE, or upon the occurrence of a Change of Control with respect to Formosa Petrochemical, each holder of the Formosa Plastics Exchangeable Notes has the right, at such holder's option, to require Formosa Plastics to redeem such holder's Formosa Plastics Exchangeable Notes at their Early Redemption Amount. See "Terms and Conditions of the Formosa Plastics Exchangeable Notes — Redemption, Repurchase and Cancellation — Redemption at the Option of the Holders".
Exchange Price Reset.	If the average of the Closing Prices of the Reference Shares on the TSE, for the period of 5 consecutive Trading Days prior to December 26, 2004 and each anniversary thereafter (each a "Reset Date"), converted into U.S. dollars at each such Trading Day at the Prevailing Exchange Rate, is less than the Exchange Price then in effect converted into U.S. dollars at a fixed exchange rate of NT$33.733 = U.S.$1.00, the Exchange Price will be adjusted downwards, provided that the adjusted Exchange Price shall not be less than 80 per cent. of the Initial Exchange Price. Any such adjustment shall be effective as of the relevant Reset Date and notified to holders of the Formosa Plastics Exchangeable Notes within five days of the relevant Reset Date. See "Terms and Conditions of the Formosa Plastics Exchangeable Notes — Exchange — Exchange Price Reset".
Form and Denomination of the Formosa Plastics Exchangeable Notes	The Formosa Plastics Exchangeable Notes will be issued in registered form in the minimum denomination of U.S.$1,000 or an integral multiple thereof. The Formosa Plastics Exchangeable Notes will be represented by beneficial interests in a global certificate, which will be registered in the name of a nominee of, and be deposited on or about the Closing Date with, a common depositary for Euroclear and Clearstream, International.

Transfers of the Formosa Plastics Exchangeable Notes, the Reference Shares or the Exchange Property Securities	All transfers of the Formosa Plastics Exchangeable Notes and entries on the register of holders of the Formosa Plastics Exchangeable Notes shall be made subject to the detailed provisions set forth in the Agency Agreement in respect of Formosa Plastics. In addition, transfers of interests in the Formosa Plastics Exchangeable Notes, the Reference Shares or the Exchange Property Securities will be subject to certain other restrictions. For a discussion of these restrictions, see "Terms and Conditions of the Formosa Plastics Exchangeable Notes — Transfers of Notes" and "Underwriting".
Governing Law	The laws of the State of New York.
Trustee	The Hongkong and Shanghai Banking Corporation Limited.
Principal Paying, Exchange and Transfer Agent	The Hongkong and Shanghai Banking Corporation Limited.
Registrar	The Hongkong and Shanghai Banking Corporation Limited.
Listing	Approval in-principle has been received for the listing of the Formosa Plastics Exchangeable Notes on the SGX-ST. The Reference Shares are listed on the TSE.
Lock-up	Formosa Plastics has agreed that from the date of this Offering Circular until 90 days after the Closing Date, it will not, directly or indirectly, issue, offer for sale, sell or otherwise dispose of (or enter into any transaction or device which is designed to, or could be expected to, result in the disposition by any person at any time in the future of) (a) any convertible bonds, exchangeable bonds or straight bonds denominated in U.S. dollars, and (b) any Formosa Plastics Exchangeable Notes or Reference Shares or securities of the same class as the Formosa Plastics Exchangeable Notes or Reference Shares (other than (i) the issuance and sale of the Formosa Plastics Exchangeable Notes, (ii) pursuant to employee benefits plans or distributions of stock dividends or employee dividends in the form of Reference Shares) or in any securities convertible into, exchangeable for or which carry rights to subscribe for or purchase the Formosa Plastics Exchangeable Notes, Reference Shares or securities of the same class as the Formosa Plastics Exchangeable Notes, Reference Shares or other instruments representing interests in the Formosa Plastics Exchangeable Notes, Reference Shares or other securities of the same class as them, or announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Representative.

The Nan Ya Plastics Exchangeable Notes

The following is only a summary and is qualified in its entirety by reference to the "Terms and Conditions of the Nan Ya Plastics Exchangeable Notes". Capitalized terms used herein and not defined have the meaning given to them in the "Terms and Conditions of the Nan Ya Plastics Exchangeable Notes".

Issuer	Nan Ya Plastics Corporation.
Offering	U.S.$200,000,000 aggregate principal amount of zero coupon exchangeable notes due 2011 is being offered by the Purchasers outside the United States to non-U.S. persons in accordance with Regulation S under the Securities Act. Nan Ya Plastics has not registered, and will not register, the Nan Ya Plastics Exchangeable Notes or any of the Reference Shares or Exchange Property Securities, under the securities laws of the United States.
Representative's Option	Nan Ya Plastics has granted the Representative an option to be exercised no later than 30 days after the Closing Date to purchase up to an additional U.S.$50,000,000 principal amount of the Nan Ya Plastics Exchangeable Notes. See "Underwriting".
Issue Price	100 per cent. of the principal amount.
Closing Date	June 30, 2004.
Maturity Date	June 30, 2011
Status	The Nan Ya Plastics Exchangeable Notes will constitute senior, direct, unconditional, unsubordinated and, subject to Nan Ya Plastics' negative pledge covenant, unsecured debt obligations of Nan Ya Plastics, ranking *pari passu* without any preference or priority among themselves and, subject to Nan Ya Plastics' negative pledge covenant, with all other present and future senior, direct, unconditional, unsubordinated and unsecured obligations of Nan Ya Plastics.
Withholding Tax	Premium (if any) or interest (if any) payable on the Nan Ya Plastics Exchangeable Notes to non-ROC residents is currently subject to a withholding tax in the ROC equal to 20 per cent. of the gross amount of premium (if any) or interest (if any). Nan Ya Plastics will pay such additional amounts as will result in the receipt by holders of the Nan Ya Plastics Exchangeable Notes of the net amounts after such withholding or deduction being equal to the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

Exchange	Subject to prior redemption and except as otherwise provided herein, the Nan Ya Plastics Exchangeable Notes are exchangeable at any time on or after December 26, 2004 and prior to the close of business (at the place at which the Nan Ya Plastics Exchangeable Notes are deposited for exchange) on the day which is 10 days prior to the Maturity Date, into Reference Shares or Exchange Property Securities (if applicable) at an initial exchange price per Reference Share of NT$58.3 (subject to adjustment as described herein) (the "Exchange Price"), determined on the basis of a fixed exchange rate of NT$33.733 = U.S.$1.00. If the Exchange Date falls within five ROC Business Days before the beginning of, and during, any Closed Period, the right of an exchanging holder of the Nan Ya Plastics Exchangeable Notes to attend a shareholders meeting and to vote with respect to the Reference Shares it receives will be subject to certain restrictions. See "Terms and Conditions of the Nan Ya Plastics Exchangeable Notes — Exchange — Exchange Procedures".
Delivery of the Exchange Property Following a Change of Control of Formosa Petrochemical	Following a Change of Control of Formosa Petrochemical, the Exchange Right attaching to each Nan Ya Plastics Exchangeable Note shall entitle the holder of such Nan Ya Plastics Exchangeable Note only to the Exchange Property which shall consist solely of either (i) the Reference Shares, if Formosa Petrochemical is the surviving entity, or (ii) such securities or assets (including cash) as are receivable by Nan Ya Plastics as the holder of the Reference Shares in connection with such Change of Control, if Formosa Petrochemical is not the surviving entity. On the exercise of Exchange Rights following a Change of Control, holders of the Nan Ya Plastics Exchangeable Notes shall be entitled to a *pro rata* share of the Exchange Property per U.S.$1,000 principal amount of Nan Ya Plastics Exchangeable Notes outstanding as of the Deposit Date and at the Exchange Price in effect at the time of the Change of Control. See "Terms and Conditions of the Nan Ya Plastics Exchangeable Notes — Exchange — Exchange Right — Delivery of Exchange Property Following a Change of Control of Formosa Petrochemical".
Share Custody	Nan Ya Plastics will deposit 115,722,120 Reference Shares with the Trustee on December 26, 2004. Nan Ya Plastics will also deposit additional Reference Shares and Exchange Property with the Trustee as necessary to maintain the number of Reference Shares and other Exchange Property on deposit with the Trustee that would be deliverable upon exchange of the outstanding Nan Ya Plastics Exchangeable Notes. Additionally, Nan Ya Plastics will not transfer or deliver any Custody Property to any third party except for the purpose of delivering the Custody Property to exchanging holders of the Nan Ya Plastics Exchangeable Notes. Under ROC law, this is not an escrow arrangement nor does it create a charge in favor of the holders of the Nan Ya Plastics Exchangeable Notes. In addition, the Reference Shares remain an asset of Nan Ya Plastics subject to third party claims.

Cash Payment Option	Within three ROC Business Days after the Exchange Date, Nan Ya Plastics may elect to pay the Cash Equivalent in lieu of the Reference Shares or Exchange Property Securities (as applicable) to any exchanging holder of the Nan Ya Plastics Exchangeable Notes to satisfy the exchange of any Nan Ya Plastics Exchangeable Notes. The Cash Equivalent will be an amount in U.S. dollars equal to the product of (x) the average closing prices of the Reference Shares or Exchange Property Securities on the TSE or other applicable stock exchange for the 20 consecutive Trading Days starting from the applicable date of the Cash Payment Notice (or such fewer number of Trading Days as available within 30 days after the applicable date of the Cash Payment Notice) converted into U.S. dollars at the Prevailing Rate of each such Trading Day and (y) the number of Reference Shares or Exchange Property Securities specified in the Cash Payment Notice.
Exchange on Default.	If Nan Ya Plastics defaults in making payment in respect of the Nan Ya Plastics Exchangeable Notes, holders of the Nan Ya Plastics Exchangeable Notes will continue to have the right to exchange the Nan Ya Plastics Exchangeable Notes at the then applicable Exchange Price.
Final Redemption	Unless previously redeemed, repurchased and cancelled, or exchanged, the Nan Ya Plastics Exchangeable Notes will be redeemed on the Maturity Date at 103.6 per cent. of their principal amount.
Early Redemption	The Nan Ya Plastics Exchangeable Notes may be redeemed at their Early Redemption Amount prior to the Maturity Date under certain circumstances described below.
Redemption at the Option of Nan Ya Plastics.	Nan Ya Plastics may, at its option at any time after June 30, 2006 and prior to the Maturity Date, redeem the Nan Ya Plastics Exchangeable Notes in whole or, from time to time, in part, at their Early Redemption Amount, if the Closing Price of the Reference Shares, translated into U.S. dollars at the Prevailing Rate, for any 20 Trading Days out of the 30 consecutive Trading Days immediately preceding the date of the redemption notice, is at least 120 per cent. of the Exchange Price then in effect, translated into U.S. dollars at a fixed exchange rate of NT$33.733 = U.S.$1.00. Nan Ya Plastics may, at its option at any time, redeem, in whole but not in part, the Nan Ya Plastics Exchangeable Notes at their Early Redemption Amount if at least 90 per cent. of the principal amount of the Nan Ya Plastics Exchangeable Notes has already been redeemed, repurchased and cancelled, or exchanged. See "Terms and Conditions of the Nan Ya Plastics Exchangeable Notes — Redemption, Repurchase and Cancellation — Redemption at the Option of Nan Ya Plastics".

Tax Redemption	Nan Ya Plastics may, at any time, redeem the Nan Ya Plastics Exchangeable Notes, in whole but not in part, at their Early Redemption Amount in the event of certain changes in ROC taxation that would require Nan Ya Plastics to gross up for payment of principal or to gross up for payment of interest (if any) or premium (if any) at a rate greater than 20 per cent.. See "Terms and Conditions of the Nan Ya Plastics Exchangeable Notes — Redemption, Repurchase and Cancellation — Redemption for Taxation Reasons".
Non-Redemption Option of the holders of the Nan Ya Plastics Exchangeable Notes	If Nan Ya Plastics gives a notice of redemption of the Nan Ya Plastics Exchangeable Notes for taxation reasons, each holder of the Nan Ya Plastics Exchangeable Notes shall have the right to elect that all or a portion (being U.S.$1,000 in principal amount or an integral multiple thereof) of such holder's Nan Ya Plastics Exchangeable Notes not be redeemed. Upon the exercise of the Non-Redemption Option, no Additional Amounts shall be payable on the payments due after the relevant date and, subject to certain conditions, such payments shall be made subject to deduction or withholding as required under ROC laws or regulations. See "Terms and Conditions of the Nan Ya Plastics Exchangeable Notes — Redemption, Repurchase and Cancellation — Redemption for Taxation Reasons".
Redemption at the Option of the holder of the Nan Ya Plastics Exchangeable Notes	Until and unless previously redeemed, repurchased and cancelled, or exchanged, each holder of the Nan Ya Plastics Exchangeable Notes has the right, at such holder's option, to require Nan Ya Plastics to redeem all or a portion (in an aggregate principal amount of at least U.S.$1,000 or an integral multiple thereof) of such holder's Nan Ya Plastics Exchangeable Notes on June 30, 2006 at their Early Redemption Amount and on June 30, 2009 at their Early Redemption Amount. In the event that the Reference Shares cease to be listed on the TSE, or upon the occurrence of a Change of Control with respect to Formosa Petrochemical, each holder of the Nan Ya Plastics Exchangeable Notes has the right, at such holder's option, to require Nan Ya Plastics to redeem such holder's Nan Ya Plastics Exchangeable Notes at their Early Redemption Amount. See "Terms and Conditions of the Nan Ya Plastics Exchangeable Notes — Redemption, Repurchase and Cancellation — Redemption at the Option of the Holders".

Exchange Price Reset.	If the average of the Closing Prices of the Reference Shares on the TSE, for the period of 5 consecutive Trading Days prior to December 26, 2004 and each anniversary thereafter (each a "Reset Date"), converted into U.S. dollars at each such Trading Day at the Prevailing Exchange Rate, is less than the Exchange Price then in effect converted into U.S. dollars at a fixed exchange rate of NT$33.733 = U.S.$1.00, the Exchange Price will be adjusted downwards, provided that the adjusted Exchange Price shall not be less than 80 per cent. of the Initial Exchange Price. Any such adjustment shall be effective as of the relevant Reset Date and notified to holders of the Nan Ya Plastics Exchangeable Notes within five days of the relevant Reset Date. See "Terms and Conditions of the Nan Ya Plastics Exchangeable Notes — Exchange — Exchange Price Reset".
Form and Denomination of the Nan Ya Plastics Exchangeable Notes	The Nan Ya Plastics Exchangeable Notes will be issued in registered form in the minimum denomination of U.S.$1,000 or an integral multiple thereof. The Nan Ya Plastics Exchangeable Notes will be represented by beneficial interests in a global certificate, which will be registered in the name of a nominee of, and be deposited on or about the Closing Date with, a common depositary for Euroclear and Clearstream, International.
Transfers of the Nan Ya Plastics Exchangeable Notes, the Reference Shares or the Exchange Property Securities	All transfers of the Nan Ya Plastics Exchangeable Notes and entries on the register of holders of the Nan Ya Plastics Exchangeable Notes shall be made subject to the detailed provisions set forth in the Agency Agreement in respect of Nan Ya Plastics. In addition, transfers of interests in the Nan Ya Plastics Exchangeable Notes, the Reference Shares or the Exchange Property Securities will be subject to certain other restrictions. For a discussion of these restrictions, see "Terms and Conditions of the Nan Ya Plastics Exchangeable Notes — Transfers of Notes" and "Underwriting".
Governing Law	The laws of the State of New York.
Trustee	The Hongkong and Shanghai Banking Corporation Limited
Principal Paying, Exchange and Transfer Agent	The Hongkong and Shanghai Banking Corporation Limited
Registrar	The Hongkong and Shanghai Banking Corporation Limited

Listing	Approval in-principle has been received for the listing of the Nan Ya Plastics Exchangeable Notes on the SGX-ST. The Reference Shares are listed on the TSE.
Lock-up	Nan Ya Plastics has agreed that from the date of this Offering Circular until 90 days after the Closing Date, it will not, directly or indirectly, issue, offer for sale, sell or otherwise dispose of (or enter into any transaction or device which is designed to, or could be expected to, result in the disposition by any person at any time in the future of) (a) any convertible bonds, exchangeable bonds or straight bonds denominated in U.S. dollars, and (b) any Nan Ya Plastics Exchangeable Notes or Reference Shares or securities of the same class as the Nan Ya Plastics Exchangeable Notes or Reference Shares (other than (i) the issuance and sale of the Nan Ya Plastics Exchangeable Notes, (ii) pursuant to employee benefits plans or distributions of stock dividends or employee dividends in the form of Reference Shares) or in any securities convertible into, exchangeable for or which carry rights to subscribe for or purchase the Nan Ya Plastics Exchangeable Notes, Reference Shares or securities of the same class as the Nan Ya Plastics Exchangeable Notes, Reference Shares or other instruments representing interests in the Nan Ya Plastics Exchangeable Notes, Reference Shares or other securities of the same class as them, or announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Representative.

The Formosa Chemicals & Fibre Exchangeable Notes

The following is only a summary and is qualified in its entirety by reference to the "Terms and Conditions of the Formosa Chemicals & Fibre Exchangeable Notes". Capitalized terms used herein and not defined have the meaning given to them in the "Terms and Conditions of the Formosa Chemicals & Fibre Exchangeable Notes".

Issuer	Formosa Chemicals & Fibre Corporation.
Offering	U.S.$200,000,000 aggregate principal amount of zero coupon exchangeable notes due 2011 is being offered by the Purchasers outside the United States to non-U.S. persons in accordance with Regulation S under the Securities Act. Formosa Chemicals & Fibre has not registered, and will not register, the Formosa Chemicals & Fibre Exchangeable Notes or any of the Reference Shares or Exchange Property Securities under the securities laws of the United States.
Representative's Option	Formosa Chemicals & Fibre has granted the Representative an option to be exercised no later than 30 days after the Closing Date to purchase up to an additional U.S.$50,000,000 principal amount of the Formosa Chemicals & Fibre Exchangeable Notes. See "Underwriting".
Issue Price	100 per cent. of the principal amount.
Closing Date	June 30, 2004.
Maturity Date	June 30, 2011.
Status	The Formosa Chemicals & Fibre Exchangeable Notes will constitute senior, direct, unconditional, unsubordinated and, subject to Formosa Chemicals & Fibre's negative pledge covenant, unsecured debt obligations of Formosa Chemicals & Fibre, ranking *pari passu* without any preference or priority among themselves and, subject to Formosa Chemicals & Fibre's negative pledge covenant, with all other present and future senior, direct, unconditional, unsubordinated and unsecured obligations of Formosa Chemicals & Fibre.
Withholding Tax	Premium (if any) or interest (if any) payable on the Formosa Chemicals & Fibre Exchangeable Notes to non-ROC residents is currently subject to a withholding tax in the ROC equal to 20 per cent. of the gross amount of premium (if any) or interest (if any). Formosa Chemicals & Fibre will pay such additional amounts as will result in the receipt by holders of the Formosa Chemicals & Fibre Exchangeable Notes of the net amounts after such withholding or deduction being equal to the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

Exchange	Subject to prior redemption and except as otherwise provided herein, the Formosa Chemicals & Fibre Exchangeable Notes are exchangeable at any time on or after December 26, 2004 and prior to the close of business (at the place at which the Formosa Chemicals & Fibre Exchangeable Notes are deposited for exchange) on the day which is 10 days prior to the Maturity Date, into Reference Shares or Exchange Property Securities (if applicable) at an initial exchange price per Reference Share of NT$58.3 (subject to adjustment as described herein) (the "Exchange Price"), determined on the basis of a fixed exchange rate of NT$33.733 = U.S.$1.00. If the Exchange Date falls within five ROC Business Days before the beginning of, and during, any Closed Period, the right of an exchanging holder of the Formosa Chemicals & Fibre Exchangeable Notes to attend a shareholders meeting and to vote with respect to the Reference Shares it receives will be subject to certain restrictions. See "Terms and Conditions of the Formosa Chemicals & Fibre Exchangeable Notes — Exchange — Exchange Procedures".
Delivery of the Exchange Property Following a Change of Control of Formosa Petrochemical	Following a Change of Control of Formosa Petrochemical, the Exchange Right attaching to each Formosa Chemicals & Fibre Exchangeable Note shall entitle the holder of such Formosa Chemicals & Fibre Exchangeable Note only to the Exchange Property which shall consist solely of either (i) the Reference Shares, if Formosa Petrochemical is the surviving entity, or (ii) such securities or assets (including cash) as are receivable by Formosa Chemicals & Fibre as the holder of the Reference Shares in connection with such Change of Control, if Formosa Petrochemical is not the surviving entity. On the exercise of Exchange Rights following a Change of Control, holders of the Formosa Chemicals & Fibre Exchangeable Notes shall be entitled to a *pro rata* share of the Exchange Property per U.S.$1,000 principal amount of Formosa Chemicals & Fibre Exchangeable Notes outstanding as of the Deposit Date and at the Exchange Price in effect at the time of the Change of Control. See "Terms and Conditions of the Formosa Chemicals & Fibre Exchangeable Notes — Exchange — Exchange Right — Delivery of Exchange Property Following a Change of Control of Formosa Petrochemical".

Share Custody	Formosa Chemicals & Fibre will deposit 115,722,120 Reference Shares with the Trustee on December 26, 2004. Formosa Chemicals & Fibre will also deposit additional Reference Shares and Exchange Property with the Trustee as necessary to maintain the number of Reference Shares and other Exchange Property on deposit with the Trustee that would be deliverable upon exchange of the outstanding Formosa Chemicals & Fibre Exchangeable Notes. Additionally, Formosa Chemicals & Fibre will not transfer or deliver any Custody Property to any third party except for the purpose of delivering the Custody Property to exchanging holders of the Formosa Chemicals & Fibre Exchangeable Notes. Under ROC law, this is not an escrow arrangement nor does it create a charge in favor of the holders of the Formosa Chemicals & Fibre Exchangeable Notes. In addition, the Reference Shares remain an asset of Formosa Chemicals & Fibre subject to third party claims.
Cash Payment Option	Within three ROC Business Days after the Exchange Date, Formosa Chemicals & Fibre may elect to pay the Cash Equivalent in lieu of the Reference Shares or Exchange Property Securities (as applicable) to any exchanging holder of the Formosa Chemicals & Fibre Exchangeable Notes to satisfy the exchange of any Formosa Chemicals & Fibre Exchangeable Notes. The Cash Equivalent will be an amount in U.S. dollars equal to the product of (x) the average closing prices of the Reference Shares or Exchange Property Securities on the TSE or other applicable stock exchange for the 20 consecutive Trading Days starting from the applicable date of the Cash Payment Notice (or such fewer number of Trading Days as available within 30 days after the applicable date of the Cash Payment Notice) converted into U.S. dollars at the Prevailing Rate of each such Trading Day and (y) the number of Reference Shares or Exchange Property Securities specified in the Cash Payment Notice.
Exchange on Default.	If Formosa Chemicals & Fibre defaults in making payment in respect of the Formosa Chemicals & Fibre Exchangeable Notes, holders of the Formosa Chemicals & Fibre Exchangeable Notes will continue to have the right to exchange the Formosa Chemicals & Fibre Exchangeable Notes at the then applicable Exchange Price.
Final Redemption	Unless previously redeemed, repurchased and cancelled, or exchanged, the Formosa Chemicals & Fibre Exchangeable Notes will be redeemed on the Maturity Date at 103.6 per cent. of their principal amount.
Early Redemption	The Formosa Chemicals & Fibre Exchangeable Notes may be redeemed at their Early Redemption Amount prior to the Maturity Date under certain circumstances described below.

Redemption at the Option of Formosa Chemicals & Fibre	Formosa Chemicals & Fibre may, at its option at any time after June 30, 2006 and prior to the Maturity Date, redeem the Formosa Chemicals & Fibre Exchangeable Notes in whole or, from time to time, in part, at their Early Redemption Amount, if the Closing Price of the Reference Shares, translated into U.S. dollars at the Prevailing Rate, for any 20 Trading Days out of the 30 consecutive Trading Days immediately preceding the date of the redemption notice, is at least 120 per cent. of the Exchange Price then in effect, translated into U.S. dollars at a fixed exchange rate of NT$33.733 = U.S.$1.00. Formosa Chemicals & Fibre may, at its option at any time, redeem, in whole but not in part, the Formosa Chemicals & Fibre Exchangeable Notes at their Early Redemption Amount if at least 90 per cent. of the principal amount of the Formosa Chemicals & Fibre Exchangeable Notes has already been redeemed, repurchased and cancelled, or exchanged. See "Terms and Conditions of the Formosa Chemicals & Fibre Exchangeable Notes — Redemption, Repurchase and Cancellation — Redemption at the Option of Formosa Chemicals & Fibre".
Tax Redemption	Formosa Chemicals & Fibre may, at any time, redeem the Formosa Chemicals & Fibre Exchangeable Notes, in whole but not in part, at their Early Redemption Amount in the event of certain changes in ROC taxation that would require Formosa Chemicals & Fibre to gross up for payment of principal or to gross up for payment of interest (if any) or premium (if any) at a rate greater than 20 per cent.. See "Terms and Conditions of the Formosa Chemicals & Fibre Exchangeable Notes — Redemption, Repurchase and Cancellation — Redemption for Taxation Reasons".
Non-Redemption Option of the holders of the Formosa Chemicals & Fibre Exchangeable Notes	If Formosa Chemicals & Fibre gives a notice of redemption of the Formosa Chemicals & Fibre Exchangeable Notes for taxation reasons, each holder of the Formosa Chemicals & Fibre Exchangeable Notes shall have the right to elect that all or a portion (being U.S.$1,000 in principal amount or an integral multiple thereof) of such holder's Formosa Chemicals & Fibre Exchangeable Notes not be redeemed. Upon the exercise of the Non-Redemption Option, no Additional Amounts shall be payable on the payments due after the relevant date and, subject to certain conditions, such payments shall be made subject to deduction or withholding as required under ROC laws or regulations. See "Terms and Conditions of the Formosa Chemicals & Fibre Exchangeable Notes — Redemption, Repurchase and Cancellation — Redemption for Taxation Reasons".

Redemption at the Option of the holder of the Formosa Chemicals & Fibre Exchangeable Notes	Until and unless previously redeemed, repurchased and cancelled, or exchanged, each holder of the Formosa Chemicals & Fibre Exchangeable Notes has the right, at such holder's option, to require Formosa Chemicals & Fibre to redeem all or a portion (in an aggregate principal amount of at least U.S.$1,000 or an integral multiple thereof) of such holder's Formosa Chemicals & Fibre Exchangeable Notes on June 30, 2006 at their Early Redemption Amount and on June 30, 2009 at their Early Redemption Amount. In the event that the Reference Shares cease to be listed on the TSE, or upon the occurrence of a Change of Control with respect to Formosa Petrochemical, each holder of the Formosa Chemicals & Fibre Exchangeable Notes has the right, at such holder's option, to require Formosa Chemicals & Fibre to redeem such holder's Formosa Chemicals & Fibre Exchangeable Notes at their Early Redemption Amount. See "Terms and Conditions of the Formosa Chemicals & Fibre Exchangeable Notes — Redemption, Repurchase and Cancellation — Redemption at the Option of the Holders".
Exchange Price Reset.	If the average of the Closing Prices of the Reference Shares on the TSE, for the period of 5 consecutive Trading Days prior to December 26, 2004 and each anniversary thereafter (each a "Reset Date"), converted into U.S. dollars at each such Trading Day at the Prevailing Exchange Rate, is less than the Exchange Price then in effect converted into U.S. dollars at a fixed exchange rate of NT$33.733 = U.S.$1.00, the Exchange Price will be adjusted downwards, provided that the adjusted Exchange Price shall not be less than 80 per cent. of the Initial Exchange Price. Any such adjustment shall be effective as of the relevant Reset Date and notified to holders of the Formosa Chemicals & Fibre Exchangeable Notes within five days of the relevant Reset Date. See "Terms and Conditions of the Formosa Chemicals & Fibre Exchangeable Notes — Exchange — Exchange Price Reset".
Form and Denomination of the Formosa Chemicals & Fibre Exchangeable Notes	The Formosa Chemicals & Fibre Exchangeable Notes will be issued in registered form in the minimum denomination of U.S.$1,000 or an integral multiple thereof. The Formosa Chemicals & Fibre Exchangeable Notes will be represented by beneficial interests in a global certificate, which will be registered in the name of a nominee of, and be deposited on or about the Closing Date with, a common depositary for Euroclear and Clearstream, International.

Transfers of the Formosa Chemicals & Fibre Exchangeable Notes, the Reference Shares or the Exchange Property Securities	All transfers of the Formosa Chemicals & Fibre Exchangeable Notes and entries on the register of holders of the Formosa Chemicals & Fibre Exchangeable Notes shall be made subject to the detailed provisions set forth in the Agency Agreement in respect of Formosa Chemicals & Fibre. In addition, transfers of interests in the Formosa Chemicals & Fibre Exchangeable Notes, the Reference Shares or the Exchange Property Securities will be subject to certain other restrictions. For a discussion of these restrictions, see "Terms and Conditions of the Formosa Chemicals & Fibre Exchangeable Notes — Transfers of Notes" and "Underwriting".
Governing Law	The laws of the State of New York.
Trustee	The Hongkong and Shanghai Banking Corporation Limited
Principal Paying, Exchange and Transfer Agent	The Hongkong and Shanghai Banking Corporation Limited
Registrar	The Hongkong and Shanghai Banking Corporation Limited
Listing	Approval in-principle has been received for the listing of the Formosa Chemicals & Fibre Exchangeable Notes on the SGX-ST. The Reference Shares are listed on the TSE.
Lock-up	Formosa Chemicals & Fibre has agreed that from the date of this Offering Circular until 90 days after the Closing Date, it will not, directly or indirectly, issue, offer for sale, sell or otherwise dispose of (or enter into any transaction or device which is designed to, or could be expected to, result in the disposition by any person at any time in the future of) (a) any convertible bonds, exchangeable bonds or straight bonds denominated in U.S. dollars, and (b) any Formosa Chemicals & Fibre Exchangeable Notes or Reference Shares or securities of the same class as the Formosa Chemicals & Fibre Exchangeable Notes or Reference Shares (other than (i) the issuance and sale of the Formosa Chemicals & Fibre Exchangeable Notes, (ii) pursuant to employee benefits plans or distributions of stock dividends or employee dividends in the form of Reference Shares) or in any securities convertible into, exchangeable for or which carry rights to subscribe for or purchase the Formosa Chemicals & Fibre Exchangeable Notes, Reference Shares or securities of the same class as the Formosa Chemicals & Fibre Exchangeable Notes, Reference Shares or other instruments representing interests in the Formosa Chemicals & Fibre Exchangeable Notes, Reference Shares or other securities of the same class as them, or announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Representative.

Summary Financial Information

Formosa Petrochemical

The following information has been derived from the audited financial statements as of and for the years ended December 31, 2001, 2002 and 2003 and the unaudited financial statements as of and for the three months ended March 31, 2003 and 2004 of Formosa Petrochemical appearing elsewhere herein. Formosa Petrochemical's financial statements are prepared in accordance with ROC GAAP which differs in certain material respects from U.S. GAAP. See "Summary of Certain Differences between ROC GAAP and U.S. GAAP". Formosa Petrochemical is not required under ROC laws and regulations to produce, and it does not publish, any consolidated financial statements. The financial statements as of and for the three months ended March 31, 2003 and 2004 of Formosa Petrochemical have been reviewed by its independent accountants in accordance with review standards generally accepted in the ROC. The summary financial data as of and for the three months ended March 31, 2003 and 2004 include all adjustments necessary to fairly state this information in the opinion of the management of Formosa Petrochemical. Results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the full year.

The following data should be read in conjunction with and are qualified in their entirety by reference to the financial statements of Formosa Petrochemical and other financial information contained herein.

	(Audited)				(Unaudited)		
	Year ended December 31,				Three months ended March 31,		
	2001	2002	2003	2003	2003	2004	2004
	NT$	NT$	NT$	U.S.$	NT$	NT$	U.S.$
	(in millions, except per share data)						
Statement of Operations:							
Operating revenues	128,599.7	169,389.6	236,520.2	6,958.5	54,643.3	73,946.2	2,240.8
Operating costs	115,294.1	153,305.5	208,253.4	6,126.9	48,193.5	62,292.7	1,887.7
Gross profit	13,305.6	16,084.1	28,266.8	831.6	6,449.8	11,653.5	353.1
Operating expenses:							
General & administrative	1,607.9	1,727.5	2,358.4	69.4	505.3	761.1	23.0
Selling & marketing	2,883.5	3,397.2	4,254.1	125.2	952.8	1,204.2	36.5
Research & development	5.2	1.7	11.3	0.3	0.3	3.2	0.1
Total operating expenses	4,496.6	5,126.4	6,623.8	194.9	1,458.4	1,968.5	59.6
Operating income	8,809.0	10,957.7	21,643.0	636.7	4,991.4	9,685.0	293.5
Non-operating income	3,031.1	3,968.9	3,557.1	104.7	770.7	1,477.8	44.8
Non-operating expenses	10,246.1	6,311.0	6,409.1	188.5	1,543.3	1,510.0	45.8
Income before income tax	1,594.0	8,615.6	18,791.0	552.9	4,218.8	9,652.8	292.5
Income tax benefit (expense)	2,288.6	2,813.9	143.9	4.2	4,754.3	(696.1)	(21.1)
Net income	3,882.6	11,429.5	18,934.9	557.1	8,973.1	8,956.7	271.4
Primary earnings per share(1)	0.55	1.46	2.42	0.07	1.14	1.14	0.03

(1) The earnings per share data has been calculated by dividing the net income for the relevant period by the weighted-average number of Common Shares outstanding during the relevant period. The number of Common Shares issued and outstanding, after having been retroactively adjusted for share dividends, as of December 31, 2001, 2002 and 2003, and March 31, 2003 and 2004, was 7,020,712,329 shares, 7,840,000,000 shares, 7,840,000,000 shares, 7,840,000,000 shares and 7,840,000,000 shares, respectively.

	(Audited)				(Unaudited)		
	Year ended December 31,				Three months ended March 31,		
	2001	2002	2003	2003	2003	2004	2004
	NT$	NT$	NT$	U.S.$	NT$	NT$	U.S.$
				(in millions)			
Balance Sheet:							
Current assets	39,263.9	56,174.9	76,300.0	2,244.8	50,285.9	81,186.6	2,460.2
Long-term equity investments	13,439.3	13,256.9	13,689.7	402.7	13,825.7	13,828.3	419.0
Property, plant and equipment	225,057.2	230,087.8	226,425.6	6,661.5	229,826.4	225,909.1	6,845.7
Other assets	11,007.0	12,491.5	11,752.7	345.8	16,870.0	10,786.1	326.9
Total assets	288,767.4	312,011.1	328,168.0	9,654.8	310,808.0	331,710.1	10,051.8
Current liabilities	38,972.4	49,055.7	73,290.0	2,156.2	39,005.8	69,264.5	2,098.9
Long-term liabilities	131,584.2	133,017.7	113,841.6	3,349.3	132,326.7	112,061.1	3,395.8
Other liabilities	363.5	661.0	1,256.0	36.9	1,225.6	1,647.4	49.9
Total liabilities	170,920.1	182,734.4	188,387.6	5,542.4	172,558.1	182,973.0	5,544.6
Stockholders' equity	117,847.3	129,276.7	139,780.4	4,112.4	138,249.9	148,737.1	4,507.2
Total liabilities and shareholders' equity	288,767.4	312,011.1	328,168.0	9,654.8	310,808.0	331,710.1	10,051.8

Formosa Plastics

The following information has been derived from the audited consolidated financial statements as of and for the years ended December 31, 2001, 2002 and 2003 and the unaudited non-consolidated financial statements as of and for the three months ended March 31, 2003 and 2004 of Formosa Plastics appearing elsewhere herein. Formosa Plastic's financial statements are prepared in accordance with ROC GAAP which differs in certain material respects from U.S. GAAP. See "Summary of Certain Differences between ROC GAAP and U.S. GAAP". Formosa Plastics is not required under ROC laws and regulations to produce, and it does not publish, any interim consolidated financial statements. The non-consolidated financial statements as of and for the three months ended March 31, 2003 and 2004 of Formosa Plastics have been reviewed by its independent accountants in accordance with review standards generally accepted in the ROC. The summary financial data as of and for the three months ended March 31, 2003 and 2004 include all adjustments necessary to fairly state this information in the opinion of the management of Formosa Plastics. Results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the full year.

The following data should be read in conjunction with and are qualified in their entirety by reference to the financial statements of Formosa Plastics and other financial information contained herein.

	Consolidated (Audited)				Non-consolidated (Unaudited)		
	Year ended December 31,				Three months ended March 31,		
	2001	2002	2003	2003	2003	2004	2004
	NT$	NT$	NT$	U.S.$	NT$	NT$	U.S.$
	(in millions, except per share data)						
Statement of Operations:							
Operating revenues	68,535.1	76,335.0	95,156.5	2,799.5	17,812.2	26,461.0	801.8
Cost of goods sold	59,653.4	63,436.6	80,313.2	2,362.7	14,832.5	20,668.4	626.3
Gross profit	8,881.7	12,898.4	14,843.3	436.7	2,979.7	5,792.6	175.5
Realized (unrealized) inter-affiliate profit	—	—	—	—	26.8	(45.6)	(1.4)
Realized gross profit	8881.7	12,898.4	14,843.3	436.7	3,006.5	5,747.0	174.1
Operating expenses:							
Administrative	2,705.2	2,052.0	2,160.3	63.6	493.4	563.4	17.0
Selling expenses	2,739.0	2,807.3	3,249.2	95.6	644.7	845.2	25.6
Research & development	901.8	634.5	487.0	14.3	98.4	118.2	3.6
Total operating expenses	6,346.0	5,493.8	5,896.5	173.5	1,236.5	1,526.8	46.2
Operating income	2,535.7	7,404.6	8,946.8	263.2	1,770.0	4,220.3	127.9
Non-operating income	6,453.5	7,867.0	11,085.4	326.1	2,480.0	5,149.0	156.0
Non-operating expenses	3,881.9	3,038.4	3,458.5	101.7	855.3	941.0	28.5
Income before income tax	5,107.3	12,233.2	16,573.7	487.6	3,394.7	8,428.3	255.4
Income tax benefit (loss)	1,598.6	(2,334.7)	32.4	1.0	(316.2)	(384.6)	(11.7)
Net income	6,705.9	9,898.5	16,606.1	488.6	3,078.5	8,043.7	243.7
Primary earnings per share[(1)]	1.40	2.06	3.45	0.10	0.64	1.67	0.05

(1) The earnings per share data has been calculated by dividing the net income for the relevant period by the weighted-average number of ordinary shares of Formosa Plastics outstanding during the relevant period. The number of ordinary shares of Formosa Plastics issued and outstanding, after having been retroactively adjusted for share dividends, as of December 31, 2001, 2002 and 2003, and March 31, 2003 and 2004, was 4,806.8 million shares, 4,806.8 million shares, 4,806.8 million shares, 4,806.8 million shares and 4,806.8 million shares, respectively.

	Consolidated (Audited)				Non-consolidated (Unaudited)		
	Year ended December 31,				Three months ended March 31,		
	2001	2002	2003	2003	2003	2004	2004
	NT$	NT$	NT$	U.S.$	NT$	NT$	U.S.$
				(in millions)			
Balance Sheet:							
Current assets	28,640.3	31,523.6	47,358.9	1,393.3	29,037.6	46,762.0	1,417.0
Fund and long-term equity investments	57,637.5	66,366.4	66,001.4	1,941.8	75,574.4	76,317.2	2,312.7
Property, plant and equipment	72,399.7	70,462.1	69,686.1	2,050.2	61,690.8	63,109.6	1,912.4
Intangible assets	287.3	173.5	884.7	26.0	173.6	863.1	26.2
Other assets	12,303.0	10,957.5	7,123.6	209.6	6,923.0	5,317.3	161.1
Total assets	171,267.8	179,483.1	191,054.7	5,620.9	173,399.4	192,369.2	5,829.4
Current liabilities	20,035.7	16,134.3	24,449.8	719.3	17,454.3	21,014.7	636.8
Long-term liabilities	57,435.4	60,794.7	52,487.3	1,544.2	51,762.9	50,762.7	1,538.3
Other liabilities	3,766.1	5,636.6	6,182.8	181.9	4,091.8	4,872.2	147.6
Total liabilities	81,237.2	82,565.6	83,119.9	2,445.4	73,310.0	76,649.6	2,322.7
Stockholders' equity and minority interests	90,030.6	96,917.5	107,934.8	3,175.5	100,089.4	115,719.6	3,506.7
Total liabilities and shareholders' equity	171,267.8	179,483.1	191,054.7	5,620.9	173,399.4	192,369.2	5,829.4

Nan Ya Plastics

The following information has been derived from the audited consolidated financial statements as of and for the years ended December 31, 2001, 2002 and 2003 and the unaudited non-consolidated financial statements as of and for the three-month periods ended March 31, 2003 and 2004 of Nan Ya Plastics appearing elsewhere herein. Nan Ya Plastics' financial statements are prepared in accordance with ROC GAAP which differs in certain material respects from U.S. GAAP. See "Summary of Certain Differences between ROC GAAP and U.S. GAAP". Nan Ya Plastics is not required under ROC laws and regulations to produce, and it does not publish, any interim consolidated financial statements. The non-consolidated financial statements as of and for the three-months ended March 31, 2003 and 2004 of Nan Ya Plastics have been reviewed by its independent accountants in accordance with review standards generally accepted in the ROC. The summary financial data as of and for the three months ended March 31, 2003 and 2004 include all adjustments necessary to fairly state this information in the opinion of the management of Nan Ya Plastics. Results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the full year.

The following data should be read in conjunction with and are qualified in their entirety by reference to the financial statements of Nan Ya Plastics and other financial information contained herein.

	Consolidated (Audited)				Non-consolidated (Unaudited)		
	Year ended December 31,				Three months ended March 31,		
	2001	2002	2003	2003	2003	2004	2004
	NT$	NT$	NT$	U.S.$	NT$	NT$	U.S.$
	(in millions, except per share data)						
Statement of Operations:							
Operating revenues	131,161.4	141,680.7	171,643.8	5,049.8	28,583.1	36,575.8	1,108.4
Operating costs	113,580.0	120,377.4	147,186.6	4,330.3	23,467.1	29,091.1	881.5
Gross profit	17,581.4	21,303.4	24,457.2	719.5	5,116.0	7,484.7	226.8
Realized gross profit(1)	17,581.4	21,243.0	24,488.6	720.5	5,103.2	7,452.5	225.8
Operating expenses:							
Selling expenses	3,951.7	4,495.7	4,861.5	143.0	1,009.1	1,176.0	35.6
Administrative expenses	4,095.7	6,874.7	6,461.4	190.1	1,473.5	1,456.5	44.1
Total operating expenses	8,047.4	11,370.4	11,322.9	333.1	2,482.6	2,632.4	79.8
Operating income	9,534.1	9,872.6	13,165.7	387.3	2,620.6	4,820.1	146.1
Non-operating income	6,997.0	11,039.5	10,549.3	310.4	2,747.8	5,349.2	162.1
Non-operating expenses	12,056.2	5,424.2	5,583.5	164.3	1,782.5	1,324.3	40.1
Income before income tax	4,474.8	15,487.8	18,131.5	533.4	3,585.9	8,844.9	268.0
Income tax (expense) benefit	3,418.2	(1,682.6)	(924.0)	(27.2)	(35.0)	(167.5)	(5.1)
Minority interest in net income	(31.7)	(8.7)	(27.5)	(0.8)	—	—	—
Net income	7,861.3	13,796.5	17,180.0	505.4	3,550.9	8,677.4	263.0
Primary earnings per share — retroactively adjusted(2)	1.19	2.09	2.61	0.077	0.54	1.32	0.04

(1) Does not include unrealized gross profit arising from intra-company transactions. For example, the gross profit arising from the sale of products by Nan Ya Plastics to a subsidiary is not recognized as "realized gross profit" until such product is sold, outside of Nan Ya Plastics as a consolidated entity, to third parties.

(2) The earnings per share data has been calculated by dividing the net income for the relevant period by the weighted-average number of ordinary shares of Nan Ya Plastics outstanding during the relevant period. The number of ordinary shares of Nan Ya Plastics issued and outstanding, after having been retroactively adjusted for share dividends, as of December 31, 2001, 2002 and 2003, and March 31, 2003 and 2004, was 6,587.3 million shares, 6,586.2 million shares, 6,586.2 million shares, 6,586.2 million shares and 6,586.2 million shares, respectively.

	Consolidated (Audited)				Non-consolidated (Unaudited)		
	Year ended December 31,				Three months ended March 31,		
	2001	2002	2003	2003	2003	2004	2004
	NT$	NT$	NT$	U.S.$	NT$	NT$	U.S.$
				(in millions)			
Balance Sheet:							
Current assets	52,153.5	59,614.8	79,646.1	2,343.2	49,569.0	60,000.3	1,818.2
Long-term equity investments	79,828.4	90,299.4	97,565.5	2,870.4	118,630.4	126,859.9	3,844.2
Property, plant and equipment	111,263.9	109,212.8	104,681.1	3,079.8	80,358.7	80,486.4	2,439.0
Intangible assets	3,715.5	1,759.6	3,108.3	91.4	1,656.7	3,363.6	101.9
Other assets	20,599.7	16,183.0	8,737.6	257.1	9,773.8	7,638.8	231.5
Total assets	267,561.0	276,999.6	293,738.5	8,641.9	259,988.6	278,349.0	8,434.8
Current liabilities	45,275.0	33,124.9	34,702.8	1,021.0	33,308.0	25,601.9	775.8
Long-term liabilities	82,099.3	94,043.1	96,156.4	2,829.0	73,453.8	82,588.9	2,502.7
Other liabilities	10,879.1	10,335.1	12,744.2	374.9	10,957.6	13,492.0	408.8
Total liabilities	138,253.3	137,503.0	143,603.4	4,224.9	117,719.4	121,682.7	3,687.3
Stockholders' equity and minority interests	129,307.7	139,496.6	150,135.1	4,417.0	142,269.2	156,666.3	4,747.5
Total liabilities and shareholders' equity	267.561.0	276,999.6	293,738.5	8,641.9	259,988.6	278,349.0	8,434.8

Formosa Chemicals & Fibre

The following information has been derived from the audited financial statements as of and for the years ended December 31, 2001, 2002 and 2003 and the unaudited financial statements as of and for the three-month periods ended March 31, 2003 and 2004 of Formosa Chemicals & Fibre appearing elsewhere herein. Formosa Chemicals & Fibre's financial statements are prepared in accordance with ROC GAAP which differs in certain material respects from U.S. GAAP. See "Summary of Certain Differences between ROC GAAP and U.S. GAAP". Formosa Chemicals & Fibre is not required under ROC laws and regulations to produce, and it does not publish, any consolidated financial statements. The financial statements as of and for the three-months ended March 31, 2003 and 2004 of Formosa Chemicals & Fibre have been reviewed by its independent accountants in accordance with review standards generally accepted in the ROC. The summary financial data as of and for the three months ended March 31, 2003 and 2004 include all adjustments necessary to fairly state this information in the opinion of the management of Formosa Chemicals & Fibre. Results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the full year.

The following data should be read in conjunction with and are qualified in their entirety by reference to the financial statements of Formosa Chemicals & Fibre and other financial information contained herein.

	(Audited)				(Unaudited)		
	Year ended December 31,				Three months ended March 31,		
	2001	2002	2003	2003	2003	2004	2004
	NT$	NT$	NT$	U.S.$	NT$	NT$	U.S.$
	(in millions, except per share data)						
Statement of Operations:							
Operating revenues	67,536.8	86,873.0	106,421.4	3,131.0	25,968.0	30,245.7	916.5
Operating costs	58,482.2	72,748.1	87,396.9	2,571.3	21,259.5	23,427.5	709.9
Gross profit from operations	9,054.6	14,124.9	19,024.5	559.7	4,708.5	6,818.1	206.6
Operating expenses:							
Selling expenses	2,448.8	2,654.2	2,713.6	80.0	657.8	647.7	19.6
General and administrative	2,348.0	2,198.8	2,387.8	70.2	510.7	647.3	19.6
Research and development	429.3	422.1	400.1	11.8	112.7	88.1	2.7
Total operating expenses	5,226.1	5,275.1	5,501.5	162.0	1,281.2	1,383.0	41.9
Operating income	3,828.5	8,849.8	13,523.0	397.7	3,427.3	5,435.1	164.7
Non-operating income	4,465.3	6,475.4	9,447.8	278.0	1,273.7	2,916.0	88.4
Non-operating expenses	3,684.2	2,813.8	2,323.1	68.3	563.2	442.7	13.4
Income before income taxes	4,609.6	12,511.4	20,647.7	607.4	4,137.8	7,908.4	239.6
Income tax expense	—	(1,538.6)	(2,951.2)	(86.8)	(753.7)	(493.9)	(15.0)
Net income	4,609.6	10,972.8	17,696.5	520.6	3,384.1	7,414.5	224.7
Earnings per share after income taxes[(1)]	1.02	2.43	3.92	0.12	0.75	1.64	0.05

(1) The earnings per share data has been calculated by dividing the net income for the relevant period by the weighted-average number of ordinary shares of Formosa Chemicals & Fibre outstanding during the relevant period. The number of ordinary shares of Formosa Chemicals & Fibre issued and outstanding, after having been retroactively adjusted for share dividends, as of December 31, 2001, 2002 and 2003, and March 31, 2003 and 2004, was 4,515.0 million shares, 4,515.0 million shares, 4,515.0 million shares, 4,515.0 million shares and 4,515.0 million shares, respectively.

	(Audited)				(Unaudited)		
	Year ended December 31,				Three months ended March 31,		
	2001	2002	2003	2003	2003	2004	2004
	NT$	NT$	NT$	U.S.$	NT$	NT$	U.S.$
				(in millions)			
Balance Sheet:							
Current assets	37,396.4	38,940.8	41,034.7	1,207.3	34,540.0	41,820.1	1,267.3
Long-term investments	56,553.8	62,394.9	69,320.3	2,039.4	65,256.6	72,658.3	2,201.8
Property, plant and equipment	76,956.8	75,059.3	70,636.6	2,078.2	73,772.2	70,935.1	2,149.5
Intangible assets	1,286.5	197.7	705.4	20.8	197.7	705.4	21.4
Other assets	9,818.6	8,455.2	5,312.3	156.2	7,518.7	3,822.6	115.8
Total assets	182,012.1	185,047.9	187,009.3	5,501.9	181,285.2	189,941.5	5,755.8
Current liabilities	20,214.0	19,158.2	18,525.0	545.0	20,334.6	16,418.7	497.5
Long-term liabilities	67,720.2	63,901.2	54,852.9	1,613.8	55,496.9	52,473.9	1,590.1
Other liabilities	5,034.8	4,281.3	5,156.4	151.7	4,356.3	5,268.5	159.7
Total liabilities	92,969.0	87,340.7	78,534.3	2,310.5	80,187.8	74,161.1	2,247.3
Stockholders' equity	89,043.1	97,707.2	108,475.0	3,191.4	101,097.4	115,780.4	3,508.5
Total liabilities and stockholders' equity	182,012.1	185,047.9	187,009.3	5,501.9	181,285.2	189,941.5	5,755.8

RISK FACTORS

Investors should carefully evaluate each of the following and all of the other information set forth in this Offering Circular before deciding to invest in any of the Notes. If any of the following risk factors and uncertainties develop into actual events, the businesses, financial conditions or results of operations of any one of the Issuers could be materially adversely affected. In such case, the trading price of any of the Notes and the Common Shares could decline. This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The actual results of the Issuers could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by the Issuers described below and elsewhere in this Offering Circular. See "Special Note Regarding Forward-Looking Statements".

Risks Relating to the Businesses of the Issuers

The Issuers' businesses are substantially dependent on, and may compete with, each other as well as the businesses of other members of the Formosa Group.

The Issuers are operationally highly integrated with one another and each of the Issuers relies on other members of the Formosa Group to provide it with various products and services necessary for its business activities, sometimes as the sole supplier. For example, Formosa Petrochemical plays a significant role in supplying a significant portion of the raw material needs of each of the other Issuers. If the supply of raw materials by Formosa Petrochemical were, for any reason, disrupted or discontinued and the other Issuers were unable to purchase sufficient raw materials of comparable quality on comparable terms from alternative sources of supply, there could be material disruption to the other Issuers' operations, and their businesses and operating results could be materially and adversely affected.

Historically, a material portion of the net income of each of the Issuers has been derived from its investments in other members of the Formosa Group. For the year ended December 31, 2003, investment income from other members of the Formosa Group recognized under the equity method for Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre amounted to NT$1,286.7 million (U.S.$37.9 million), NT$7,455.2 million (U.S.$219.3 million), NT$5,826.0 million (U.S.$171.4 million) and NT$6,671.4 million (U.S.$196.3 million), respectively, or 6.8 per cent., 44.9 per cent., 33.9 per cent. and 37.7 per cent., respectively of such Issuers' net income over such period.

The results of operations of other Formosa Group companies in which the Issuers have significant interests may be adversely affected by a variety of factors, and the future impact on the net income of the Issuers derived from their investments in other members of the Formosa Group cannot be accurately predicted.

Furthermore, various other members of the Formosa Group produce products that are similar to, or are substitutes for, certain products produced by the Issuers. Accordingly, there may be direct and indirect competition, and conflicts of interest, amongst the Issuers or between the Issuers and other members of the Formosa Group. There can be no assurance that the Formosa Group will not favor the interests of certain of its members over the interests of any individual Issuer.

For more information, see "The Formosa Group", "Formosa Petrochemical Corporation — Subsidiaries and Investee Companies", "Formosa Plastics Corporation — Subsidiaries and Investee Companies", "Nan Ya Plastics Corporation — Subsidiaries and Investee Companies", "Formosa Chemicals & Fibre Corporation — Subsidiaries and Investee Companies", "Related Party Transactions", Note 5 to Formosa Petrochemical's Audited Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003, Note 5 to Formosa Petrochemical's Unaudited Financial Statements as at and for the three months ended March 31, 2003 and 2004, Note 17 to Formosa Plastics' Audited Consolidated Financial Statements as at and for the years ended

December 31, 2001, 2002 and 2003, Note 17 to Formosa Plastics' Unaudited Non-consolidated Financial Statements as at and for the three months ended March 31, 2003 and 2004, Note 20 to Nan Ya Plastics' Audited Consolidated Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003, Note 17 to Nan Ya Plastics' Unaudited Non-consolidated Financial Statements as at and for the three months ended March 31, 2003 and 2004, Note 5 to Formosa Chemicals & Fibre's Audited Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 and Note 4 to Formosa Chemicals & Fibre's Unaudited Financial Statements as at and for the three months ended March 31, 2003 and 2004, all included elsewhere in this Offering Circular.

The Issuers are exposed to volatility in crude oil prices, refined petroleum products prices and refining margins.

Formosa Petrochemical purchases crude oil for its refining operations and sells a substantial portion of its petroleum products at prices that are determined by reference to international and domestic petroleum product prices. Formosa Petrochemical's financial condition and results of operations are significantly influenced by market prices for crude oil and refined petroleum products, which are subject to the forces of international, regional and domestic supply and demand, as well as various other factors beyond its control. In recent years these prices have fluctuated widely. The markets and prices for petroleum products may be influenced by aggregate demand for such products (which can fluctuate with changes in economic conditions and cycles, seasons and weather patterns), the level of domestic and regional production, the prices and availability of imports, the prices and availability of substitute fuels and the extent and nature of governmental regulation and taxation. Worldwide supply conditions and the price levels of crude oil may also be significantly influenced by international groupings, which control the production of a significant portion of the worldwide supply of crude oil, and by political developments, especially in the Middle East. In addition, factors such as domestic and foreign government regulations, weather conditions and competition from other energy sources also have an impact on crude oil and petroleum product prices. Volatility in the prices of crude oil and petroleum products can cause period to period fluctuations in Formosa Petrochemical's results of operations, as is typical for companies operating in the petroleum industry.

Oil prices have been volatile during the past year, due in part to global inflationary concerns, hostilities in Iraq and instability in the oil producing nations of Venezuela and Nigeria. This volatility is expected to continue in 2004 with uncertainties over continuing global inflationary concerns, production levels and continuing hostilities in post-war Iraq and political instability in Nigeria and Venezuela. Formosa Petrochemical is required to store crude oil and/or petroleum products equal to sixty days' equivalent of refined petroleum products at its petroleum refinery, calculated based on its domestic sales volume in the preceding twelve months, and is thus further exposed to volatility in oil prices. See "Formosa Petrochemical Corporation — Business of Formosa Petrochemical Corporation". Formosa Petrochemical's oil inventory is marked to market, with gains and losses reflected in its quarterly income statement. In addition, prices of refined products may not move in tandem with crude oil prices. The fundamentals governing the prices of crude oil may differ from the fundamentals governing the prices of refined products. There is a time lag of approximately one month before the crude oil is processed through the refinery.

Volatility in the price of crude oil also affects the prices of refined petroleum products, notably naphtha, which, in turn, affects the raw materials costs, and the business and results of operations of Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre. In addition, any increase in oil prices, or a period of sustained high oil prices could depress growth in demand for petroleum and petrochemical products, which could in turn affect the financial condition or results of operations of all the Issuers. In recent months the price of oil internationally has been relatively high, often above U.S.$40 per barrel. Although OPEC has announced that it will increase production of crude oil, there can be no assurance that such measures will be effective in lowering the price of crude oil.

The Issuers' businesses are concentrated in the ROC and the PRC.

The Issuers' business activities, including the production and sales of its products, are substantially concentrated in the ROC and, in the case of Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre, in the PRC. As a result, the Issuers' revenues and results of operations and future growth depend, to a large extent, on the growth of the economies of the ROC and the PRC. As the Issuers' businesses are affected by economic conditions in these markets, any decline in the economies of the ROC and the PRC could adversely affect the Issuers' results of operations and future growth. Recently, the government of the PRC has announced measures to slow down the rapid growth of the PRC economy, raising fears that government intervention could result in rapid economic slowdown as has happened in the past. See "— Risks Relating to the ROC" and "— Risks Relating to the PRC". Despite this, the Issuers expect business activity relating to the PRC to continue to increase in the near future. See "— Downstream plastics producers and other customers of the Issuers are gradually moving out of Taiwan".

Shortages of raw materials or volatility of raw material prices may adversely affect the operations and businesses of the Issuers.

Raw material cost is the largest component of operating costs for each of the Issuers. Sufficient quantities of crude oil and high quality raw materials need to be obtained in a timely manner and at acceptable prices. As a result, the operations of the Issuers are vulnerable to changes in the supply and prices of raw materials, including in the following manner:

- Most of the raw materials used by the Issuers are typically sourced from a limited group of suppliers, including other members of the Formosa Group. The Issuers may not be able to obtain sufficient quantities of such raw materials of an acceptable or comparable quality, or at an acceptable price, in the future from these suppliers. For a description as to how the No. 6 Naphtha Cracker Complex affects the Issuers' sourcing of raw materials, see "The Formosa Group — The No. 6 Naphtha Cracker Complex".

- Large amounts of crude oil and other raw materials are required in the Issuers' refining (in the case of Formosa Petrochemical) and manufacturing processes. Formosa Petrochemical procures all of its crude oil requirements from overseas sources. Formosa Petrochemical purchases a significant portion of such crude oil under contracts of limited duration, which contracts typically provide that prices are variable depending on market prices prevailing at the time of supply. The balance is purchased in the spot market from time to time at the prevailing market price. Although Formosa Petrochemical has not experienced any significant difficulties in obtaining crude oil to satisfy its production requirements in the past, there can be no assurance that Formosa Petrochemical will be able to meet its future crude oil requirements. Any significant increase in the prices of crude oil could materially affect the businesses, results of operations or financial condition of Formosa Petrochemical if such price increases cannot be passed on to customers by way of higher prices. In addition, increases in the prices of crude oil will have an impact on the prices of downstream petrochemical products, for example naphtha and ethylene, used by the Issuers other than Formosa Petrochemical as raw materials in their operations, which could adversely affect the businesses of those Issuers. The ability of the Issuers to pass on cost increases to their customers is dependent on market conditions and the bargaining power of those customers. In addition, although members of the Formosa Group follow a policy which generally require sales and purchases of raw materials between companies within the Formosa Group to be priced on terms at least as favorable as transactions on an arm's length commercial basis, the fact that a substantial percentage of the Issuers' products is ultimately sold to other companies within the Formosa Group could also limit the ability of the Issuers to pass on increases in costs. Price increases in respect of the Issuers' raw materials could result from a variety of factors, including actions of crude oil exporting countries to reduce their exports of crude oil, global inflationary pressures, regional instability in the Middle East, or other natural economic forces. See "— The Issuers are exposed to volatility in crude oil prices, refined petroleum products prices and refining margins".

- Formosa Petrochemical purchases from third parties a significant portion of the naphtha used in its cracker operations. For the year ended December 31, 2003, the cost of naphtha accounted for 16 per cent. of the costs of sales of Formosa Petrochemical. The price of naphtha generally follows the price trend of, and varies with market conditions for, crude oil, which in recent times have been highly volatile. Naphtha price increases are not always of the same magnitude or direction as changes in the prices of Formosa Petrochemical's products. As a result, increases in naphtha prices may have a material adverse effect on Formosa Petrochemical's margins and cash flows, if such increases cannot be passed through to buyers of Formosa Petrochemical's olefins products by way of higher olefins products prices. Significant volatility in the costs of naphtha may also put pressure on Formosa Petrochemical's margins, if increases in sales prices for Formosa Petrochemical's olefins products lag behind increases in the price of naphtha. Naphtha price increases may also increase Formosa Petrochemical's working capital needs and, accordingly, may adversely affect Formosa Petrochemical's liquidity and cash flow requirements. Formosa Petrochemical does not enter into hedging arrangements with respect to prices of its feedstock, including crude oil and naphtha. No assurance can be given that Formosa Petrochemical will in the future hedge any of its feedstock costs or that any such hedges will produce successful results. The products produced from Formosa Petrochemical's naphtha cracking operations are important raw materials used in the production processes of Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre. As Formosa Petrochemical sells these products to them on an arm's length basis by reference to market prices, any increases in the prices of naphtha and its related products will likely have an adverse impact on these three companies.

- There have been shortages in the past of various raw materials that are needed for the manufacture of certain of the Issuers' plastics products. For instance, supplies of PTA and paraxylene, which are ancillary by-products of the cracking of naphtha, have been inelastic due to the high capital investment required to produce these chemicals. Both of these are key raw materials used in the production of polyester. There can be no assurance that the Issuers will not experience shortages of any of their respective raw materials in the future.

Inability in obtaining high-quality raw materials in a timely and cost-effective manner may cause delays in each of the Issuers' production and delivery schedules, which may result in loss of customers and revenues.

Cyclical changes in the petrochemical and plastics industries may adversely affect the sales of the Issuers.

A significant proportion of the products manufactured by Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre are of commodity grade and to a large extent, are fungible with the products of its competitors. As such, there are limitations on the Issuers' ability to control the selling prices of these products. Each of the petrochemical industry and the plastics industry has been characterised by cyclical market conditions. Margins are sensitive to supply and demand balances both domestically, regionally and internationally. Demand for petrochemical and plastics products is typically dependant on the level of general economic activity, and weak economic conditions tend to mean reduced demand. Supply is affected by significant capacity additions, and if such additions are not matched by a corresponding growth in demand, average industry operating rates and margins will fall. It is not possible to predict accurately the supply and demand balances, general economic growth rates, market conditions and other factors that may affect industry operating rates and margins in the future. As such, there can be no assurance that sales or margins of petrochemical or plastics products will improve or be maintained at current levels. A downturn in the market for any of the petrochemical products or plastics products of Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre may have a significant impact on the selling price or margins of such products and on the results of operations of the relevant Issuers.

Downstream plastics producers and other customers of the Issuers are gradually moving out of Taiwan.

In recent years, many of the Issuers' customers, particularly Taiwan-based manufacturers of downstream plastics products (for example, shoes and handbags), have moved part or all of their manufacturing operations to the PRC or Vietnam in order to reduce labor and other manufacturing costs. These companies typically source their raw material requirements locally in order to reduce raw material costs and freight charges and shorten delivery time. To cater for the needs of these customers, certain of the Issuers have established manufacturing plants in various locations in the PRC, including Guangzhou, Nantong, Ningbo and Kunshan, for the production of plastics and other petrochemical products in the PRC. The Issuers also plan to expand their production capacities for these and other products, and commence commercial production of electronics materials in the PRC in the near future. Nan Ya Plastics and Formosa Chemicals & Fibre have also established manufacturing facilities in Vietnam in order to reduce labor and other manufacturing costs. However, to the extent that any of the Issuers were not able to maintain their business relationships with these customers or if any of the Issuers were no longer able to supply their products to these customers in a cost efficient manner in order to compete with local suppliers, their results of operations could be adversely affected.

Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre believe that continued expansion overseas is essential for them to remain competitive and to capitalize on the growth potential of their businesses. Such expansion may, however, place a significant strain on their management, operational and financial resources. There can be no assurance that the Issuers' existing or future management, operational and financial systems, procedures and controls will be adequate to support their future operations, that the Issuers will be able to recruit, retain and motivate their personnel or establish or develop business relationships beneficial to their future operations. Failure of the Issuers to manage growth effectively could have a material adverse effect on their businesses, results of operations and financial condition. In addition, managing operations in Vietnam and the PRC, where the Issuers have limited presence or experience, involves risks. See "— Risks Relating to the PRC — The Issuers may encounter difficulties in their operations in the PRC".

The Issuers face substantial competition in each of the industries in which they compete.

Competitors of the Issuers include large, vertically integrated companies in South Korea, Japan and Taiwan (in the case of Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre) and domestic, regional and global petroleum producers (in the case of Formosa Petrochemical). A number of these international competitors have larger scale of operations and greater financial resources than the Issuers. These competitors may also benefit from greater economies of scale and operating efficiencies. Some of these competitors also have a broader range of products and a different mix of product which may make them less susceptible to cyclical downturns. Emerging companies attempting to obtain a share of the existing markets may also act as competitors, creating price pressure on the Issuers' products.

Formosa Petrochemical also faces intense competition in Taiwan from its domestic competitor, Chinese Petroleum Corporation ("CPC"). CPC is the largest player in Taiwan's refined petroleum products market, with a share of the retail gas stations market approximately twice that of Formosa Petrochemical's indirect share and a monopoly in the LNG business in Taiwan. In the past, competition between Formosa Petrochemical and CPC to capture market share has affected the prices of Formosa Petrochemical's products and its margins on sales of refined petroleum products in Taiwan. There can be no assurance that price wars between Formosa Petrochemical and CPC will not recur in the future or that Formosa Petrochemical will be able to expand or maintain its market share against this bigger competitor.

The primary competitive factors for plastics and other petrochemical products are price, quality, manufacturing flexibility, delivery time and customer service. The relative importance of these factors is determined by the needs of particular customers and the characteristics of particular products. For example, most of the petroleum products and olefins (in the case of Formosa Petrochemical), PVC resins (in the case of Formosa Plastics) and PVC sheeting and rigid PVC film (in the case of Nan Ya Plastics) produced by the Issuers are of commodity grade and competition is principally on price, while competition for many of the specialty fiber and chemical products such as those produced by Nan Ya Plastics and Formosa Chemicals & Fibre that cater to the special needs of quality textiles manufacturers is based on quality and manufacturing flexibility as well as price.

Other changes in the competitive environment could also have a material adverse effect on the Issuers' businesses and operations. These changes could include significant capacity expansion by competitors, entry of new competitors into the Issuers' key markets, intensification of price competition from other producers (in particular producers with access to cheaper feedstock), the adoption of new trade restrictions and the adoption of new environmental laws and regulatory requirements.

Increased competition could result in significant price competition, reduced revenues, lower profit margins or loss of market share, any of which could have a material adverse effect on each of the Issuers' businesses, results of operations and financial conditions. There can be no assurance that the Issuers will be able to compete successfully against either current competitors or new competitors in the future. See "Formosa Petrochemical Corporation — Business of Formosa Petrochemical Corporation — Competition", "Formosa Plastics Corporation — Business of Formosa Plastics Corporation — Competition", "Nan Ya Plastics Corporation — Business of Nan Ya Plastics Corporation — Competition" and "Formosa Chemicals & Fibre Corporation — Business of Formosa Chemicals & Fibre Corporation — Competition".

The development plans of the Issuers have significant capital expenditure and financing requirements, which are subject to a number of risks and uncertainties.

The Issuers' businesses are capital intensive. The ability of the Issuers to maintain and increase their revenues, net income and cash flows depends upon continued capital spending. The current business strategies of Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre contemplate capital expenditures in 2004 of NT$16,024.3 million, NT$13,690.8 million, NT$7,115.0 million and NT$8,803.7 million, respectively. The Issuers' respective actual capital expenditures may vary significantly from these planned amounts due to various factors, including, among others, the ability to generate sufficient cash flows from operations to finance capital expenditures, ability to finance such expenditures through borrowings, other necessary investments and other requirements that are beyond the Issuers' control. In addition, there can be no assurance as to whether, or at what cost, capital projects will be completed or the success of these projects if completed.

The financing requirements of all members of the Formosa Group are handled centrally by the Finance Department of the General Administrative Office. See "The Formosa Group — General Administrative Office of the Formosa Group". No member of the Formosa Group, however, is obligated to guarantee or provide any other credit support for any other members of the Formosa Group. The ability of the Issuers to obtain external financing in the future is subject to a variety of uncertainties, including the following:

- the Issuers' future results of operations, financial condition and cash flows;

- the economic, political and other conditions in the ROC and the PRC and the markets for the Issuers' products;

- the costs of such financing, and the liquidity and condition of the financial markets and capital markets; and

- the issuance of any relevant government approvals and other project risks associated with the development of infrastructure in the ROC and the PRC.

Each of the Issuers expects to make substantial capital expenditures in connection with the expansion of its production capacity, including additional investments in new facilities, and investments relating to debottlenecking, modernizing and increasing production capacity of their existing manufacturing plants. Operating losses may be incurred if any of the Issuers does not have adequate capital resources to complete its expansion plans or if actual expenditures exceed planned expenditures. There can be no assurance that any required additional financing, either on a short-term or long-term basis, will be made available to the Issuers on satisfactory terms, if at all. If adequate funds are not available on satisfactory terms, the Issuers may be forced to curtail expansion plans, which could result in a loss of customers, an inability to successfully implement their respective business strategies and limitations on the growth of their businesses.

In addition, the Issuers' investments in their subsidiaries and affiliates could require such Issuers to make significant additional capital contributions, shareholder financing or contingent support, such as the provision of guarantees for bank financing activities, to fund such subsidiaries' or affiliates' operations or expansion.

Forecasted financial information reported by the Formosa Petrochemical pursuant to Securities and Futures Commission requirements may not be reliable.

As Formosa Petrochemical was listed on December 26, 2003, it is required to report its annual financial forecasts until 2006 and may be required to report its annual financial forecasts subsequently if it is subject to the reporting requirements under certain circumstances pursuant to the rules and regulations of the Securities and Futures Commission. To the extent there is any significant variance between its actual results and the forecast for the corresponding period included in the annual forecast it has already published, Formosa Petrochemical is required to revise its forecast and publish the revised forecasts as soon as practicable. Formosa Petrochemical made its forecast on October 9, 2003 and published its revised forecasts on April 29, 2004.

Investors should not rely on these forecasts as they are derived from many assumptions regarding Formosa Petrochemical's industries, investments and general market, and political and economic conditions, many of which are beyond Formosa Petrochemical's control. Formosa Petrochemical does not expect to update investors on any possible difference presented in the forecasts that it published on April 29, 2004, or forecasts it might publish in the future, from the information included in this Offering Circular, including forward-looking statements.

The Formosa Group, including each of the Issuers, is ultimately controlled by the Wang family.

Each of the Issuers is a member of the Formosa Group, a diversified group of companies in Taiwan engaged primarily in the oil refining, plastics and petrochemical, fiber, textiles and electronics-related industries, all under the direct or indirect control of Mr. Yeong-Ching Wang, his brother Mr. Yeong-Tsai Wang and members of their family and other relatives. See "The Formosa Group — Cross Shareholdings". In addition, Mr. Yeong-Ching Wang is also the Chairman of the Board of Directors of all the Issuers. Mr. Yeong-Tsai Wang and relatives of Mr. Yeong-Ching Wang and Mr. Yeong-Tsai Wang are also directors of most of the companies in the Formosa Group. Accordingly, the Wang family has, and will continue to have, the ability to exercise a controlling influence over the businesses of the Issuers and may cause the Issuers to take actions that are not in, or may conflict with, the interests of the Issuers and/or the interests of some or all of the Issuer's creditors or minority shareholders, and there can be no assurance that such actions will not have an adverse effect on the Issuers or the Noteholders. These include matters relating to the Issuers' management and policies, the outcome of the Issuers' corporate actions and the election of directors and supervisors.

Each of the Issuers has a significant level of debt, and its ability to operate its businesses could be adversely affected if it is unable to service its debts, or if it breaches the covenants of its debts or the Notes and such breach is not waived.

As at March 31, 2004, the total outstanding long-term liabilities of Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre was NT$112,061.1 million, NT$50,762.7 million, NT$82,588.9 million and NT$52,473.9 million, respectively, representing 33.8 per cent., 26.4 per cent., 29.7 per cent. and 27.6 per cent., respectively, of their total assets as at such date.

The Issuers have substantial debt payment obligations and must comply with various financial and other covenants contained under the relevant loan agreements, and under the Notes when they are issued. Under some of these loan agreements, the relevant Issuer is required to notify the lenders, and in some cases obtain their prior written consent, if the Issuer proposes to create mortgages on its assets, enter into new long-term contracts, authorize or issue additional capital stock or provide guarantees for the indebtedness of others. There can be no assurance that the interests of the Noteholders will not conflict with the interests of such lenders, and that any such conflict will not have an adverse effect on the interests of the Noteholders. Any failure to obtain waivers for any existing or future non-compliance of, or any failure in the future to comply with, such undertakings or restrictive covenants may result in the acceleration of the relevant indebtedness and, through cross-default clauses, other indebtedness. Any such developments would have a material adverse effect on the results of operations and financial condition of the relevant Issuer.

The Issuers' ability to make payments on and to refinance their indebtedness, including the Notes, to comply with the financial covenants of such indebtedness and to fund planned capital expenditures will depend on their ability to generate sufficient cash in the future, which will be subject to many factors beyond their control. Certain of the Issuers have on prior occasions been required to restructure its indebtedness to adjust its repayment schedule. No assurance can be given that the Issuers will not need to restructure their indebtedness in the future or that they will be able to refinance any of their indebtedness on commercially acceptable terms or at all. In addition, the Issuers may be exposed to risks inherent in interest rate fluctuations because a substantial portion of their borrowings are at floating rates of interest, which would result in higher interest expenses in the event of increases in interest rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Formosa Petrochemical Corporation — Liquidity and Capital Resources — Capital Resources", "Management's Discussion and Analysis of Financial Condition and Results of Operations of Formosa Petrochemical Corporation — Quantitative and Qualitative Disclosures about Market Risks", "Management's Discussion and Analysis of Financial Condition and Results of Operations of Formosa Plastics Corporation — Liquidity and Capital Resources — Capital Resources", "Management's Discussion and Analysis of Financial Condition and Results of Operations of Formosa Plastics Corporation — Quantitative and Qualitative Disclosures about Market Risks", "Management's Discussion and Analysis of Financial Condition and Results of Operations of Nan Ya Plastics Corporation — Liquidity and Capital Resources — Capital Resources", "Management's Discussion and Analysis of Financial Condition and Results of Operations of Nan Ya Plastics Corporation — Quantitative and Qualitative Disclosures about Market Risks", "Management's Discussion and Analysis of Financial Condition and Results of Operations of Formosa Chemicals & Fibre Corporation — Liquidity and Capital Resources — Capital Resources" and "Management's Discussion and Analysis of Financial Condition and Results of Operations of Formosa Chemicals & Fibre Corporation — Quantitative and Qualitative Disclosures about Market Risks".

Formosa Petrochemical has a relatively short operating history

Formosa Petrochemical was incorporated in 1992. However, Formosa Petrochemical's crude oil refining and naphtha cracking facilities only began commercial production in 1999. Accordingly, Formosa Petrochemical has a limited operating history for investors to refer to in evaluating its business, and its prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in an early stage of development. In particular, Formosa Petrochemical's manufacturing processes are complex, dangerous and vulnerable to certain potential problems. See "— The manufacturing processes of the Issuers are complex and dangerous". Formosa Petrochemical has limited experience operating its crude oil refinery and naphtha cracking equipment and utilization rates have in the past been constrained by Formosa Petrochemical's unfamiliarity with production equipment and its inability to deal quickly with manufacturing problems as they occur. While Formosa Petrochemical believes its employees' increasing familiarity with its production equipment has allowed the company to increase utilization rates, particularly with regard to its refining activities, there can be no assurance that such increases will continue.

Although Formosa Petrochemical has been able to sustain growth in its revenues and profit in the past, there can be no assurance that growth or profitability will continue to be sustained in the future, or that it will not incur significant losses in the future.

Fluctuations in exchange rates could adversely affect the businesses and results of operations of the Issuers.

In the past few years, the currencies of many Asian countries, including the ROC, have experienced considerable volatility. See "Exchange Rates".

Historically, a significant portion of the operating revenues of each of the Issuers has been denominated in NT dollars and a significant portion of the operating costs of the Issuers has been denominated in U.S. dollars. In addition, each of the Issuers has long term debt denominated in foreign currencies, principally U.S. dollars.

Foreign currency denominated transactions of the Issuers are recorded on the date they occur in NT dollars using the prevailing exchange rate for such date. The realized gains or losses resulting from the application of a different foreign exchange rate when the transaction is settled and the amount received or paid in settlement is converted into or from NT dollars and credited or charged to income or costs, as the case may be. At the end of each period, the balances of foreign currency receivables and payables are restated at the period-end market rate of exchange and the resulting realized or unrealized gains or losses, are recognized as non-operating income or expenses. See Note 2 to the Financial Statements, as at and for the years ended December 31, 2001, 2002 and 2003, and Note 2 to the Financial Statements as at and for the three months ended March 31, 2003 and 2004 for each of the Issuers, included elsewhere in this Offering Circular. As a result, changes in the rate of exchange between the NT dollar and the U.S. dollar will affect the gross and operating profit margins of the Issuers and could result in foreign exchange and operating losses. For more information regarding the Issuers' foreign exchange risk, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of Formosa Petrochemical — Quantitative and Qualitative Disclosures about Market Risks — Foreign Exchange Risk", "Management's Discussion and Analysis of Financial Condition and Results of Operations of Formosa Plastics — Quantitative and Qualitative Disclosures about Market Risks — Foreign Exchange Risk", "Management's Discussion and Analysis of Financial Condition and Results of Operations of Nan Ya Plastics — Quantitative and Qualitative Disclosures about Market Risks —

Foreign Exchange Risk" and "Management's Discussion and Analysis of Financial Condition and Results of Operations of Formosa Chemicals & Fibre — Quantitative and Qualitative Disclosures about Market Risks — Foreign Exchange Risk".

The impact of future exchange rate fluctuations on the Issuers' financial conditions or results of operations cannot be accurately predicted. The Issuers currently hedge their foreign exchange exposure (primarily risks relating to outstanding long-term debt) through forward exchange contracts, foreign currency options, currency swaps or other derivative contracts. Any fluctuation in exchange rates that is outside the expectations or hedging parameters of any of the Issuers could have a material adverse effect on the results of operations and financial condition of such Issuer.

The manufacturing processes of the Issuers are complex and dangerous.

Petroleum refining, naphtha cracking and the production of chemicals, plastics, polyester and other petrochemical products involve complex, precise and often dangerous processes, requiring production in tightly controlled environments. See "Formosa Petrochemical Corporation — Business of Formosa Petrochemical Corporation — Production Processes", "Formosa Plastics Corporation — Business of Formosa Plastics Corporation — Production Processes", "Nan Ya Plastics Corporation — Business of Nan Ya Plastics Corporation — Production Processes" and "Formosa Chemicals & Fibre Corporation — Business of Formosa Chemicals & Fibre Corporation — Production Processes". As a result, the manufacturing and petroleum refining operations of the Issuers are vulnerable to manufacturing problems, including the following:

- The Issuers may experience problems in achieving an acceptable success rate in the production of their products. The likelihood of facing such difficulties is higher in connection with the transition to new methods of production. The interruption of certain processes or the failure to achieve acceptable refining and/or manufacturing yields at any of the facilities would adversely affect the businesses and results of operations of the Issuers operating such facilities.

- Substantial amounts of electricity are consumed in the Issuers' production processes. In order to reduce the loss of work-in-progress and to facilitate smooth resumption of electricity supply, backup power generators and a dynamic uninterrupted power system are maintained for the purpose of providing electricity to machinery and equipment until they can be safely turned off or switched to backup electricity supply. However, there can be no assurance that results of operations or financial conditions of the Issuers will not be adversely affected in the event of power interruption.

- The Issuers' businesses involve certain inherently dangerous activities exposing them to a number of additional risks, including fires, explosions, oil spills, well blowouts, leakage, release of toxic fumes and other unexpected or dangerous conditions causing personal injuries or death, property damage, environmental damage or interruption of operations. See "— The Issuers' insurance coverage may not adequately protect them against certain operating hazards".

In addition, certain of the Issuers have limited operating experience with these complex manufacturing processes. For example, Formosa Petrochemical only began commercial operation of its crude oil refinery and naphtha cracking equipment in 1999. The operations of the Issuers would be adversely affected if they were not able to overcome manufacturing problems or secure access to advanced refining and manufacturing process technologies or maintain the necessary safety measures in a timely and cost-effective manner.

The Issuers are exposed to costs arising from environmental compliance and clean-up, which may have a material adverse effect on their businesses, financial conditions or cash flows.

The Issuers' businesses involve the transport, handling, production and use of substances and compounds that may be considered toxic or hazardous within the meaning of environmental laws. Furthermore, the Issuers' manufacturing operations generate gaseous chemical wastes, liquid wastes, waste water and other industrial wastes at various stages of the refining and manufacturing processes. As a result, the Issuers are subject to stringent environmental, health and safety laws and regulations addressing air pollutant emissions and discharge of treated waste water, and establishing standards for the treatment, storage and disposal of solid and hazardous wastes. Some of these laws and regulations require the Issuers' plants to operate under permits that are subject to renewal or modifications. Typically, these laws and regulations provide for substantial fines and potential criminal sanction in the event of violations. Violations of these laws and regulations can also result in permit revocation and/or plant shutdown. The Issuers' operations may be affected by environmental laws and regulations, including in the following manner:

- The Issuers' production sites in Taiwan, the PRC and the United States are subject to regulations of, and periodic monitoring by, the national and local environmental protection authorities. Although the Issuers believe that their activities conform to current applicable environmental laws and regulations in all material respects, environmental claims or the failure to comply with current or future laws and regulations could result in assessment of damages or imposition of fines against the Issuers, suspension of production or cessation of operations. New regulations could require the Issuers to acquire expensive equipment or to incur other significant expenses. Any failure by any of the Issuers to control the use of, or adequately restrict the discharge of, hazardous substances could subject such Issuers to future liabilities and sanctions.

- From time to time, environmental concerns have delayed or forced the cancellation of major public-works projects in Taiwan, and have in the past led to delays in obtaining the required approvals for a number of major new industrial projects. There can be no assurance that any of the Issuers' new projects will not be delayed or cancelled as a result of environmental concerns.

- A number of foreign countries and local governments have enacted, or have under consideration, laws and regulations relating to the use and disposal of plastics products, especially those products containing PVC. For example, the ROC Environmental Protection Administration has adopted measures to limit the use of plastics dinner service and plastics bags in retail stores and food shops in Taiwan. Widespread adoption of such laws, regulations or proposals, or public perception, could have an adverse impact on the Issuers' sales of plastics products.

As part of their normal business operations, the Issuers incur and expect to continue to incur capital and operating costs to comply with environmental, health and safety laws and regulations. In addition, introduction of new laws and regulations, stricter enforcement of, or changes to, existing laws and regulations (including the adoption of Euro-IV emissions standards in Taiwan), or the imposition of new clean-up requirements could in the future require Formosa Petrochemical and the other Issuers to incur additional costs, or affect their production or revenues, in ways that may have an adverse effect on its financial condition or results of operations. No assurance can be given that material capital expenditures, costs or operating expenses beyond those currently anticipated will not be required under applicable environmental, health, and safety laws and regulations, or that developments with respect to such laws and regulations will not adversely affect the Issuers' production or revenues.

The Issuers' insurance coverage may not adequately protect them against certain operating hazards.

The nature of the Issuers' businesses, including the transportation of crude oil, the handling, production and transportation of petrochemical and refined petroleum products, and the storage and sale of petroleum products, are inherently dangerous and involve many hazards. These hazards may result in fires, explosions, oil spills, well blowouts, leakage, release of toxic fumes and other unexpected or dangerous conditions causing personal injuries or death, property damage, environmental damage and interruption of operations. In addition, some of the above risks may cause personal injury and loss of life or environmental damage, and may result in suspension of the Issuers' operations and the imposition of civil or criminal penalties, which may not be covered by the Issuers' insurance policies.

In addition to the foregoing hazards, the Issuers are also subject to additional risks of mechanical failure and power outages, prolonged equipment breakdown, labor difficulties, transportation interruptions and terrorist attacks. These instances may result in disruptions to the Issuers' operations, or disruptions or damage to the Issuers' production facilities. To the extent that these are not fully covered by the Issuers' insurance policies, the Issuers' income and cash flows may be adversely affected.

To the extent that the Issuers suffer loss or damage that is not recoverable by insurance or exceeds insurance coverage, their results of operations and cash flows may be adversely affected.

In addition, as a result of the terrorist attacks of September 11, 2001 and other events, the Issuers' insurance carriers have created exclusions for losses resulting from terrorism from the Issuers' "all risk" property insurance policies. While separate terrorism insurance coverage is available, premiums for such coverage are expensive, especially for chemical facilities, and the policies are subject to high deductibles. Available terrorism coverage typically excludes coverage for losses from acts of foreign governments as well as nuclear, biological and chemical attacks. Management of each of the Issuers has determined that it is not economically prudent to obtain terrorism insurance, especially given the significant risks that are not covered by such insurance. The Issuers currently have certain limited insurance coverage for terrorism acts on their properties. In the event of a terrorist attack which impacts on a substantial part or all of their facilities, the Issuers' businesses, results of operations and cash flows could be adversely affected, and they could become liable for any contamination or for personal or property damage due to exposure to hazardous materials caused by any catastrophic release that may result from a terrorist attack.

If the Issuers are not able to renew or maintain the permits and approvals required to operate their businesses, this may have a material adverse effect on their businesses.

The Issuers require certain permits and approvals to operate their businesses and/or facilities. In the future, the Issuers may be required to renew such permits and approvals or to obtain new permits and approvals. While each of the Issuers believes that it will be able to obtain such permits and approvals and none of the Issuers has experienced any difficulty in renewing and maintaining these permits and approvals in the past, as and when required, there can be no assurance that the relevant authorities will issue any such permits or approvals in the time-frame anticipated by the Issuers or at all. Failure by the Issuers to renew, maintain or obtain the required permits and approvals and technology licenses may interrupt the Issuers' operations or delay or prevent the implementation of the Issuers' capacity expansion program and may have a material adverse effect on the Issuers' results of operations, financial condition and prospects.

The performance of the Issuers may be affected by the resignation of key members of management.

Future performance of the Issuers will largely depend on the Issuers' ability to attract and retain key technical, support, sales and management personnel. The loss of certain of such persons could have a material adverse effect on the businesses, financial conditions and results of operations of the Issuers.

Risks Relating to the ROC

Strained relations between the ROC and the PRC, and political developments in the ROC, could adversely affect the businesses of the Issuers and the market value of the Notes or the Common Shares

The principal executive offices of the Issuers and most of their respective assets and customers are located in Taiwan, and most of their respective revenues are derived from their operations in Taiwan. Taiwan has a unique international political status. Both the governments of the PRC and the ROC assert sovereignty over Taiwan. The PRC government does not recognize the legitimacy of the government of the ROC. Although significant economic and cultural relations have been established in the past decade between Taiwan and the PRC, the PRC has refused to renounce the possibility that it may use force to gain control over Taiwan if Taiwan declared independence or if a foreign power interfered in Taiwan's domestic affairs. Relations between the ROC and the PRC have at times been strained. Past developments in relations between the ROC and the PRC have on occasions depressed the market price of the securities of ROC companies. There is no assurance that relations between the ROC and the PRC will not deteriorate, or that future military actions or economic sanctions or other disruptive activities will not be undertaken by either government. Tension between the ROC and the PRC and other factors affecting political or economic conditions in Taiwan could have a material adverse effect on the financial condition and results of operations of the Issuers, as well as the market price of the Notes or the market price and the liquidity of the Common Shares.

On March 20, 2004, the ROC held presidential elections the outcome of which was the re-election of the incumbent president, Mr. Chen Shui Bian. However, the election process and the outcome of the election itself were surrounded by political controversy and the outcome of the election is currently being contested in the Taiwanese judicial system by certain opposition parties and a court-supervised recount of ballots is currently underway. Despite such ongoing proceedings, the incumbent president Mr. Chen Shui Bian was sworn in for an additional term on May 20, 2004. The resulting political uncertainty has caused significant volatility in the Taiwan Stock Exchange Weighted Stock Index (the "TSE Index") including significant declines in the value of the TSE Index and the shares of the Issuers, including the Common Shares. There can be no assurance that further political uncertainty will not arise with respect to the recent election. The possibility of further instability and uncertainty could adversely affect the market price of the Common Shares traded on the TSE and have a significant adverse impact on the economy of the ROC, and investors may adopt a more cautious approach towards the ROC's securities markets or investments in the ROC in general, and such factors could affect the value of the Common Shares and the Notes.

Furthermore, any increase in tensions between the ROC and the PRC may affect the Issuers' current and planned manufacturing facilities in the PRC and the availability of the PRC as an export market for the Issuers' products.

Disruptions in the international trading environment may significantly reduce the Issuers' international sales and revenues.

A substantial portion of the net sales revenues of each of the Issuers is derived from sales from Taiwan to customers located in areas outside Taiwan, particularly the PRC. For the years ended December 31, 2001, 2002 and 2003, export sales from Taiwan to customers outside Taiwan as a percentage of net sales revenues was 9.2 per cent., 19.1 per cent. and 23.1 per cent., respectively, for Formosa Petrochemical, 38.8 per cent., 39.6 per cent. and 42.6 per cent., respectively, for Formosa Plastics, 53.2 per cent., 55.3 per cent. and 55.8 per cent., respectively, for Nan Ya Plastics, and 35.1 per cent., 40.1 per cent. and 44.1 per cent., respectively, for Formosa Chemicals & Fibre. Sales to customers outside Taiwan are expected to continue to represent a significant portion of net sales revenues of the Issuers. Accordingly, the financial condition and results of operations of the Issuers and the market price of the Common Shares may be affected by changes in governmental policies, regional and global inflationary pressures, increasing interest rates, social instability and other political, economic or social developments in or affecting the countries in which the Issuers sell its products. As a result, the business of the Issuers will continue to be vulnerable to disruptions in the international trading environment, including adverse changes in foreign government regulations, political unrest and international economic downturns. These disruptions in the international trading environment affect the demand for the products of the Issuers and the terms upon which they sell their products overseas, which may significantly reduce the Issuers' international sales and revenues and adversely affect the results of operations and financial conditions of the Issuers.

The trading price of the Common Shares may be adversely affected by the general activities of the TSE and the economic performance of Taiwan.

The Common Shares are listed on the TSE. The trading price of the Common Shares may be affected by the general activities of the TSE and the economic performance of Taiwan. The TSE is smaller and, as a market, more volatile than the securities markets in the United States and a number of European countries. The TSE has experienced substantial fluctuations in the prices and volumes of sales of listed securities, and there are currently limits on the range of daily price movements on the TSE. In the past decade, the TSE Index peaked at 10,202 in February 2000 and subsequently fell to a low of 3,446 in October 2001. During 2003, the TSE Index peaked at 6,142 on November 5, 2003 and reached a low of 4,140 on April 28, 2003. From January 1, 2004 to June 28, 2004, daily closing prices of the Common Shares ranged from NT$50.0 per share on May 5, 2004 to NT$58.5 per share on March 9, 2004. On June 28, 2004, the TSE Index closed at 5,709.84 and the daily closing value of the Common Shares was NT$53.0 per share. The TSE is particularly volatile during times of political instability, such as when relations between the ROC and the PRC are strained. Moreover, the TSE has experienced problems such as market manipulation, insider trading and payment defaults. The recurrence of these or similar problems could decrease the market prices and liquidity of the Common Shares.

In response to past declines and volatility in the securities markets in Taiwan, and in line with similar activities by other countries in Asia, the ROC government formed the Stabilization Fund, which has purchased and may from time to time purchase shares of ROC companies to support these markets. In addition, other funds associated with the ROC government have in the past purchased, and may from time to time purchase, shares of ROC companies on the TSE or other markets. In the future, market activity by government entities, or the perception that such activity is taking place, may take place or has ceased, may cause fluctuations in the market prices and liquidity of the Common Shares.

Any future outbreak of severe acute respiratory syndrome may materially and adversely affect the businesses and results of operations of the Issuers.

Taiwan, together with the PRC, Hong Kong, Singapore and certain other areas experienced in early 2003 an outbreak of severe acute respiratory syndrome, or SARS, a new and highly contagious form of atypical pneumonia. The outbreak of SARS commenced in early 2003 and reached its peak in Taiwan in May 2003. According to the World Health Organization, over 8,400 cases of SARS and more than 900 deaths had been reported in over 30 countries as of August 7, 2003. The outbreak of SARS in Taiwan in early 2003 was contained by the health authorities and did not significantly impact the Issuers' operations. A future SARS outbreak may potentially result in a quarantine of infected employees and their relatives, which may affect the Issuers' operations. The impact any future SARS outbreak could have on the Issuers' business, results of operations and financial conditions cannot be accurately predicted.

During the last SARS outbreak, the Issuers took various preventive measures and established contingency plans to ensure the safety of their employees, and to reduce the adverse impact, if any, in case any of their employees contracted SARS. While the preventive measures worked well during the last SARS outbreak and there was no major impact on the results of operations of the Issuers as a result of SARS, there can be no assurance that a future outbreak of SARS would not have a material adverse effect on the results of operations and financial conditions of the Issuers.

Risks Relating to the PRC

The Issuers may encounter difficulties in their operations in the PRC.

In order to cater for the needs of their customers which have relocated to the PRC, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre have established manufacturing plants in various locations in the PRC. See "— Risks relating to the businesses of the Issuers — Downstream plastics producers and other customers of the Issuers are gradually moving out of Taiwan". These investments in the PRC pose certain risks and uncertainties, including:

- The Issuers are relatively new entrants to the PRC market and may face technical, legal and administrative difficulties in the production of plastics products and petrochemical products in the PRC. As such, the Issuers may not be able to supply sufficient products to their respective targeted customers in the PRC at competitive prices.

- The PRC is required under its World Trade Organization commitments to liberalize and improve access to a number of its markets. Although the Issuers believe that this will be beneficial in the long term, providing them with greater access to the PRC market and resulting in reductions or eliminations of tariffs and quotas for many of the Issuers' products in the PRC, the Issuers may also face increased competition from other manufacturers in the PRC, especially in relation to products of a lower quality and also in relation to commoditized products.

- Several of the Issuers have certain minority interests in a number of affiliates and joint venture entities established in the PRC in connection with its operations. Such investments may involve special risks associated with the possibility that the other shareholders or joint venture partners may (i) have economic or business interests or goals that are inconsistent with those of the relevant Issuers; (ii) take actions that are contrary to the instructions or requests of the relevant Issuers or contrary to the policies or objectives of the relevant Issuers; (iii) be unable or unwilling to fulfill their obligations under the relevant joint venture or shareholders' agreements; or (iv) have financial difficulties. For more information, see "Formosa Plastics Corporation — Subsidiaries and Investee Companies", "Nan Ya Plastics Corporation — Subsidiaries and Investee Companies", "Formosa Chemicals & Fibre Corporation — Subsidiaries and Investee

Companies", Note 7 to Formosa Plastics' Audited Consolidated Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003, Note 7 to Formosa Plastics' Unaudited Non-consolidated Financial Statements as at and for the three months ended March 31, 2003 and 2004, Note 8 to Nan Ya Plastics' Audited Consolidated Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003, Note 6 to Nan Ya Plastics' Unaudited Non-consolidated Financial Statements as at and for the three months ended March 31, 2003 and 2004, Note 4(4) to Formosa Chemicals & Fibre's Audited Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 and Note 3(4) to Formosa Chemicals & Fibre's Unaudited Financial Statements as at and for the three months ended March 31, 2003 and 2004, all included elsewhere in this Offering Circular.

- There can be no assurance that laws and regulations in the PRC relating to foreign investment will not be altered in such a manner as to result in a material adverse effect on the businesses and results of operations of the Issuers.

Although none of the Issuers have to date experienced any significant problems in the PRC with respect to their operations or local joint venture or investment partners, there can be no assurance that they will not experience problems in the future. The occurrence of such problems may have an adverse effect on their businesses and prospects.

The PRC's economic, political and social conditions, as well as government policies, could affect the Issuers' businesses.

The PRC economy differs from the economies of most developed countries in many respects, including:

- extent of government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

While the PRC economy has experienced significant growth in the past twenty years, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on the Issuers' operations. For example, the Issuers' financial condition and results of operations may be adversely affected by the PRC government's control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to them.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating the development of industries in the PRC by imposing top-down policies. It also exercises significant control over PRC economic growth through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

In 2003, the government of the PRC announced its intentions to slow the PRC's annual GDP growth rate from what it considered an unsustainably high rate. However, in the first quarter of 2004, the PRC economy continued to accelerate, raising fears the PRC government will take dramatic actions, such as it did in 1994, resulting in a rapid economic slowdown which would have painful macro-economic effects in the PRC and PRC-related markets.

Specific actions taken by the PRC government in 2004 include: raising deposit reserves requirements and rediscount rates for banks, directing banks to reduce loans to overheating sectors of the economy, tightening and enforcing restrictions on land use to reduce new construction projects, and cracking down on speculative currency inflows which may be invested in construction and construction-related industries. The PRC government has also stated its intention to continue to encourage healthy growth in private consumption and exports. In the second quarter of 2004, slightly lower prices in construction-related steel and aluminum sectors and a drop in fixed asset investment levels have been identified by the PRC government as initial signs of a successfully gradual slowdown, but risk of more dramatic actions and another hard landing with severe economic impact, which would likely have a material adverse affect on the Issuers' businesses, results of operations and financial condition, still remains.

Risks Relating to the Notes and the Common Shares

The Common Shares have a limited trading history and limited liquidity.

The Common Shares have only been listed on the TSE since December 26, 2003, and have a limited trading history. There is limited historical and statistical data for the Common Shares upon which investors may base their investment decisions. In addition, only a small portion, of the Common Shares were held in the hands of the public as at April 6, 2004. As of that date, approximately 86 per cent. of the Common Shares were owned by Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre. Such Common Shares were subject to lock-ups pursuant to the operating rules of the TSE. See "Description of Common Shares." In addition, another approximately 4 per cent. of the Common Shares were owned by Formosa Taffeta, an affiliate of Formosa Petrochemical. See "Formosa Petrochemical Corporation — Principal Shareholders of Formosa Petrochemical Corporation." The average daily trading volume for the Common Shares on the TSE in the three months ended March 31, 2004 was 269.1 million shares. No assurance can be given that the liquidity of the Common Shares will be improved or sustained after the offering of the Notes. Since the holders of the Exchangeable Notes cannot exchange the Exchangeable Notes for the Common Shares until December 26, 2004 and the holders of the Formosa Petrochemical Convertible Notes cannot convert their Formosa Petrochemical Convertible Notes into Common Shares until July 30, 2004 and the holders of the Notes may elect never to exercise their exchange or conversion rights, the sale of the Notes will not result in additional liquidity of the Common Shares until such dates, if at all. Market prices of the Common Shares have been and continue to be volatile. From January 1, 2004 to June 28, 2004, daily closing prices of the Common Shares ranged from NT$50.0 per share on May 5, 2004 to NT$58.5 per share on March 9, 2004. Furthermore, volatility in the price of the Common Shares may be caused by factors outside of Formosa Petrochemical's control and may be unrelated or disproportionate to the operating results of Formosa Petrochemical. See "— Risks Relating to the ROC — The trading price of the Common Shares may be adversely affected by the general activities of the TSE and the economic performance of Taiwan".

Noteholders' entitlement to dividends and other rights in respect of the Common Shares may be limited.

Unless and until a Noteholder acquires Common Shares upon a conversion or exchange of the Notes, such Noteholder will have no rights with respect to the Common Shares, including any voting rights or rights to receive any regular dividends or other distributions with respect to the Common Shares. Noteholders who acquire Common Shares upon the exercise of a Conversion Right or an Exchange Right will be entitled to exercise the rights of holders of the Common Shares only as to actions for which the applicable record date occurs after the relevant Conversion Date or Exchange Date (as the case may be).

Under the Conditions, Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics or Formosa Chemicals & Fibre, as the case may be, is required to procure the issue and/or, as the case may be, delivery, of the Common Shares and other relevant documentation, if any, to the order of the exchanging or converting Noteholder not later than five ROC Business Days after the relevant Exchange Date or Conversion Date. It is the responsibility of the Noteholder, or the local agent of the Noteholder, to procure registration of the Noteholder or its designee on the shareholders' register of Formosa Petrochemical in sufficient time prior to the beginning of any Closed Period preceding a relevant record date to participate in the relevant dividends or distribution of Formosa Petrochemical by reference to that record date.

A Noteholders' right to vote with respect to the Common Shares it receives upon the exchange or conversion of the Notes during a Closed Period will not be recognized by Formosa Petrochemical until such Noteholder (or such Noteholder's designee) is registered as an owner of the Common Shares in the shareholders' register of Formosa Petrochemical.

As permitted by the laws and regulations of the ROC, and pursuant to the practice generally adopted by ROC companies, if the Exchange Date or Conversion Date (as the case may be) falls within five ROC Business Days before the beginning of, and during, a Closed Period, such Noteholder (or its designee) will not be registered as an owner of the Common Shares in the shareholders' register of Formosa Petrochemical until the end of the Closed Period. As a result, the right of an exchanging or converting Noteholder to attend a shareholders' meeting to vote with respect to the Common Shares it receives upon the exchange or conversion of the Notes will not be recognized by Formosa Petrochemical until such Noteholder (or its designee) is registered as owner of the Common Shares in the shareholders' register of Formosa Petrochemical.

There are limitations on Noteholders' ability to exercise exchange and conversion rights

Noteholders will not be able to exercise their exchange and conversion rights during certain Closed Periods. Furthermore, under current ROC law, regulations and policy, PRC persons are not permitted to hold or to convert or to exchange the Notes or to register as shareholders of Formosa Petrochemical.

The returns of the Noteholders on the Notes depends on the value of the Common Shares.

The terms of the Notes differ from those of ordinary debt securities because each Note is exchangeable or convertible, as the case may be, by the Noteholder into Common Shares. Accordingly, the Notes may bear particular risks. It is difficult to predict whether the price of the Common Shares will rise or fall. Trading prices of the Common Shares will be influenced by the operating results of Formosa Petrochemical, and by complex and interrelated political, economic, financial and other factors that can affect the capital markets generally, the TSE and the market segments of which Formosa Petrochemical is a part. Depending on these factors, the value of the Common Shares may become substantially lower than it is when the Notes are initially purchased. In addition, the value of the securities to be delivered may vary substantially between the date on which exchange rights or conversion rights are exercised and the date on which such securities are delivered. See "Terms and Conditions of the Formosa Petrochemical Convertible Notes —

Conversion", "Terms and Conditions of the Formosa Plastics Exchangeable Notes — Exchange", "Terms and Conditions of the Nan Ya Plastics Exchangeable Notes — Exchange" and "Terms and Conditions of the Formosa Chemicals & Fibre Exchangeable Notes — Exchange". If any potential investors have any doubt on the risk level implied, they should consult a professional investment advisor.

Fluctuations in exchange rates could affect the value of the Common Shares, and the value of dividends and distributions on the Common Shares.

The Common Shares are traded in NT dollars on the TSE. The value of the Common Shares will fluctuate along with the exchange rate between the NT dollar and the U.S. dollar. Additionally, such fluctuations will affect the amounts received by holders of the Common Shares upon (i) payment of cash dividends on the Common Shares, if any, paid in NT dollars, and (ii) a liquidation of Formosa Petrochemical on sales of assets, mergers, tender offers or similar transactions denominated in NT dollars or any other foreign currency.

The Issuers have limited liquidity and may be unable to repurchase its Notes if certain specific events occur.

The Issuers are required to repurchase all or a portion of the Notes at their Early Redemption Amount (as defined herein) if certain events occur, such as a Change in Control (as defined herein) or a delisting of the Common Shares. The Issuers may have to spend significant amounts of capital to repurchase the Notes that they are required to repurchase under such circumstances, and obligations to make such repurchases may occur at a time, or from time to time, when any or all of the Issuers have insufficient liquidity to make such repurchases. Such repurchases may require the Issuers to borrow funds or otherwise convert long-term investments to liquid funds, which could adversely affect their financial condition and the prices of the Notes.

An active trading market for the Notes may not develop

The Notes are a new issue of securities for which there is currently no trading market. The Notes are being offered pursuant to an exemption from registration under the Securities Act, and, as a result, the Purchasers will only be able to resell the Notes in transactions that are not subject to, or exempt from registration under the Securities Act. In addition, the Purchasers or their respective affiliates may purchase Notes for proprietary purposes and not with a view for distribution. Such purchases may involve a substantial portion of the Notes. The Issuers cannot predict whether an active trading market for the Notes will develop or be sustained. If an active trading market were to develop, the Notes could trade at prices that may be lower than the initial offering price. Whether or not the Notes trade at lower prices depends on many factors, including:

- the market price of the Common Shares, prevailing interest rates and the markets for similar securities;

- general economic conditions; and

- the financial condition, historical financial performance and future prospects of the Issuers.

If an active market for the Notes fails to develop or be sustained, the trading price of the Notes could be materially and adversely affected. Approval in-principle has been received for the listing of the Notes on the SGX-ST. However, there can be no assurance that the Issuers will be able to obtain or be able to maintain such a listing or that, if listed, a trading market will develop on the exchange. The Issuers do not intend to apply for listing of the Notes on any securities exchange other than the SGX-ST. The Notes may not be publicly offered, sold, pledged or otherwise transferred in any jurisdiction where registration may be required.

Future issues, offers or sales of Common Shares may hurt the value of the Notes.

The market price of the Notes and the Common Shares could decline as a result of future issues, offers or sales of a large number of the Common Shares or securities convertible or exchangeable into or exercisable for the Common Shares or any securities or financial instruments whose economic value is determined directly or indirectly by reference to the market price of the Common Shares, or the perception that such issues, offers or sales could occur. If a large number of the Common Shares is sold, the market price for the Notes or the Common Shares could be depressed.

Holders of the Notes will be required to appoint local agents in Taiwan and will be subject to other requirements if they exchange or convert the Notes and become shareholders of Formosa Petrochemical, which may make ownership burdensome.

When a non-ROC holder of the Notes exercises its exchange or conversion rights and registers as a shareholder of Formosa Petrochemical, such holder will be required to appoint an agent as a tax guarantor in Taiwan. Such tax guarantor will be required to meet the qualifications set by the Ministry of Finance of the ROC government and will act as the guarantor of such holder's tax payment obligations. Evidence of the appointment of a tax guarantor and the approval of such appointment is required as conditions to receiving such holder's profits derived from the sale of Common Shares. There can be no assurance that such holder will be able to appoint and obtain approval for a tax guarantor in a timely manner.

In addition, under current ROC law, a non-ROC exchanging or converting holder of the Notes who wishes to convert or exchange any of its Notes and to hold the Common Shares is required to (i) complete a registration with the TSE; and (ii) appoint a local agent in Taiwan to open a securities trading account with a local securities brokerage firm and an NT dollar bank account, remit funds, exercise shareholder's rights and perform such other matters as may be designated by the exchanging or converting holder. Further, the exchanging or converting holder must appoint a local bank to act as custodian for confirmation and settlement of trades, safekeeping of securities and cash proceeds and reporting of information. Without satisfying these requirements, the exchanging or converting holder would not be able to hold, sell or otherwise transfer the Common Shares on the TSE.

A holder of the Notes or its designee requesting the exchange or conversion of its Notes may be required to provide certain information to the Issuers, and failure to provide such information may prevent or delay the exchange or conversion.

A holder of the Notes or its designee requesting the exchange or conversion of its Notes may be required to provide certain information to the Issuers or the Exchange Agents or Conversion Agent (as the case may be), including the name and nationality of the person to be registered as the holder of the Common Shares, the number of Common Shares the person is acquiring and has acquired in the past as a result of the exchange or conversion of the Notes it holds, and supporting documents, before such exchange or conversion is effected. Under applicable ROC laws, an ROC entity is required to report to the ROC Securities and Futures Commission if the person to be registered as a shareholder (i) is a "related party" as defined in ROC Statement of Financial Accounting Standard No. 6 or (ii) will hold, immediately following such exchange or conversion, more than 10 per cent. of the total number of the shares deliverable upon exchange or conversion of the aggregate principal amount of all such Notes at the time of issue. The exchange or conversion of the Notes may be delayed or prevented if such information is not provided.

Corporate and accounting disclosure standards in Taiwan may be different from those in certain other countries.

There may be less publicly available information about companies listed on the TSE than is regularly made available by public or listed companies in certain other countries. In addition, the Issuers' financial statements are prepared and presented in accordance with ROC GAAP, which differ in certain significant respects from generally accepted accounting principles of certain other countries, including the United States, or International Accounting Standards. See "Summary of Certain Differences between ROC GAAP and U.S. GAAP."

Risks Relating to the Exchangeable Notes

Formosa Plastics, Nan Ya Plastics or Formosa Chemicals & Fibre may not be able to deliver the Common Shares upon exchange.

In the event that any of Formosa Plastics, Nan Ya Plastics or Formosa Chemicals & Fibre does not have sufficient Common Shares to deliver to exchanging Noteholders to satisfy their Exchange Rights (as defined herein), Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre may, to the extent permitted under applicable laws, elect to pay the Cash Equivalent (as defined herein) to such exchanging Noteholders. Although Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre have agreed, pursuant to the terms and conditions of the Notes, to deposit sufficient Common Shares in a designated account with the Taiwan Securities Central Depository Company Limited, in the name of the Trustee or on behalf of the Trustee, to satisfy the Exchange Rights (as defined herein) for all outstanding Notes, such undertaking does not create a charge in favor of Noteholders, and the Common Shares remain an asset of Formosa Plastics, Nan Ya Plastics or Formosa Chemicals & Fibre (as the case may be) subject to third party claims. In the event that Formosa Plastics, Nan Ya Plastics or Formosa Chemicals & Fibre elects to pay the Cash Equivalent in respect of outstanding Notes, their cash flow and financial position will be adversely affected.

The rights of exchanging Noteholders with respect to the Common Shares will be subject to the rules and practices of the Taiwan Securities Central Depository Company Limited for so long as the Common Shares are held in an account at the Taiwan Securities Central Depository Company Limited

Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre will deposit share certificates in respect of the Common Shares, in their names which have been endorsed for transfer in blank, in a designated account, in the name of the Trustee or on behalf of the Trustee, with the Taiwan Securities Central Depository Company Limited. Exchanging Noteholders must make arrangements with their local agent to receive the relevant share certificates and other transfer documentation through the Taiwan Securities Central Depository Company Limited. Taiwan Securities Central Depository Company Limited is a system for the centralized custody of share certificates and other transfer documentation. Transfers of rights in respect of such certificates and transfer documentation between accounts at the Taiwan Securities Central Depository Company Limited does not operate to transfer title to shares as between the accountholders and the relevant company. However, it is the practice of the Taiwan Securities Central Depository Company Limited to arrange for registration of its accountholders in the shareholders' register of the relevant company within three days immediately after the commencement of any closed period preceding a record date for participation in any dividends, distributions or other corporate events of that company. The rights of exchanging Noteholders with respect to the Common Shares will be subject to the rules and practices of the Taiwan Securities Central Depository Company Limited for so long as they are held in an account at the Taiwan Securities Central Depository Company Limited.

USE OF PROCEEDS

Formosa Petrochemical Corporation

The net proceeds from the issue of the Formosa Petrochemical Convertible Notes, after deducting the underwriting discount and commissions and offering expenses, are estimated to be approximately U.S.$199,000,000 (or U.S.$248,750,000 if the Representative's option is exercised in full).

Formosa Petrochemical intends to use the net proceeds for the procurement of raw materials overseas.

Formosa Plastics Corporation

The net proceeds from the issue of the Formosa Plastics Exchangeable Notes, after deducting the underwriting discount and commissions and offering expenses, are estimated to be approximately U.S.$199,000,000 (or U.S.$248,750,000 if the Representative's option is exercised in full).

Formosa Plastics intends to use the net proceeds for the construction and expansion of its manufacturing facilities, and for the procurement of equipment.

Nan Ya Plastics Corporation

The net proceeds from the issue of the Nan Ya Plastics Exchangeable Notes, after deducting the underwriting discount and commissions and offering expenses, are estimated to be approximately U.S.$199,000,000 (or U.S.$248,750,000 if the Representative's option is exercised in full).

Nan Ya Plastics intends to use the net proceeds for the procurement of raw materials overseas.

Formosa Chemicals & Fibre Corporation

The net proceeds from the issue of the Formosa Chemicals & Fibre Exchangeable Notes, after deducting the underwriting discount and commissions and offering expenses, are estimated to be approximately U.S.$199,000,000 (or U.S.$248,750,000 if the Representative's option is exercised in full).

Formosa Chemicals & Fibre intends to use the net proceeds for the construction and expansion of its manufacturing facilities, and for the procurement of equipment.

MARKET PRICE INFORMATION ON THE COMMON SHARES

The Common Shares are currently listed on the TSE, which is located in Taipei, ROC, and is the only stock exchange in the ROC. The Common Shares have been listed on the TSE since December 26, 2003. The table below shows, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the TSE for the Common Shares and the highest and lowest of the daily closing values of the TSE Index.

	Price per Common Share(1)		Average daily trading volume in Common Shares	TSE Index	
	High	Low		High	Low
	(NT$)		(in thousands)		
2003					
From December 26, 2003(2)	46.0	43.0	570	5,881	5,835
2004					
January	55.0	51.0	17,932.5	6,386	6,042
February	55.0	51.0	10,896.8	6,751	6,241
March	58.5	52.0	13,763.5	7,034	6,133
April	57.0	52.0	5,773.9	6,880	6,118
May	53.0	50.0	3,524.8	6,188	5,483
June (to June 28, 2004)	54.0	51.0	3,381.0	5,987	5,557

Note:

(1) Prices have been retroactively adjusted for stock dividends paid by Formosa Petrochemical.

(2) Following Formosa Petrochemical's initial public offering, pursuant to which 179,500,000 Common Shares were offered to the public in the ROC at an initial offering price of NT$43.0, the Common Shares were listed on the TSE on December 26, 2003.

On June 28, 2004 the reported closing price of the Common Shares was NT$53.0 per Common Share and the TSE Index closed at 5,709.84.

As of June 4, 2004, the most recent date for which such information was available, there were 50,395 holders of record of the Common Shares.

The TSE has experienced substantial fluctuations in the prices of listed securities and there are currently limits on the range of daily price movements. See "Risk Factors — Risks Relating to the ROC — The trading price of the Common Shares may be adversely affected by the general activities of the TSE and the economic performance of Taiwan" and "Appendix B — The Securities Market of the ROC — The Taiwan Stock Exchange".

DIVIDENDS AND DIVIDEND POLICY OF FORMOSA PETROCHEMICAL CORPORATION

Formosa Petrochemical has distributed cash dividends and stock dividends on its Common Shares since 2003 (for the fiscal year ended December 31, 2002). The following table sets forth the aggregate number of outstanding Common Shares entitled to dividends, as well as the cash paid and stock dividends distributed during each of the years indicated. Figures represent dividends in respect of the prior fiscal year paid in the current fiscal year.

	Aggregate number of Common Shares entitled to dividends	Dividend paid in cash per Common Share	Dividend paid in stock per Common Share(1)	Total Common Shares Issued as Stock Dividends
	(millions)	(NT$)	(NT$)	(millions)
2003 (for 2002)(2)	7,000	1.2	1.2	840.0
2004 (for 2003)(3)	7,840	1.8	0.6	470.4

Note:

(1) Holders of Common Shares receive as a stock dividend the number of Common Shares equal to the NT dollar value per Common Share of the declared dividend, multiplied by the number of Common Shares owned, divided by the par value of NT$10 per Common Share. Fractions of Common Shares are not issued but are paid in cash.

(2) Payment of such dividends was made prior to Formosa Petrochemical's listing on the TSE.

(3) 2004 dividends have been declared but not yet paid. The record date for such dividends will be July 15, 2004. Payment of such dividends is expected to be made in August 2004.

Formosa Petrochemical's current dividend policy is to capitalize a portion of its earnings each year in the form of a dividend. Formosa Petrochemical has since 2003, paid an annual dividend on its Common Shares with respect to the preceding year after approval by its stockholders at the annual stockholders' meeting. The form, frequency and amount of future dividends on the Common Shares will depend upon Formosa Petrochemical's earnings, cash flow, financial condition and other factors.

The ROC Company Law requires that 10 per cent. of a company's annual net income (less prior year losses), after payment of taxes and duties, be set aside as a legal reserve until the accumulated legal reserve equals a company's total capital. Formosa Petrochemical's Articles of Incorporation require that at least 0.1 per cent. of annual net earnings (after deducting the legal reserve and special reserve (if necessary), providing for losses incurred in prior years, paying all taxes in accordance with ROC laws and distributing 1 per cent. of dividend interest) be distributed as a bonus to employees at the time annual dividends are declared. The amount of Common Shares issued as bonus is obtained by dividing the cash value of the bonus by the par value of the Common Shares, which is NT$10. Because the market value of the Common Shares has been generally well in excess of the par value, the actual cash value of a stock bonus has also been in excess of the amount such an employee would have received had the bonus been paid exclusively in cash. See "Description of the Common Shares".

EXCHANGE RATES

Fluctuations in the exchange rate between NT dollars and U.S. dollars will affect the U.S. dollar equivalent of the NT dollar price of the Common Shares on the TSE.

Set forth below are the average period-end Noon Buying Rates between NT dollars and U.S. dollars, expressed in average NT dollars per U.S. dollar, for the periods indicated.

	NT dollars/U.S. dollar Noon Buying Rate			
	Average	**High**	**Low**	**Period End**
2000	31.26	33.25	30.35	33.17
2001	33.82	35.13	32.23	35.00
2002	34.54	35.16	32.85	34.70
2003	34.40	34.98	33.72	33.99
2004 (through June 25, 2004)	33.34	33.98	32.73	33.57

Source: Federal Reserve Bank of New York

On June 25, 2004, the noon buying rate between New Taiwan dollars and United States dollars was NT$33.57 = U.S.$1.00.

CAPITALIZATION

Formosa Petrochemical

The following table sets forth the actual short-term debt and total capitalization of Formosa Petrochemical as of March 31, 2004 and as adjusted to give effect to the offering of the Formosa Petrochemical Convertible Notes. The adjustment assumes no exercise of the option granted to the Representative to purchase additional Formosa Petrochemical Convertible Notes. This table should be read in conjunction with Formosa Petrochemical's Unaudited Financial Statements as at and for the three months ended March 31, 2004 and the notes thereto, included elsewhere in this Offering Circular. Except as otherwise disclosed, there has been no material change in Formosa Petrochemical's short-term debt or total capitalization since March 31, 2004.

	(Unaudited)			
	As of March 31, 2004			
	Actual		As Adjusted	
	NT$ (millions)	U.S.$ (millions)	NT$ (millions)	U.S.$ (millions)
Short-term debt:				
Short-term borrowings (including current portion of long-term debt)	53,425.8	1,619.0	53,425.8	1,619.0
Long-term liabilities:				
Long-term debt (excluding current portion of long-term debt)	76,561.1	2,320.0	76,561.1	2,320.0
Domestic bonds payable(1)(2)	35,500.0	1,075.8	35,500.0	1,075.8
The Formosa Petrochemical Convertible Notes	—	—	6,600.0	200.0
Total long-term liabilities	112,061.1	3,395.8	118,661.1	3,595.8
Shareholders' equity:				
Capital stock(3)	78,400.0	2,375.8	78,400.0	2,375.8
Capital surplus	28,000.0	848.5	28,000.0	848.5
Legal reserve	2,480.0	75.1	2,480.0	75.1
Special reserve	10,326.3	312.9	10,326.3	312.9
Unappropriated earnings	20,574.1	623.5	20,574.1	623.5
Retained earnings	8,956.7	271.4	8,956.7	271.4
Total shareholders' equity	148,737.1	4,507.2	148,737.1	4,507.2
Total capitalization(4)	260,798.2	7,903.0	267,398.2	8,103.0

Notes:

(1) Includes domestic non-convertible corporate bonds issued in May 1999, July 1999, October 1999, February 2001, May 2001 and four unsecured bonds throughout July to August 2003. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations of Formosa Petrochemical Corporation — Liquidity and Capital Resources". As of March 31, 2004 Formosa Petrochemical had no convertible bonds outstanding.

(2) Subsequent to March 31, 2004, Formosa Petrochemical issued two series of unsecured domestic bonds for an aggregate principal amount of NT$10,000 million. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations of Formosa Petrochemical Corporation — Liquidity and Capital Resources".

(3) As of March 31, 2004, Formosa Petrochemical's authorized capital stock was NT$78,400,000,000, divided into 7,840,000,000 Common Shares, par value NT$10 each, of which 7,840,000,000 Common Shares were issued and outstanding and no Common Shares were treasury stock. All of these Common Shares have been fully paid. On June 4, 2004, by way of a shareholders' resolution, the authorized capital stock of Formosa Petrochemical was increased to NT$90,000,000,000. On June 4, 2004 Formosa Petrochemical declared a 6 per cent. stock dividend. See "Dividends and Dividend Policy of Formosa Petrochemical Corporation".

(4) Total capitalization equals total long-term liabilities plus total shareholders' equity.

Formosa Plastics

The following table sets forth the actual short-term debt and total capitalization of Formosa Plastics as of March 31, 2004 and as adjusted to give effect to the offering of the Formosa Plastics Exchangeable Notes. The adjustment assumes no exercise of the option granted to the Representative to purchase additional Formosa Plastics Exchangeable Notes. This table should be read in conjunction with Formosa Plastics' Unaudited Non-consolidated Financial Statements as at and for the three months ended March 31, 2004 and the notes thereto, included elsewhere in this Offering Circular. Except as otherwise disclosed, there has been no material change in Formosa Plastics's short-term debt or total capitalization since March 31, 2004.

	Non-consolidated (Unaudited)			
	As of March 31, 2004			
	Actual		As Adjusted	
	NT$ (millions)	U.S.$ (millions)	NT$ (millions)	U.S.$ (millions)
Short-term debt:				
Short-term borrowings (including current portion of long-term debt)	11,085.2	335.9	11,085.2	335.9
Long-term liabilities:				
Long-term debt (excluding current portion of long-term debt)	29,712.7	900.4	29,712.7	900.4
Domestic bonds payable(1)	21,050.0	637.9	21,050.0	637.9
The Formosa Plastics Exchangeable Notes	—	—	6,600.0	200.0
Total long-term liabilities	50,762.7	1,538.3	57,362.7	1,738.3
Shareholders' equity:				
Capital stock(2)	48,068.7	1,456.7	48,068.7	1,456.7
Capital surplus	13,283.2	402.5	13,283.2	402.5
Unappropriated earnings	52,792.5	1,599.8	52,792.5	1,599.8
Cumulative translation adjustments	1,575.2	47.7	1,575.2	47.7
Total shareholders' equity	115,719.6	3,506.7	115,719.6	3,506.7
Total capitalization(3)	166,482.3	5,044.9	173,082.3	5,245.0

Notes:

(1) Includes domestic non-convertible corporate bonds issued in October 1996, June 1998, January 1999, September 1999, March 2002, December 2002, May 2003 and January 2004. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations of Formosa Plastics Corporation — Liquidity and Capital Resources". As of March 31, 2004 Formosa Plastics had no convertible bonds outstanding.

(2) As of March 31, 2004, Formosa Plastics's authorized capital stock was NT$48,083,675,190, divided into 4,808,367,519 shares, par value NT$10 each, of which 4,806,868,539 shares were issued and outstanding and no shares were treasury stock. All of these shares have been fully paid. On May 14, 2004, by way of a shareholders' resolution, the authorized capital stock of Formosa Plastics was increased to NT$50,952,806,510. Formosa Plastics declared a 6 per cent. stock dividend on May 14, 2004.

(3) Total capitalization equals total long-term liabilities plus total shareholders' equity.

Nan Ya Plastics

The following table sets forth the actual short-term debt and total capitalization of Nan Ya Plastics as of March 31, 2004 and as adjusted to give effect to the offering of the Nan Ya Plastics Exchangeable Notes. The adjustment assumes no exercise of the option granted to the Representative to purchase additional Nan Ya Plastics Exchangeable Notes. This table should be read in conjunction with Nan Ya Plastics' Unaudited Non-consolidated Financial Statements as at and for the three months ended March 31, 2004 and the notes thereto, included elsewhere in this Offering Circular. Except as otherwise disclosed, there has been no material change in Nan Ya Plastics's short-term debt or total capitalization since March 31, 2004.

	Non-consolidated (Unaudited)			
	As of March 31, 2004			
	Actual		As Adjusted	
	NT$ (millions)	U.S.$ (millions)	NT$ (millions)	U.S.$ (millions)
Short-term debt:				
Short-term borrowings (including current portion of long-term debt)	8,966.0	271.7	8,966.0	271.7
Long-term liabilities:				
Long-term debt (excluding current portion of long-term debt)	49,838.9	1,510.3	49,838.9	1,510.3
Domestic bonds payable(1)(2)	32,750.0	992.4	32,750.0	992.4
The Nan Ya Plastics Exchangeable Notes	—	—	6,600.0	200.0
Total long-term liabilities	82,588.9	2,502.7	89,188.9	2,702.7
Stockholders' equity:				
Capital stock(2)	65,873.5	1,996.2	65,873.5	1,996.2
Capital surplus	22,192.8	672.5	22,192.8	672.5
Unappropriated retained earnings(3)	65,418.6	1,982.4	65,418.6	1,982.4
Unrealized loss on long-term equity investment devaluation	(26.2)	(0.8)	(26.2)	(0.8)
Cumulative translation adjustments	3,233.4	97.9	3,233.4	97.9
Treasury stock	(25.8)	(0.8)	(25.8)	(0.8)
Total stockholders' equity	156,666.3	4,747.5	156,666.3	4,747.5
Total capitalization(4)	239,255.2	7,250.2	245,855.2	7,450.2

Notes:

(1) Includes domestic non-convertible corporate bonds issued in September 1999, December 2001, April 2002, July 2002, December 2002, May 2003 and January 2004. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations of Nan Ya Plastics Corporation — Liquidity and Capital Resources". As of March 31, 2004 Nan Ya Plastics had no convertible bonds outstanding.

(2) Subsequent to March 31, 2004, Nan Ya Plastics issued one series of unsecured domestic bonds for an aggregate principal amount of NT$6,000.0 million. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations of Nan Ya Plastics Corporation — Liquidity and Capital Resources".

(3) As of March 31, 2004, Nan Ya Plastics's authorized capital stock was NT$65,873,482,920, divided into 6,587,348,292 shares, par value NT$10 each, of which 6,587,348,292 shares were issued and outstanding and 1,133,065 shares were treasury stock. All of these shares have been fully paid. On May 21, 2004, by way of a shareholders' resolution, the authorized capital stock of Nan Ya Plastics was increased to NT$69,825,891,900. On May 21, 2004, Nan Ya Plastics declared a 6 per cent. dividend.

(4) Unappropriated retained earnings include unappropriated retained earnings, legal reserve and special reserve.

(5) Total capitalization equals total long-term liabilities plus total stockholders' equity.

Formosa Chemicals & Fibre

The following table sets forth the actual short-term debt and total capitalization of Formosa Chemicals & Fibre as of March 31, 2004 and as adjusted to give effect to the offering of the Formosa Chemicals & Fibre Notes. The adjustment assumes no exercise of the option granted to the Representative to purchase additional Formosa Chemicals & Fibre Exchangeable Notes. This table should be read in conjunction with Formosa Chemicals & Fibre's Unaudited Financial Statements as at and for the three months ended March 31, 2004 and the notes thereto, included elsewhere in this Offering Circular. Except as otherwise disclosed, there has been no material change in Formosa Chemicals & Fibre's short-term debt or total capitalization since March 31, 2004.

	(Unaudited)			
	As of March 31, 2004			
	Actual		As Adjusted	
	NT$ (millions)	U.S.$ (millions)	NT$ (millions)	U.S.$ (millions)
Short-term debt:				
Short-term borrowings (including current portion of long-term debt)	6,844.2	207.4	6,844.2	207.4
Long-term liabilities:				
Long-term debt (excluding current portion of long-term debt)	32,873.9	996.2	32,873.9	996.2
Domestic bonds payable(1)	19,600.0	593.9	19,600.0	593.9
The Formosa Chemicals & Fibre Exchangeable Notes	—	—	6,600.0	200.0
Total long-term liabilities	52,473.9	1,590.1	59,073.9	1,790.1
Stockholders' equity:				
Capital stock — common stock(2)	45,150.0	1,368.2	45,150.0	1,368.2
Capital surplus	8,616.1	261.1	8,616.1	261.1
Retained earnings(3)	62,079.3	1,881.2	62,079.3	1,881.2
Cumulative translation adjustments	(57.0)	(1.7)	(57.0)	(1.7)
Unrealized loss on long-term equity investment devaluation	(8.0)	(0.2)	(8.0)	(0.2)
Total stockholders' equity	115,780.4	3,508.5	115,780.4	3,508.5
Total capitalization(4)	242,415.4	5,098.6	174,854.3	5,298.6

Notes:

(1) Includes domestic non-convertible corporate bonds issued in December 1996, June 1998, January 1999, February 2002, July 2002, December 2002 and July 2003. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations of Formosa Chemicals & Fibre Corporation — Liquidity and Capital Resources". As of March 31, 2004 Formosa Chemicals & Fibre had no convertible bonds outstanding.

(2) As of March 31, 2004, Formosa Chemicals & Fibre's authorized capital stock was NT$45,150 million, divided into 4,514,996,424 shares, par value NT$10 each, of which 4,514,996,424 shares were issued and outstanding and 2,125 shares were treasury stock. All of these shares have been fully paid. On May 28, 2004, by way of a shareholders' resolution, the authorized capital stock of Formosa Chemicals & Fibre was increased to NT$48,761,961,370. Formosa Chemicals & Fibre declared a 8 per cent. stock dividend on May 28, 2004.

(3) Retained earnings include legal reserve, special reserve and unappropriated retained earnings.

(4) Total capitalization equals total long-term liabilities plus total stockholders' equity.

TERMS AND CONDITIONS OF THE FORMOSA PETROCHEMICAL CONVERTIBLE NOTES

The following is a description of the Terms and Conditions (the "Conditions") of the Formosa Petrochemical Convertible Notes (except for the sentences in italics), which includes summaries of, and is subject to, the more detailed provisions of the Indenture referred to below.

The issue of Zero Coupon Convertible Notes Due 2011 (the "Notes", which shall include any Optional Notes issued pursuant to the option to increase the principal amount of the Notes described in the Indenture (as defined below)) of Formosa Petrochemical Corporation ("Formosa Petrochemical") was authorized by a resolution of the board of directors of Formosa Petrochemical adopted on June 4, 2004. The Notes are initially limited to U.S.$200,000,000 aggregate principal amount (or U.S.$250,000,000 if the option granted to the Representative is exercised in full). Formosa Petrochemical may from time to time, without notice to or consent of the holders of the Notes, issue further notes, which will form a single series with the Notes. Any such additional notes will be identical in all respects to the Notes, except that any notes issued in the future will have different issuance prices and issuance dates. The Notes will be issued on or about June 30, 2004 (the "Issue Date") pursuant to an indenture (the "Indenture") dated the Issue Date between Formosa Petrochemical and The Hongkong and Shanghai Banking Corporation Limited, as trustee (the "Trustee", which term shall include all persons for the time being appointed as trustee or trustees under the Indenture) for the holders of the Notes. Formosa Petrochemical will also enter into an agency agreement (the "Agency Agreement") dated the Issue Date among, inter alia, the Trustee and The Hongkong and Shanghai Banking Corporation Limited as the registrar and principal paying, conversion, and transfer agent appointed thereunder, and any other paying, conversion and transfer agent appointed thereunder (collectively, the "Agents") in relation to the Notes. The registrar, paying agent, conversion agent and transfer agent are referred to below as the "Registrar", the "Paying Agents" (which expression shall include the Principal Paying Agent), the "Conversion Agents" and the "Transfer Agents", respectively. Copies of the Indenture and the Agency Agreement are available for inspection during normal business hours at the principal office of the Trustee and at the specified offices of each of the Agents. The holders of the Notes are entitled to the benefit of the Indenture and are bound by, and are deemed to have notice of, all of the provisions of the Indenture and the Agency Agreement.

1. STATUS

The Notes constitute senior, direct, unconditional, unsubordinated and, subject to the provisions of Condition 3, unsecured obligations of Formosa Petrochemical and shall at all times rank pari passu and without any preference or priority among themselves and, subject to the provisions of Condition 3, with all other present and future senior, direct, unconditional, unsubordinated and unsecured obligations of Formosa Petrochemical (other than any obligation preferred by mandatory provisions of law).

2. FORM, DENOMINATION AND TITLE

(A) Form and denomination

The Notes shall be issued in registered form in the denomination of U.S.$1,000 each. The Notes shall initially be represented by a global certificate (the "Global Certificate"), and only under the limited circumstances described in the Global Certificate and the Indenture shall definitive bond certificates (each a "Definitive Certificate") be issued to holders of the Notes in respect of their individual holdings. Each Note and each Definitive Certificate, if issued, shall be serially numbered and shall have an identifying number which shall be recorded on the relevant certificate and in the register of holders of the Notes, which Formosa Petrochemical shall procure to be kept by the Registrar.

The Notes will be represented by a Global Certificate which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, International.

Except in the limited circumstances described in the Global Certificate, owners of interests in the Notes represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of the Notes. The Notes are not issuable in bearer form.

(B) Title

The Notes shall be registered instruments, and title to the Notes shall pass by transfer and registration of title in the register of holders of the Notes. The holder of any Note shall, except as otherwise required by law, be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Definitive Certificate issued in respect of it), and no person shall be liable for so treating the holder. In these Conditions, "Noteholder", "holder of the Notes" and "holder" in relation to a Note shall mean the person in whose name a Note is registered in the register of holders of the Notes.

3. CERTAIN COVENANTS

(A) Negative pledge

So long as any of the Notes remains outstanding (as defined in the Indenture), Formosa Petrochemical will not, and will not permit any of its subsidiaries, to create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("Security") upon the whole or any part of the property, assets or revenues of Formosa Petrochemical or such subsidiary, as the case may be, present or future, to secure for the benefit of the holders of any International Investment Securities (as defined below) any payment of any sum due in respect of or under any guarantee of or payment indemnity or other like obligation relating to any such International Investment Securities, unless, in any such case, at the same time or prior thereto, either (i) the same Security is granted to the holders of the Notes or (ii) there is outstanding any guarantee, indemnity or other like obligation or such other security that is not materially less beneficial to the holders of the Notes or as shall be approved by holders of the Notes holding not less than 75% of the principal amount of the outstanding Notes.

For the purposes of these Conditions:

"International Investment Securities" mean bonds, debentures, notes or other similar investment securities of Formosa Petrochemical or any of its subsidiaries evidencing indebtedness with a maturity of not less than one year that (a) either (i) are by their terms payable, or confer a right to receive payment, in any currency other than NT dollars or (ii) are denominated or payable in NT dollars and more than 50% of the aggregate principal amount thereof is initially distributed outside the ROC by Formosa Petrochemical or with its authorization; and (b) are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange, quotation system or over-the-counter or other similar securities market outside the ROC.

(B) Mergers and disposals

So long as any of the Notes remains outstanding (as defined in the Indenture), Formosa Petrochemical shall not merge, amalgamate or consolidate with or into any other corporation or entity or sell or transfer all, or substantially all, of its assets, whether as a single transaction or a number of transactions, related or not, to any corporation, entity or person or to one or more members of any group under the common control of any corporation, entity or person unless:

(i) Formosa Petrochemical has notified the holders of the Notes of such event in accordance with Condition 14; and

(ii) Formosa Petrochemical and such corporation, entity or person have executed an indenture supplemental to the Indenture, in form and substance satisfactory to the Trustee, and the supplemental indenture includes the express assumption by such corporation, entity or person of Formosa Petrochemical's obligations under the Notes, the Indenture and the Agency Agreement, including the covenants contained in this Condition 3(B) relating to subsequent mergers, amalgamations, consolidations, sales or transfers.

Formosa Petrochemical shall, so long as the Notes are listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST") and the rules of that exchange so require, submit a copy of the supplemental indenture to the SGX-ST as soon as practicable and shall make such supplemental indenture available for inspection during normal business hours at the specified offices of the Trustee.

4. TRANSFERS OF NOTES; ISSUE OF CERTIFICATES

(A) Transfers

A Note may be transferred as follows: (i) in the case of a Note represented by a Definitive Certificate, by depositing such certificate at the specified offices of any Transfer Agent, with the form of transfer on the back of such certificate duly completed and signed, or (ii) in the case of a Note represented by the Global Certificate, by delivery at such office of a form of transfer duly completed and executed, and any other evidence that such Transfer Agent may require.

The forms of transfer are available at the specified offices of any Transfer Agent during normal business hours. Transfers of interests in the Notes evidenced by the Global Certificate shall be effected in accordance with the rules of the relevant clearing systems. Transfers of interests in Notes represented by Definitive Certificates shall be made by delivery thereof to the office of the Transfer Agent.

(B) Delivery of new Definitive Certificates

Each new Definitive Certificate to be issued upon transfer of the Notes shall, within five Business Days of receipt by the Transfer Agent of the duly signed and completed form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Notes to the address specified in the form of transfer.

Where some but not all the Notes in respect of which a Definitive Certificate is issued are to be transferred, converted or redeemed, a new Definitive Certificate in respect of the Notes not so transferred, converted or redeemed shall, within five Business Days of deposit or surrender of the original certificate with or to the relevant Agent, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred, converted or redeemed to the address of such holder appearing on the register of holders of the Notes.

For the purposes of this Condition 4:

"Business Day" means a day (other than a Saturday or Sunday) on which banks are open for business in the city in which the specified office of the Agent with whom a Definitive Certificate is deposited in connection with a transfer is located.

(C) Formalities free of charge

Registration of transfer of the Notes shall be effected without charge by or on behalf of Formosa Petrochemical or any of the Agents, subject to payment (and the giving of such indemnity as Formosa Petrochemical or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to it.

(D) Restricted transfer period

No holder of the Notes may require the transfer of a Note to be registered (i) during the period of 15 days ending on (and including) the due date for any payment of principal or any Early Redemption Amount (as defined herein) in respect of the Note pursuant to Condition 6, (ii) after the Note has been selected for redemption pursuant to Condition 7(B), (iii) following exercise by the holder of its option to require Formosa Petrochemical to redeem the Note pursuant to Condition 7(D) or (iv) following exercise by the holder of its option to convert the Note pursuant to Condition 5(A) or of its Non-Redemption Option pursuant to Condition 7(C).

(E) Provisions on transfer

All transfers of the Notes and entries on the register of holders of the Notes shall be made subject to the detailed provisions concerning transfer of the Notes set forth in the Agency Agreement. Such provisions may not be changed without the prior written approval of the Trustee and the Registrar. A copy of the current provisions shall be available for inspection during normal business hours at the specified office of the Transfer Agent and shall be mailed (or sent via facsimile) by the Registrar to any holder of the Notes upon written request.

5. CONVERSION

Formosa Petrochemical shall, within five Trading Days after the Conversion Date, issue and deliver the Common Shares converted from the Notes to the converting Noteholder or its designee.

The Indenture provides, in summary, that the term "Shares" or "Common Shares" means, when used to refer to the class or classes of Formosa Petrochemical's capital stock into which the Notes are convertible and when used in certain other instances, only Formosa Petrochemical's common shares, NT$10 par value per share, but that when used elsewhere, including in Condition 5(C), such term also includes shares of any other class or classes of the share capital of Formosa Petrochemical authorised after the date of the Indenture which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or winding-up of Formosa Petrochemical.

(A) Conversion Right

(i) *Conversion Period:* The right of a Noteholder to convert any Note into Common Shares (as defined in the Indenture) is called the "Conversion Right". Subject to and upon compliance with the provisions of this Condition, the Conversion Right attaching to any Note may be exercised, at the option of the holder thereof, so that the Conversion Date (as defined in Condition 5(B)) in respect of such exercise occurs at any time on or after July 30, 2004 and prior to the close of business (at the place where such Note is deposited for conversion) on the day which is 10 days prior to the Maturity Date (as defined herein) or if such date shall not be a business day at such place, on the immediately preceding business day at such place (but in no event thereafter), or, if such Note shall have been called for redemption prior to the Maturity Date (as defined herein), then up to the close of business (at the place aforesaid) on the date seven business days (as defined in Condition 5(B)) prior to the date fixed for redemption thereof or if such date shall not be a business day at such place, on the immediately preceding business day at such place (the "Conversion Period"); provided however, that the Conversion Right during any Closed Period shall be suspended and the Conversion Period shall not include any such Closed Period. "Closed Period" shall mean (i) any period during which under the laws of the ROC Formosa Petrochemical shall close its shareholders' register, which period includes 60 days prior to the date of the annual general meeting of shareholders; (ii) 30 days prior to a special shareholders' meeting; (iii) the period which begins on the third Trading Day prior to the day on which Formosa Petrochemical notifies the Taiwan Stock Exchange of any record date for determination of shareholders entitled to receive dividends or rights distributions or other benefits and bonuses and which ends on (and includes) such record date; or (iv) such other periods determined by ROC laws and regulations applicable from time to time. Formosa Petrochemical shall procure that holders of the Notes are given not less than 10 and not more than 60 days' notice in accordance with Condition 14, of the commencement of any Closed Period.

Under current ROC law, regulation and policy, PRC persons are not permitted to convert the Notes or to register as a shareholder of Formosa Petrochemical or any other entity incorporated in the ROC. Under current ROC law, "PRC person" means an individual holding a passport issued by the PRC; a resident of any area of China under the effective control or jurisdiction of the PRC (but not including a special administrative region of the PRC such as Hong Kong or Macau, if so excluded by applicable laws of the ROC); and save as aforesaid, any agency or instrumentality of the PRC; and any corporation, partnership or other entity organized under the laws of any such area or controlled or beneficially owned by any such person, resident, agency or instrumentality.

Under current ROC law, a non-ROC converting holder of the Notes, when exercising its conversion right to convert the Notes, is required to appoint a Tax Guarantor (whose qualifications are set by the ROC Ministry of Finance), in the ROC to file tax returns and make tax payments on its behalf. In addition, a non-ROC converting holder is required to appoint a local agent in the ROC with such qualifications as are set by the ROC Securities and Futures Commission. Such local agent shall open a securities trading account with a local brokerage firm and an NT dollar bank account, remit funds, exercise shareholders' rights and perform such other matters as may be designated by such converting holder on behalf of and as agent for such person. In addition, such non-ROC converting holder must also appoint a custodian bank to hold the securities for safekeeping, make confirmation and settlement of trades, and report all relevant information. Without first obtaining the approval of the Taiwan Stock Exchange and opening such accounts, the converting holder of the Notes would not be able to hold or sell or otherwise transfer the shares received on the Taiwan Stock Exchange or otherwise.

(ii) *Number of Common Shares issuable on conversion:* The number of Common Shares to be issued upon conversion of any Note will be determined by dividing the principal amount of the Note (translated into New Taiwan dollars at the fixed rate of NT$33.733 = U.S.$1.00) (the "Fixed Exchange Rate") by the Conversion Price (as hereinafter defined) in effect on the Conversion Date. If more than one Note shall be deposited for conversion at any one time by the same holder of the Notes, the number of Common Shares to be issued upon conversion thereof will be calculated on the basis of the aggregate principal amount of the Notes so deposited. Fractions of Common Shares will not be issued on conversion, and cash adjustments will not be made in respect thereof by Formosa Petrochemical. Notwithstanding the foregoing, in the event of a consolidation or reclassification of Common Shares by operation of law or otherwise occurring after June 30, 2004, Formosa Petrochemical will upon conversion of the Notes pay in US dollars a sum equal to such portion of the principal amount of the Notes deposited for conversion as corresponds to any fraction of a Common Share not issued as aforesaid if such sum exceeds U.S.$10. For the purpose of calculating the amount of such payment, Formosa Petrochemical shall use the exchange rate referred to above in this Condition 5(A)(ii).

(iii) *Initial Conversion Price:* The price at which Common Shares will be issued upon conversion (the "Conversion Price") will initially be NT$58.3 per Common Share, but will be subject to adjustment in the manner provided in Conditions 5(C).

(iv) *Revival on default:* Notwithstanding the provisions of Condition 5(A)(i), if an Event of Default (as defined in Condition 9) occurs, the Conversion Right attaching to a Note will continue to be exercisable up to and including the close of business (at the place where the relevant Conversion Notice (as defined below) is deposited for conversion) on the date upon which the full amount of the monies payable in respect of such Note has been duly received by the Trustee or the Principal Agent and notice of such receipt has been duly given to the holders of the Notes.

(B) Conversion procedures

(i) *Exercise Procedures; Conversion Notice; Deposit Date; Conversion Date.* To exercise the Conversion Right attaching to any Note, a holder of the Note shall deposit the following at its own expense during normal business hours on any Business Day on which the Note is presented for conversion during the Conversion Period at the specified office of a Conversion Agent outside the ROC:

(a) a notice of conversion (a "Conversion Notice") in duplicate, duly completed and signed, in the then current form obtainable from the specified office of any Conversion Agent, together with the relevant Definitive Certificate, if issued, in respect of the relevant Note;

(b) any certificates and other documents as may be required under the law of the ROC or the jurisdiction in which such Conversion Agent shall be located; and

(c) any amount required to be paid by the holder of the Note referred to in Condition 5(B)(ii) below.

Any of the above items deposited outside the hours specified above or on a day that is not a Business Day shall for all purposes be deemed to have been deposited with that Agent on the immediately succeeding Business Day. The Conversion Notice shall contain, among other things, (i) the appointment of a local agent; (ii) an irrevocable instruction to convert the Notes into Common Shares; and (iii) other information required by ROC laws and regulations. Once deposited, the Conversion Notice may not be withdrawn without Formosa Petrochemical's consent in writing. The price at which such Note shall be converted shall be the Conversion Price in effect on the Conversion Date (as defined below).

The Conversion Notice shall include a certification that, at the time of such conversion, the converting holder is not in the United States, is not a U.S. person (as defined in Regulation S under the Securities Act) and is not converting the Notes on behalf of a U.S. person.

Formosa Petrochemical will covenant in the Indenture that Formosa Petrochemical will send to the Trustee an Officer's Certificate, which certificate the Trustee may exclusively rely on, certifying to the best knowledge of such officer, there has been no change in the laws or regulations of the ROC affecting the conversion of the Notes, including any changes in ROC laws or regulations in connection with any certificates or other documents required for the conversion of the Notes.

For the purposes of these Conditions:

"Deposit Date" means the first date on which (i) the Definitive Certificate, if issued, in respect of the Note to be converted, (ii) a duly signed and completed Conversion Notice (in duplicate), (iii) any certificates or other documents, as may be required, relating thereto, and (iv) the payments referred to in Condition 5(B)(ii) below, as may be required, have all been deposited with a Conversion Agent.

"Conversion Date" means the ROC Business Day next following the Deposit Date that is not within a Closed Period.

(ii) *Taxes and Expenses.* As conditions precedent to the exercise of the Conversion Right attaching to any Note, together with the delivery of the Conversion Notice, the Definitive Certificate, if issued, and any certificates or other documents as may be required, the holder of the Note must pay all stamp, issue, registration and similar taxes and duties, if any, arising on conversion in the country in which the Note is deposited for conversion or payable in any jurisdiction upon delivery of the Common Shares. Except as aforesaid, Formosa Petrochemical shall pay the expenses arising in the ROC on the issue and delivery of the Common Shares, upon conversion of the Note and all charges and expenses of the Conversion Agents in connection therewith.

(iii) *Holder of record:* With effect from the opening of business in the ROC on the Conversion Date, Formosa Petrochemical will deem the converting holder of the Notes as indicated in the Conversion Notice to have become the holder of record of the number of Common Shares to be issued upon such conversion (disregarding any retroactive adjustment of the Conversion Price referred to below prior to the time such retroactive adjustment shall have become effective) and at such time, subject to Condition 5(B)(v), the rights of such converting holder of the Notes as a holder of the Notes with respect to the Notes deposited for conversion shall cease (except rights arising under Conditions 5(B)(iv) and 5(B)(vi)).

(iv) *Availability of Common Shares:* Formosa Petrochemical shall, for the benefit of holders of the Notes, ensure that sufficient Common Shares, which are listed on the Taiwan Stock Exchange, are available as soon as possible and in any event within five Trading Days after the applicable Conversion Date.

(v) *Delivery of Common Shares or Cash Equivalent:* Except with respect to the conversion of any Note or any portion thereof for which Formosa Petrochemical has exercised the Cash Payment Option pursuant to Condition 5(B)(ix), on the Conversion Date Formosa Petrochemical will register the converting holder of the Notes in Formosa Petrochemical's register of shareholders as the owner of the number of Common Shares to be issued pursuant to Condition 5(B)(iii) upon conversion of such Notes and, subject to any applicable limitations then imposed by ROC laws and regulations, Formosa Petrochemical shall deliver in accordance with the Indenture and a request made in the relevant Conversion Notice as soon as practicable, and in any event within five Trading Days following the Conversion Date, for the benefit of the converting holder, the following:

(a) the relevant Common Shares, through book-entry transfer to an account registered in the name of the converting holder or its designee at Taiwan Securities Central Depository Co., Ltd.; and

(b) any other property or cash (including, without limitation, cash payable pursuant to Condition 5(A)(ii)) (other than the Cash Equivalent) required to be delivered upon conversion; and

(c) such assignments and other documents (if any) as may be required by law to effect the issue and delivery thereof;

as soon as practicable, and in any event no later than 30 days after the date of the Cash Payment Notice, any Cash Equivalent (as defined below).

Formosa Petrochemical has certain disclosure obligations and reporting obligations under ROC law and regulations if:

(i) the person to be registered as a shareholder is a "related party" of Formosa Petrochemical under the Statement of Financial Accounting Standard No. 6 of the ROC and such person beneficially owns Common Shares converted from the Notes, or

(ii) the person to be registered as a holder of Common Shares owns Common Shares received on conversion of his Notes, and the Common Shares converted exceed 10% of the total number of Common Shares expected to be converted based on the conversion price at the time of issue of the Notes.

Due to these obligations, the Indenture provides that, if Formosa Petrochemical so instruct, the Trustee may ask converting holders of the Notes to disclose the name of the person to be registered as the shareholder and to provide proof of identity and genuineness of any signature and other documents before it converts the Notes. The conversion of the Notes may be delayed until the Trustee receives the required information and evidence of compliance with relevant laws and regulations by the converting holder of the Notes. The information that a converting holder of the Notes is required to provide includes the name and nationality of the person to be registered as shareholder and the total number of Common Shares such person has or will receive as a result of the conversion of the Notes it holds.

(vi) *Retroactive adjustment of Conversion Price:* If the Conversion Date in relation to any Note shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions referred to in Condition 5(C) and the Indenture, and the relevant Conversion Date falls on a date when the relevant adjustment has not been reflected in the Conversion Price, Clause 5(B)(v) shall be applied *mutatis mutandis* to such number of Common Shares as is equal to the excess of the number of Common Shares that would have been required to be issued on conversion of such Note if the relevant retroactive adjustment had been made as at the said Conversion Date over the number of Common Shares previously issued pursuant to such conversion, and in such event and in respect of such number of Common Shares references in Condition 5(B)(iii) and (v) to the Conversion Date shall be deemed to refer to the date upon which such retroactive adjustment becomes effective (disregarding the fact that it becomes effective retroactively). Fractions of Common Shares will not be issued and no cash adjustment will be made in respect thereof.

(vii) *Dividends and other entitlements:* To the extent permitted under the laws of the ROC, Common Shares received by the converting Noteholders will be entitled to the annual dividend distributions or other benefits accruing to such Common Shares and approved by the immediately preceding annual general meeting of shareholders if the Conversion Date in respect of the conversion of such Notes is on a day which is at least three Trading Days prior to Formosa Petrochemical's notification to the Taiwan Stock Exchange in respect of a record date (and the relevant closure of the shareholders' register) for determining the identity of shareholders who are entitled to such distributions in that year. Formosa Petrochemical shall give the Noteholders not less than 14 days' prior notice of its intention to make such notification to the Taiwan Stock Exchange, which notice shall indicate the proposed date of such notification to the Taiwan Stock Exchange.

(viii) *Conversion Agents.* Formosa Petrochemical reserves the right, subject to the provisions of the Agency Agreement and with the prior written consent of the Trustee, to vary or terminate the appointment of any Conversion Agent and to appoint other Conversion Agents at any time; provided that Formosa Petrochemical shall at all times maintain a Conversion Agent having specified a office in London and, so long as the Notes are listed on the SGX-ST and the rules of the exchange so require, in Singapore. Notice of any such termination or appointment and of any changes in the specified offices of the Conversion Agents shall be given promptly by Formosa Petrochemical to the holders of the Notes in accordance with Condition 14 and, so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, to the SGX-ST.

(ix) *Cash Payment Option.* Within three ROC Business Day after the Conversion Date, to the extent permitted under applicable laws, Formosa Petrochemical may elect to deliver the Cash Equivalent (as defined below) in lieu of the Common Shares, to satisfy the conversion of any Note (the "Cash Payment Option"). To exercise its Cash Payment Option, Formosa Petrochemical will as soon as practicable after receipt of a Conversion Notice and in any event within three ROC Business Days after the Conversion Date, deliver a cash payment notice (the "Cash Payment Notice") to the converting Noteholder stating that cash payment in lieu of delivery of Common Shares, shall be made pursuant to this Condition 5(B)(ix) and the number of Common Shares for which cash payment will be made. In the event that Formosa Petrochemical, subsequent to an exercise of the Cash Payment Option, fails to pay the Cash Equivalent (as defined below) within 30 days after the date of the Cash Payment Notice, Formosa Petrochemical's exercise of the Cash Payment Option will be null and void and the respective Noteholder will be entitled to receive delivery of the Common Shares.

For the purposes of these Conditions:

"Cash Equivalent" means, if and to the extent that Formosa Petrochemical has exercised the Cash Payment Option to satisfy the conversion of any Note, pursuant to Condition 5(B)(ix), an amount in US dollars equal to the product of (x) the average closing prices of the Common Shares on the Taiwan Stock Exchange for 20 consecutive Trading Days starting from the applicable date of the Cash Payment Notice (or such fewer number of Trading Days as available within 30 days after the applicable date of the Cash Payment Notice) converted to US dollars at the Prevailing Rate of each such Trading Day and (y) the number of Common Shares specified in the Cash Payment Notice.

"Prevailing Rate" for any Trading Day means U.S. dollar/NT dollar noon buying rate published by the Federal Reserve Bank of New York on such Trading Day or, if no buying rate is quoted on such Trading Day, the last available buying rate quoted on the immediately preceding Trading Day.

In the event the conversion of a Note shall result in a payment to the converting holder as provided above, Formosa Petrochemical shall deliver a notice setting forth the above details to the address of the converting holder appearing on the register of holders of the Notes.

(x) *Depositary Receipts.* Formosa Petrochemical may, at its option, but is not required to, make arrangements satisfactory to the Trustee for the Notes to be converted into depositary receipts or other scrip evidencing Common Shares. Any such arrangements shall be in addition to the provisions of these Conditions relating to conversion of the Notes into Common Shares.

Formosa Petrochemical has not, at the date of this Offering Circular, established or authorized the establishment of any depositary receipt facility. Accordingly, the option to convert Notes into depositary receipts is not and may not be available in the foreseeable future. If in the future a depositary receipt facility is established or authorized by Formosa Petrochemical, Formosa Petrochemical may, at its option, but is not required to, to the extent permitted by applicable laws and regulations, make arrangements satisfactory to the Trustee for Common Shares issued on conversion of Notes to be accepted for deposit (at the option of the converting holder of the Notes) into such depositary receipt facility, subject always to the terms of such depositary receipt facility, which terms may include certification or other requirements as conditions to the acceptance for deposit of Common Shares issued on conversion of Notes. In such an event, Formosa Petrochemical will give notice of any such arrangements to holders of the Notes in accordance with Condition 14. There can be no assurance that Formosa Petrochemical will in the future establish or authorize any depositary receipt facility or that any arrangements for the deposit of Common Shares into such depositary receipt facility would be available to all holders of the Notes.

(xi) *Adjustment of Global Certificate on the Conversion of Notes.* Where Conversion Rights are exercised in respect of only some of the Notes represented by a Global Certificate, the principal amount of such Notes shall be noted on the relevant schedule to such Global Certificate and, on the Conversion Date the principal amount of such Global Certificate shall be reduced accordingly.

(C) Adjustments to Conversion Price

The Conversion Price shall be subject to adjustment as follows, each such adjustment an "Antidilution Adjustment":

(i) Free distribution, bonus issue, division, consolidation and reclassification of Common Shares:

If Formosa Petrochemical shall (a) make a free distribution of Common Shares, (b) make a bonus issue of Common Shares, (c) divide the outstanding Common Shares, (d) consolidate the outstanding Common Shares into a smaller number of Common Shares, or (e) re-classify any of the Common Shares into other securities of Formosa Petrochemical, then the Conversion Price shall be appropriately adjusted so that the holder of any Note, the Conversion Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5(C)(i), shall be entitled to receive on exercise of the Conversion Right the number of Common Shares and/or other securities of Formosa Petrochemical which he would have held or have been entitled to receive after the happening of any of the events described above had such Note been converted immediately prior to the happening of such event (or, if Formosa Petrochemical has fixed a prior record date for the determination of shareholders entitled to receive any such free distribution or bonus issue of Common Shares or other securities issued upon any such division, consolidation or reclassification, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the happening of such event (or such record date) or any time thereafter.

Effective date of adjustment: An adjustment made pursuant to this Condition 5(C)(i) shall become effective immediately on the relevant event referred to in this Condition 5(C)(i) becoming effective or, if a record date is fixed therefor, immediately after such record date; provided that in the case of a free distribution or bonus issue of Common Shares which must, under applicable laws of the ROC, be submitted for approval to a general meeting of shareholders or be approved by a meeting of the board of directors of Formosa Petrochemical before being legally paid or made, and which is so approved after the record date fixed for the determination of shareholders entitled to receive such distribution or issue, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date.

(ii) *Declaration of dividend in Common Shares:*

If Formosa Petrochemical shall declare a dividend in Common Shares then the Conversion Price shall be appropriately adjusted so that the holder of any Note, the Conversion Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5(C)(ii), shall be entitled to receive on exercise of the Conversion Right the number of Common Shares and/or other securities of Formosa Petrochemical which he would have held or would have been entitled to receive after the date when such dividend is declared had such Note been converted immediately prior to the happening of such event (or, if Formosa Petrochemical has fixed a prior record date for the determination of shareholders entitled to receive such dividend, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the happening of such event (or such record date) or any time thereafter. No account is to be taken of, or credit given for, the par value of Common Shares issued in a dividend in Common Shares in calculating the appropriate Conversion Price adjustment, so that the full dilutive effect is provided for.

Effective date of adjustment: An adjustment made pursuant to this Condition 5(C)(ii) shall become effective immediately on the relevant event referred to in this Condition 5(C)(ii) becoming effective or, if a record date is fixed therefor, immediately after such record date; provided that in the case of a dividend in Common Shares which must, under applicable laws of the ROC, be submitted for approval to a general meeting of shareholders of Formosa Petrochemical before being legally paid or made, and which is so approved after the record date fixed for the determination of shareholders entitled to receive such dividend, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date.

(iii) ***Concurrent adjustment events:***

If Formosa Petrochemical shall declare a dividend in, or make a free distribution or bonus issue of, Common Shares, which dividend, issue or distribution is to be paid or made to shareholders as of a record date which is also:

(a) the record date for the issue of any rights or warrants which requires an adjustment of the Conversion Price pursuant to Condition 5(C)(iv), 5(C)(v) or 5(C)(vi);

(b) the day immediately before the date of issue of any securities convertible into or exchangeable for Common Shares which requires an adjustment of the Conversion Price pursuant to Condition 5(C)(viii);

(c) the day immediately before the date of issue of any Common Shares which requires an adjustment of the Conversion Price pursuant to Condition 5(C)(ix) or (if applicable) the record date for the determination of stock dividend entitlement as referred to in Condition 5(C)(ix);

(d) the day immediately before the date of issue of any rights, options or warrants which requires an adjustment of the Conversion Price pursuant to Condition 5(C)(x); or

(e) determined by Formosa Petrochemical and notified by Formosa Petrochemical to the Trustee in writing to be the relevant date for an event or circumstance which requires an adjustment to the Conversion Price pursuant to Condition 5(C)(xii),

then (except where such dividend, bonus issue or free distribution gives rise to a retroactive adjustment of the Conversion Price under Condition 5(C)(i) or 5(C)(ii)) no adjustment of the Conversion Price in respect of such dividend, bonus issue or free distribution shall be made under this Condition 5(C)(iii), but in lieu thereof an adjustment shall be made under Condition 5(C)(iv), 5(C)(v), 5(C)(vi), 5(C)(viii), 5(C)(ix) or 5(C)(x) (as the case may require) by including in the denominator of the fraction described therein the aggregate number of Common Shares to be issued pursuant to such dividend, bonus issue or free distribution.

(iv) ***Rights issues to shareholders:***

If Formosa Petrochemical shall grant, issue or offer to the holders of Common Shares rights entitling them to subscribe for or purchase Common Shares (including those Common Shares which are required to be offered to employees and persons other than shareholders in connection with such grant, issue or offer):

(a) at a consideration per Common Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) which is fixed on or prior to the record date mentioned below and is less than the Current Market Price (as defined in Condition 5(C)(xiv)) per Common Share at such record date; or

(b) at a consideration per Common Share receivable by Formosa Petrochemical which is fixed after the record date mentioned below and is less than the Current Market Price per Common Share on the date Formosa Petrochemical fixes the said consideration, then the Conversion Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such rights or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Common Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC (in a case within (a) above) on such record date or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration.

n = the number of Common Shares initially to be issued upon exercise of such rights at the said consideration being (aa) the number of Common Shares which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Common Shares for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa).

v = the number of Common Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Common Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective immediately after the latest date for the submission of applications for such Common Shares by shareholders entitled to the same pursuant to such rights or (if later) immediately after Formosa Petrochemical fixes the said consideration but retroactively to immediately after the record date mentioned above.

Rights not taken up by shareholders: If, in connection with a grant, issue or offer to the holders of Common Shares of rights entitling them to subscribe for or purchase Common Shares, any Common Shares which are not subscribed for or purchased by the persons entitled thereto are underwritten by other persons prior to the latest date for the submission of applications for such Common Shares, an adjustment shall be made to the Conversion Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after Formosa Petrochemical fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Common Shares of rights entitling them to subscribe for or purchase Common Shares, any such Common Shares which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred such rights) who have submitted applications for such Common Shares as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Conversion Price by reason of such offer and/or subscription.

(v) ***Warrants issued to shareholders:***

If Formosa Petrochemical shall grant, issue or offer to the holders of Common Shares warrants entitling them to subscribe for or purchase Common Shares:

(a) at a consideration per Common Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) which is fixed on or prior to the record date for the determination of shareholders entitled to receive such warrants and is less than the Current Market Price per Common Share at such record date; or

(b) at a consideration per Common Share receivable by Formosa Petrochemical which is fixed after the record date mentioned above and is less than the Current Market Price per Common Share on the date Formosa Petrochemical fixes the said consideration,

then the Conversion Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such warrants or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Common Shares outstanding (having regard to Condition 5(C)(xvi) at the close of business in the ROC (in a case within (a) above) on such record date or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration.

n = the number of Common Shares to be issued upon exercise of such warrants at the said consideration which, where no applications by shareholders entitled to such warrants are required, shall be based on the number of warrants issued. Where applications by shareholders entitled to such warrants are required, the number of such Common Shares shall be calculated based upon (aa) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of warrants for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa).

v = the number of Common Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Common Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective (i) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (ii) where applications by shareholders entitled to the same are required as aforesaid, immediately after the latest date for the submission of such applications or (if later) immediately after Formosa Petrochemical fixes the said consideration but in all cases retroactively to immediately after the record date mentioned above.

Warrants not subscribed for by shareholders: If, in connection with a grant, issue or offer to the holders of Common Shares of warrants entitling them to subscribe for or purchase Common Shares in the circumstances described in (a) and (b) of this Condition 5(C)(v), any warrants which are not subscribed for or purchased by the shareholders entitled thereto are underwritten by others prior to the latest date for the submission of applications for such warrants, an adjustment shall be made to the Conversion Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after Formosa Petrochemical fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Common Shares of warrants entitling them to subscribe for or purchase Common Shares, any warrants which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred the right to purchase such warrants) who have submitted applications for such warrants as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Conversion Price by reason of such offer and/or subscription.

(vi) ***Issues of rights or warrants for equity-related securities to shareholders:***

If Formosa Petrochemical shall grant, issue or offer to the holders of Common Shares rights or warrants entitling them to subscribe for or purchase any securities convertible into or exchangeable for Common Shares:

(a) at a consideration per Common Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) which is fixed on or prior to the record date mentioned below and is less than the Current Market Price per Common Share at such record date; or

(b) at a consideration per Common Share receivable by Formosa Petrochemical (determined as aforesaid) which is fixed after the record date mentioned below and is less than the Current Market Price per Common Share on the date Formosa Petrochemical fixes the said consideration,

then the Conversion Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Common Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC (in a case within (a) above) on such record date or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration.

n = the number of Common Shares initially to be issued upon exercise of such rights or warrants and conversion or exchange of such convertible or exchangeable securities at the said consideration being, in the case of rights, (aa) the number of Common Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities which the underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Common Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa) and which, in the case of warrants, where no applications by shareholders entitled to such warrants are required, shall be based on the number of warrants issued. Where applications by shareholders entitled to such warrants are required, the number of such Common Shares shall be calculated based upon (x) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the case may be, (y) the number of warrants for which applications are received from shareholders as referred to below save to the extent already adjusted for under (x).

v = the number of Common Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Common Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective (a) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (b) where applications by shareholders entitled to the warrants are required as aforesaid and in the case of applications for convertible or exchangeable securities by shareholders entitled to the same pursuant to such rights, immediately after the latest date for the submission of such applications or (if later) immediately after Formosa Petrochemical fixes the said consideration; but in all cases retroactively to immediately after the record date mentioned above.

Rights or warrants not taken up by shareholders: If, in connection with a grant, issue or offer to the holders of Common Shares of rights or warrants entitling them to subscribe for or purchase securities convertible into or exchangeable for Common Shares in the circumstances described in this Condition 5(C)(vi), any convertible or exchangeable securities or warrants which are not subscribed for or purchased by the shareholders entitled thereto are underwritten by others prior to the latest date for the submission of applications for such convertible or exchangeable securities or warrants, an adjustment shall be made to the Conversion Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after Formosa Petrochemical fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Common Shares or of rights or warrants entitling them to subscribe for or purchase securities convertible into or exchangeable for Common Shares, any convertible or exchangeable securities or warrants which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred such rights or the right to purchase such warrants) who have submitted applications for such convertible or exchangeable securities or warrants as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Conversion Price by reason of such offer and/or subscription.

(vii) ***Capital Distribution:***

If Formosa Petrochemical shall pay or make any Capital Distribution (as defined below) to its shareholders, then the Conversion Price shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{CMP - FMV}{CMP}$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 5(C)(iv).

CMP = the Current Market Price per Common Share on the last Trading Day preceding the date on which the Capital Distribution is publicly announced.

fmv = the aggregate fair market value on the date of such announcement, as determined in good faith by two leading independent investment banks of international repute selected by Formosa Petrochemical and approved by the Trustee and acting as experts, of the portion of the Capital Distribution attributable to one Common Share.

Effective date of adjustment: Such adjustment shall become effective immediately after the record date for the determination of shareholders entitled to receive such Capital Distribution. Provided that (a) in the case of such a Capital Distribution which must, under applicable law of the ROC, be submitted for approval to a general meeting of shareholders or be approved by a meeting of the board of directors of Formosa Petrochemical before such Capital Distribution may legally be made and is so approved after the record date fixed for the determination of shareholders entitled to receive such Capital Distribution, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date and (b) if the fair market value of such Capital Distribution cannot be determined until the record date fixed for the determination of shareholders entitled to receive such Capital Distribution, such adjustment shall, immediately upon such fair market value being determined, become effective retroactively to immediately after such record date.

If Formosa Petrochemical shall pay or make any Capital Distribution in cash only then, in such case, the Conversion Price shall be adjusted (with such adjustment to be effective on the record date for the determination of shareholders entitled to receive such Capital Distribution in cash) in accordance with the following formula:

$$NCP = OCP \times \frac{M - C}{M}$$

where:

NCP and OCP shall have the meanings ascribed thereto in Condition 5(C)(iv).

M = the Current Market Price per Common Share on such record date.

C = the amount of Capital Distribution in cash so distributed applicable to one Common Share.

For the purposes of this Condition 5(C)(vii):

"Capital Distribution" means any dividend or distribution, whether of cash, assets or other property, and whenever paid or made and however described (and for these purposes a distribution of assets includes, without limitation, an issue of shares or other Securities (as defined below) credited as fully or partly paid up) provided that:

(a) where a cash Capital Distribution is announced which is to be, or may at the election of a holder or holders of Common Shares be, satisfied by the issue or delivery of Common Shares or other property or assets, then for the purposes of the above formula the Capital Distribution in question shall be treated as a Capital Distribution of (1) the cash Capital Distribution so announced or (2) the fair market value on the date of announcement of such Capital Distribution, of such Common Shares or other property or assets to be issued or delivered in satisfaction of such Capital Distribution (or which would be issued if all holders of Common Shares elected therefor, regardless of whether any such election is made) if the fair market value of such Common Shares or other property or assets is greater than the cash Capital Distribution so announced;

(b) any issue of Common Shares falling within Condition 5(C)(ii) shall be disregarded; and

(c) a purchase or redemption of share capital by or on behalf of Formosa Petrochemical (whether by tender or exchange offer or otherwise) shall not constitute a Capital Distribution unless in the case of purchase of Common Shares by or on behalf of Formosa Petrochemical, the weighted average price (before expenses) on any one day in respect of such purchase exceeds the closing price of the Common Shares published by the Taiwan Stock Exchange either (1) on that date, or (2) where an announcement has been made of the intention to purchase Common Shares at some future date at a specified price, on the Trading Day immediately preceding the date of such announcement and, if in the case of either (1) or (2), the relevant day is not a Trading Day, the immediately preceding Trading Day, in which case such purchase shall be deemed to constitute a Capital Distribution in the amount of such excess.

"Securities" includes, without limitation, shares in the capital of Formosa Petrochemical or options, warrants or other rights to subscribe for or purchase shares in the capital of Formosa Petrochemical or evidences of its indebtedness.

(viii) *Issue of convertible or exchangeable securities other than to shareholders or on exercise of warrants:*

If Formosa Petrochemical shall issue any securities convertible into or exchangeable for Common Shares (other than the Notes, or in any of the circumstances described in Condition 5(C)(vi) and Condition 5(C)(x)) and the consideration per Common Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) shall be less than the Current Market Price per Common Share on the date in the ROC on which Formosa Petrochemical fixes the said consideration (or, if the issue of such securities is subject to approval by a general meeting of shareholders, on the date on which the board of directors of Formosa Petrochemical fixes the consideration to be recommended at such meeting), then the Conversion Price in effect immediately prior to the date of issue of such convertible or exchangeable securities shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 5(C)(iv).

N = the number of Common Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC on the day immediately prior to the date of such issue.

n = the number of Common Shares to be issued upon conversion or exchange of such convertible or exchangeable securities at the initial conversion or exchange price or rate.

v = the number of Common Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Common Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in the ROC corresponding to the calendar day at the place of issue on which such convertible or exchangeable securities are issued.

(ix) ***Other issues of Common Shares:***

If Formosa Petrochemical shall issue any Common Shares (other than Common Shares issued upon conversion or exchange of any convertible or exchangeable securities (including the Notes) issued by Formosa Petrochemical or upon exercise of any rights or warrants granted, offered or issued by Formosa Petrochemical or in any of the circumstances described in Conditions 5(C)(i) and 5(C)(ii), but including Common Shares issued pursuant to any employee dividend or profit-sharing arrangements) for a consideration per Common Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) which is less than the Current Market Price per Common Share on the date in the ROC on which Formosa Petrochemical fixes the said consideration (or, if the issue of such Common Shares is subject to approval by a general meeting of shareholders, on the date on which the board of directors of Formosa Petrochemical fixes the consideration to be recommended at such meeting), then the Conversion Price in effect immediately prior to the issue of such additional Common Shares shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Common Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC on the day immediately prior to the date of issue of such additional Common Shares.

n = the number of additional Common Shares issued as aforesaid.

v = the number of Common Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Common Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in the ROC of the issue of such additional Common Shares or, in the case of an issue to employees under any employee dividend or profit sharing arrangements, where such an issue is announced at the same time as a stock dividend, such adjustment shall become effective as of the record date for determination of the identity of the shareholders entitled to receive any such dividend.

(x) *Issue of equity related securities:*

If Formosa Petrochemical shall grant, issue or offer options, warrants or rights (excluding those rights and warrants referred to in Conditions 5(C)(iv), 5(C)(v), 5(C)(vi) and 5(C)(vii)) to subscribe for or purchase Common Shares or securities convertible into or exchangeable for Common Shares and the consideration per Common Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) shall be less than the Current Market Price per Common Share on the date in the ROC on which Formosa Petrochemical fixes the said consideration (or, if the offer, grant or issue of such rights, options or warrants is subject to approval by a general meeting of shareholders, on the date on which the board of directors of Formosa Petrochemical fixes the consideration to be recommended at such meeting), then the Conversion Price in effect immediately prior to the date of the offer, grant or issue of such rights, options or warrants shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Common Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC on the day immediately prior to the date of such issue.

n = the number of Common Shares to be issued on exercise of such rights or warrants and (if applicable) conversion or exchange of such convertible or exchangeable securities at the said consideration.

v = the number of Common Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Common Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in the ROC corresponding to the calendar day at the place of issue on which such rights or warrants are issued.

(xi) ***Tender or exchange offer:***

In case a tender or exchange offer made by Formosa Petrochemical or any subsidiary of Formosa Petrochemical for all or any portion of the Common Shares shall expire and such tender or exchange offer shall involve the payment by Formosa Petrochemical or such subsidiary of consideration per Common Share having a fair market value (as determined in good faith by two leading independent investment banks of international repute selected by Formosa Petrochemical and approved by the Trustee and acting as experts) at the last time (the "Expiration Date") tenders or exchanges could have been made pursuant to such tender or exchange offer (as it shall have been amended) that exceeds the Current Market Price per Common Share, as of the Expiration Date, the Conversion Price shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N \times CMP}{fmv + [(N - n) \times CMP]}$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Common Shares outstanding (including any tendered or exchanged Common Shares) on the Expiration Date.

CMP = Current Market Price per Common Share as of the Expiration Date.

fmv = the fair market value (as determined in good faith by two leading independent investment banks of international repute selected by Formosa Petrochemical and approved by the Trustee and acting as experts) of the aggregate consideration payable to the holders of Common Shares based on the acceptance (up to a maximum specified in the terms of the tender or exchange offer) of all Common Shares validly tendered or exchanged and not withdrawn as of the Expiration Date (the Common Shares deemed so accepted up to any such maximum, being referred to as the "Purchased Common Shares").

n = the number of Purchased Common Shares.

Effective date of adjustment: Such adjustment shall become retroactively effective immediately prior to the opening of business on the day following the Expiration Date.

(xii) ***Analogous events and modifications:***

If (a) the rights of conversion or exchange, purchase or subscription attaching to any options, rights or warrants to subscribe for or purchase Common Shares or any securities convertible into or exchangeable for, or which carry rights to subscribe for or purchase Common Shares are modified (other than pursuant to and as provided in the terms and conditions of such options, rights, warrants or securities) or (b) Formosa Petrochemical determines or written notice has been given to the Trustee that any other event or circumstance has occurred which has or would have an effect on the position of the holders of the Notes as a class compared with the position of the holders of all the securities (and options and rights relating thereto) of Formosa Petrochemical, taken as a class which is analogous to any of the events referred to in Conditions 5(C)(i) to 5(C)(xi), then, in any such case, Formosa Petrochemical shall notify the Trustee thereof or if the Trustee has been notified under (b), the Trustee shall notify Formosa Petrochemical thereof and Formosa Petrochemical shall consult with two leading independent investment banks of international repute selected by Formosa Petrochemical and approved by the Trustee as to what adjustment, if any, should be made to the Conversion Price (and the timing of any such adjustment) to preserve the value of the Conversion Right, and any such adjustment shall be made.

(xiii) ***Simultaneous issues of different classes of shares:***

In the event of simultaneous issues of two or more classes of share capital comprising Common Shares or rights or warrants in respect of, or securities convertible into or exchangeable for, two or more classes of share capital comprising Common Shares, then, for the purposes of this Condition, the formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

shall be restated as:

$$NCP = OCP \times \frac{N + v1 + v2 + v3}{N + n1 + n3 + n3}$$

where v1 and n1 shall have the same meanings as "v" and "n" but by reference to one class of Common Shares, v2 and n2 shall have the same meanings as "v" and "n" but by reference to a second class of Common Shares, v3 and n3 shall have the same meanings as "v" and "n" but by reference to a third class of Common Shares and so on.

(xiv) ***Current Market Price per Common Share:***

"Current Market Price", in relation to the Common Shares, for any day means (a) the average Closing Prices of the Common Shares for the 30 consecutive Trading Days commencing 45 Trading Days before such day and (b) when used with respect to any issuance or distribution, the average Closing Prices for the 30 consecutive Trading Days commencing not more than 45 Trading Days (with the commencement date selected by Formosa Petrochemical) before the first day on which the Common Shares without the right to receive such issuance or distribution trade in a regular way on the Taiwan Stock Exchange, other applicable securities exchange or any applicable securities market; provided, however, if no Closing Price is available for one or more Trading Days, such day or days shall be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of consecutive Trading Days.

"Closing Price", in relation to the Common Shares, for any Trading Day means the last reported transaction price or, if no transaction takes place on such day, the last available reported transaction price of the Common Shares on the Taiwan Stock Exchange in effect on the Trading Day immediately preceding such day or, if the Common Shares are not at that time listed or admitted to trading on the Taiwan Stock Exchange, the average of the closing bid and offered prices of the Common Shares for such day as furnished by a leading independent securities firm licensed to trade on the Taiwan Stock Exchange selected by Formosa Petrochemical for that purpose. In respect of any security traded on another exchange or market, this definition shall apply with reference to that exchange or market.

(xv) ***Consideration receivable by Formosa Petrochemical:***

For the purposes of any calculation of the consideration receivable by Formosa Petrochemical pursuant to Conditions 5(C)(iv), 5(C)(v), 5(C)(vi), 5(C)(viii), 5(C)(ix) and 5(C)(x), the following provisions shall be applicable:

(a) in the case of the issue of Common Shares for cash, the consideration shall be the amount of such cash, provided that in no such case shall any deduction be made for any commissions or any expenses paid or incurred by Formosa Petrochemical for any underwriting of the issue or otherwise in connection therewith;

(b) in the case of the issue of Common Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by Formosa Petrochemical (and in making such determination Formosa Petrochemical shall consult two leading independent investment banks of international repute, selected by Formosa Petrochemical and approved by the Trustee and shall take fully into account the advice received from such banks) or, if pursuant to applicable law of the ROC such determination is to be made by application to a court of competent jurisdiction, as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof;

(c) in the case of the issue (whether initially or upon the exercise of rights or warrants) of securities convertible into or exchangeable for Common Shares, the aggregate consideration receivable by Formosa Petrochemical shall be deemed to be the consideration received by Formosa Petrochemical for such securities and (if applicable) rights or warrants plus the additional consideration (if any) to be received by Formosa Petrochemical upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in (a) and (b) above) and the consideration per Common Share receivable by Formosa Petrochemical shall be such aggregate consideration divided by the number of Common Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price;

(d) in the case of the issue of rights or warrants to subscribe for or purchase Common Shares, the aggregate consideration receivable by Formosa Petrochemical shall be deemed to be the consideration received by Formosa Petrochemical for any such rights or warrants plus the additional consideration to be received by Formosa Petrochemical upon (and assuming) the exercise of such rights or warrants at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in (a) and (b) above) and the consideration per Common Share receivable by Formosa Petrochemical shall be such aggregate consideration divided by the number of Common Shares to be issued upon (and assuming) the exercise of such rights or warrants at the initial subscription or purchase price;

(e) if any of the consideration referred to in any of the preceding paragraphs of this Condition 5(C)(xiv) is receivable in a currency other than NT dollars, such consideration shall (in any case where there is a fixed rate of exchange between the NT dollar and the relevant currency for the purposes of the issue of the Common Shares, the conversion or exchange of such securities or the exercise of such rights or warrants) be translated into NT dollars for the purposes of this Condition 5(C)(xiv) at such fixed rate of exchange and shall (in all other cases) be translated into NT dollars at the mean of the exchange rate quotations (being quotations for the cross rate through US dollars if no direct rate is quoted) by a leading bank in the ROC for buying and selling spot units of the relevant currency by telegraphic transfer against NT dollars on the date as of which the said consideration is required to be calculated as aforesaid; and

(f) in the case of the issue of Common Shares (including, without limitation, to employees under any employee dividend or profit sharing arrangements) credited as fully paid out of retained earnings or capitalisation of reserves at their par value, the aggregate consideration receivable by Formosa Petrochemical shall be deemed to be zero (and accordingly the number of Common Shares which such aggregate consideration receivable by Formosa Petrochemical could purchase at the relevant Current Market Price per Common Share shall also be deemed to be zero).

(xvi) ***Cumulative adjustments:***

If, at the time of computing an adjustment (the "later adjustment") of the Conversion Price pursuant to any of Conditions 5(C)(ii), 5(C)(iv), 5(C)(v), 5(C)(viii), 5(C)(ix) and 5(C)(x), the Conversion Price already incorporates an adjustment made (or taken or to be taken into account pursuant to the proviso to Condition 5(C)(xvii)) to reflect an issue of Common Shares or of securities convertible into or exchangeable for Common Shares or of rights or warrants to subscribe for or purchase Common Shares or securities, to the extent that the number of such Common Shares or securities taken into account for the purposes of calculating such adjustment exceeds the number of such Common Shares in issue at the time relevant for ascertaining the number of outstanding Common Shares for the purposes of computing the later adjustment, such excess Common Shares shall be deemed to be outstanding for the purposes of making such computation.

(xvii) ***Minor adjustments:***

No adjustment will be made where such adjustment would be less than 1% of the Conversion Price then in effect; provided, however, that any adjustment that otherwise would be required to be made will be carried forward and taken into account in determining any subsequent adjustment.

(xviii) ***Reference to "fixed":***

Any references in this Condition 5(C) to the date on which a consideration is "fixed" shall, where the consideration is originally expressed by reference to a formula which cannot be expressed as an actual cash amount until a later date, be construed as a reference to the first day on which such actual cash amount can be ascertained.

(xix) ***Calculations:***

All calculations relating to adjustment of the Conversion Price shall be performed by Formosa Petrochemical, subject to approval by an independent, internationally recognized investment bank or accounting firm selected by Formosa Petrochemical and approved by the Trustee, or such other person as shall be nominated by Formosa Petrochemical and subject to the approval of the Trustee.

(xx) ***Downward adjustment:***

No adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation of the Common Shares, as referred to in Condition 5(c)(i) above.

(xxi) ***Notification:***

Any adjustment will be notified promptly by Formosa Petrochemical to the Noteholders, the Trustee, the Agents, in accordance with Condition 14 and, so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, to the SGX-ST. Any such notice relating to an adjustment of the Conversion Price should set forth the event giving rise to the adjustment, the Conversion Price prior to the adjustment, the effective date of such adjustment and the Conversion Price after the adjustment.

(xxii) ***Trustee has no obligation to monitor:***

The Trustee shall not be obliged to monitor whether any event has occurred that might fall within (i) to (xiii) above and shall assume that no such event has occurred until it has actual knowledge by way of notice in writing from Formosa Petrochemical to the contrary.

(D) Conversion Price Reset

In the event that the average of the Closing Prices of the Common Shares on the Taiwan Stock Exchange, for the period of 5 consecutive Trading Days ("Average Market Price") prior to December 26, 2004 and each anniversary thereafter (each a "Reset Date"), converted into U.S. dollars at each such Trading Day at the Prevailing Exchange Rate, is less than the Conversion Price then in effect converted into U.S. dollars at the Fixed Exchange Rate, the Conversion Price shall be adjusted downwards in accordance with the following formula:

Adjusted Conversion Price = 110% x Average Market Price x (Fixed Exchange Rate/ Prevailing Exchange Rate)

provided that (i) any such reset shall only reset the Conversion Price downwards only and (ii) any adjustment to the Conversion Price shall be limited so that the adjusted Conversion Price shall not be less than 80% of the Initial Conversion Price (as adjusted to reflect any antidilution adjustments which may have occurred prior to the relevant Reset Date.

"Prevailing Exchange Rate" has the same meaning as "Prevailing Rate".

Any such adjustment shall become effective as of the relevant Reset Date and shall be notified to the holders within five days of the relevant Reset Date.

(E) Undertakings

Formosa Petrochemical has undertaken in the Indenture that, so long as any Note remains outstanding:

(i) it will use its best efforts to maintain a listing for all the Common Shares on the Taiwan Stock Exchange;

(ii) it will pay the expenses arising in the ROC on the issue and delivery of any Common Shares on conversion of Notes;

(iii) to the extent permitted by applicable laws, it will use its best efforts to ensure that any Common Shares issued on conversion of Notes may be transferred and sold to any person, corporation, partnership or association, regardless of nationality (except for persons of the PRC); and

(iv) it will use its best efforts to ensure that any Closed Period is for as short a period as is reasonably practicable having regard to applicable laws, regulations and practices.

Formosa Petrochemical has also given certain other undertakings in the Indenture for the protection of the Conversion Rights.

6. PAYMENTS

(A) Manner of payment

Payment in respect of a Note shall be made (i) by transfer to the registered account of the holder of the Note or (ii) if such holder does not have a registered account, by a US dollar check mailed to its registered address. The registered account and address of a holder of the Notes means its account and address appearing on the register of holders of the Notes at the close of business on the second Business Day (as defined below) before the due date for payment.

References in these Conditions, the Indenture and the Agency Agreement to payment in respect of a Note shall, where the context so permits, be deemed to include not only a reference to the principal of, but also to any premium, interest and other amounts payable on, such Note.

For the purposes of this Condition 6 and Condition 7:

"Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in The City of New York, in Taiwan, in Hong Kong and, in the case of the surrender of a Definitive Certificate, in the place where the Definitive Certificate is surrendered.

(B) Commissions and expenses

All payments are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the holders of the Notes in respect of such payments.

(C) Date of payment

Where payment is to be made by transfer to a registered account, payment instructions for value on the due date (or, if that date is not a Business Day, for value the next Business Day) shall be initiated. Where payment is to be made by check, the check shall be mailed on the Business Day preceding the due date for payment. Notwithstanding the above, payment of principal of a Note represented by a Definitive Certificate shall not be made earlier than the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

(D) Default interest and payment delay

If Formosa Petrochemical fails to pay any sum in respect of the Notes when the same becomes due and payable under these Conditions, interest shall accrue on the overdue sum at the rate of 4.0% per annum from the due date. Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day year consisting of 12 months of 30 days each.

A holder of the Notes shall not be entitled to any interest or other payment for any delay in receiving the amount due if (i) the due date is not a Business Day, (ii) the Note is represented by a Definitive Certificate and the holder is late in surrendering its Definitive Certificate (if required to do so) or (iii) a check mailed in accordance with this Condition 6 arrives after the due date for payment.

7. REDEMPTION, REPURCHASE AND CANCELLATION

(A) Redemption at maturity

Unless previously redeemed, repurchased and cancelled, or converted as herein provided, Formosa Petrochemical shall redeem each Note at 103.6 per cent. of its principal amount, on June 30, 2011 (the "Maturity Date") or if such day is not a Business Day, on the immediately preceding Business Day. The Notes may be redeemed prior to that date only as provided in Conditions 7(B), (C) and (D) below, but without prejudice to Condition 9.

(B) Redemption at the option of Formosa Petrochemical

At any time after June 30, 2006 and prior to the Maturity Date, Formosa Petrochemical may, having given not less than 30 or more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable and delivered in accordance with Condition 7(H) and Condition 14), redeem the Notes in whole, or from time to time in part, at their Early Redemption Amount (as defined below) if the Closing Price (as defined in Condition 5(C)) of the Common Shares, translated into US dollars at the Prevailing Rate (as defined in Condition 5(B)), for any 20 Trading Days out of the 30 consecutive Trading Days immediately preceding the date of such notice of redemption, is at least 120% of the Conversion Price then in effect, translated into US dollars at the Fixed Exchange Rate. If an event giving rise to a change in the Conversion Price occurs during such 30 consecutive Trading Days, appropriate adjustments for the relevant days shall be made for the purpose of calculating the Closing Price for such days.

Formosa Petrochemical may, at any time, having given not less than 30 or more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable and delivered in accordance with Condition 7(G) and Condition 14), redeem the Notes in whole, but not in part, at their Early Redemption Amount (as defined below) in US dollars if at least 90% in principal amount of the Notes has already been redeemed, repurchased and cancelled or converted.

"Early Redemption Amount" means, in relation to a Note to be redeemed on any redemption date, or to be repaid upon acceleration, an amount of principal that would result in an annual yield on the Note purchased on June 30, 2004, the date of the original issuance of the Note, at its principal amount, of 0.5 per cent. per annum through to the redemption date, or the date of acceleration, as the case may be, calculated on a semi-annual bond equivalent basis using a 360-day year consisting of twelve 30-day months.

(C) Redemption for taxation reasons

At any time, Formosa Petrochemical may, having given not less than 30 or more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable and delivered in accordance with Condition 7(G) and Condition 14), redeem the Notes in whole, but not in part (subject to the provisions of the last paragraph of this Condition 7(Q), at their Early Redemption Amount, provided that Formosa Petrochemical satisfies the Trustee that, immediately prior to the giving of such notice:

(i) Formosa Petrochemical has become obliged to pay Additional Amounts (as defined in Condition 8) as a result of any change in, or amendment to, the laws or regulations of the ROC or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective after the date of the original issuance of the Notes and would require Formosa Petrochemical to gross up for payment of principal or to gross up for payment of interest or premium, if any, at a rate greater than 20%; and

(ii) such obligation cannot be avoided by Formosa Petrochemical taking reasonable measures available to it.

Notwithstanding the foregoing, no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which Formosa Petrochemical would be obliged to pay such Additional Amounts.

Prior to the delivery of any notice of redemption pursuant to this Condition 7(C), Formosa Petrochemical shall deliver to the Trustee (1) a certificate signed by two of its authorized officers stating that the obligation referred to in (i) above cannot be avoided by taking reasonable measures available to it, and the Trustee shall be entitled to accept such certificate as sufficient and conclusive evidence of the satisfaction of the condition precedent set out in clause (ii) above and (2) an opinion addressed to the Trustee by an independent law firm of recognized standing admitted to practice in the ROC, or written advice of a qualified tax advisor of recognized standing in the ROC, to the effect that Formosa Petrochemical has or will become obliged to pay such Additional Amounts as a result of such change or amendment, and the Trustee shall be entitled to accept such certificate and opinion or advice as sufficient and conclusive evidence of the conditions precedent referred to in this Condition 7(C), in which event it shall be conclusive and binding on the holders of the Notes. The Notes in respect of which a notice of redemption has been given under Condition 7(B) or 7(D) shall not be affected by any notice given subsequently under this Condition 7(C).

If Formosa Petrochemical gives a notice of redemption of the Notes under Condition 7(C), each holder of the Notes shall have the right (the "Non-Redemption Option") to elect that all or a portion (being U.S.$1,000 in principal amount or an integral multiple thereof) of its Notes not be redeemed. Upon the exercise of the Non-Redemption Option with respect to such Notes, no Additional Amounts referred to in Condition 8 shall be payable on the payments due after the relevant date in respect of such Notes and, subject to Condition 8, such payments shall be made subject to the deduction or withholding required under the laws or regulations of the ROC. For the avoidance of doubt, any increased amounts that had been payable in respect of the Notes under Condition 8 as a result of the laws or regulations of the ROC in effect on the original date of their issuance shall continue to be payable to such holders of the Notes.

(D) Redemption at the option of the holders

Each holder of the Notes shall have the right (the "Holders' Redemption Right") to require Formosa Petrochemical to redeem in whole, or in part only (being U.S.$1,000 in principal amount or an integral multiple thereof), the Notes held by such holder, on June 30, 2006 (the "First Put Date") at their Early Redemption Amount and on June 30, 2009 (the "Second Put Date") at their Early Redemption Amount.

Not less than 30 or more than 60 days prior to each of the First Put Date and the Second Put Date, Formosa Petrochemical shall notify the holders of the Holders' Redemption Right, which notice shall be delivered in accordance with Condition 7(H) and Condition 14.

Following the occurrence of a Relevant Event (as defined below), the holder of each Note will have the right at such holder's option (the "Relevant Event Redemption Right"), to require Formosa Petrochemical to redeem all or some only of the Notes on the Relevant Event Redemption Date (as defined below) at their Early Redemption Amount on the 5th Business Day (as defined in Condition 6(A)) after the date of the respective Relevant Event Notice. To exercise such right, the holder of the relevant Note must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent ("Relevant Event Redemption Notice") together with the Notes to be redeemed by not later than 60 days following a Relevant Event, or, if later, 60 days following the date upon which notice thereof is given to Noteholders by Formosa Petrochemical in accordance with Condition 14. The "Relevant Event Redemption Date" shall be the 14th day after the expiry of such period of 60 days as referred to above.

A Relevant Event Redemption Notice, once delivered, shall be irrevocable and Formosa Petrochemical shall redeem the Notes the subject of Relevant Event Redemption Notices delivered as aforesaid on the Relevant Event Redemption Date.

The Trustee shall not be required to take any steps to ascertain whether a Relevant Event or any event which could lead to the occurrence of a Relevant Event has occurred.

Formosa Petrochemical shall give notice, each a "Relevant Event Notice", to Noteholders in accordance with Condition 7(G) and Condition 14 as soon as practicable, and in any event no later than 10 days following the first day on which it becomes aware of the occurrence of a Relevant Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Notes pursuant to this Condition 7(D).

A "Relevant Event" occurs:

(i) when the Common Shares cease to be listed or admitted to trading on the Taiwan Stock Exchange (a "Delisting"); or

(ii) when there is a Change of Control (as defined below) with respect to Formosa Petrochemical.

"Change of Control" occurs when:

(a) any person or person (as defined below) acting together acquires control of Formosa Petrochemical if such person or persons does not or do not have, and would not be deemed to have, control (as defined below) of Formosa Petrochemical on the date of issue of the Notes;

(b) Formosa Petrochemical consolidates with or merges into or sells or transfers all or substantially all of Formosa Petrochemical's assets to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over Formosa Petrochemical or the successor entity; or

(c) one or more persons (as defined below) acquires control (as defined below) of Formosa Petrochemical.

"control" means the right to appoint and/or remove all or the majority of the members of Formosa Petrochemical's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise.

a "person" includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include Formosa Petrochemical's directors or any other governing board and does not include Formosa Petrochemical's wholly-owned direct or indirect subsidiaries.

(E) Repurchase and cancellation

Formosa Petrochemical may at any time and from time to time repurchase the Notes in the open market or otherwise at any price. Formosa Petrochemical shall promptly surrender any Notes so repurchased to the Principal Paying Agent for cancellation.

(F) Cancellation

All Notes that are redeemed, repurchased or converted and surrendered to any Agent shall forthwith be cancelled. In the case of Notes represented by Definitive Certificates, certificates in respect of all Notes cancelled shall be forwarded to or to the order of the Principal Paying Agent. Notes cancelled may not be reissued or resold.

(G) Redemption procedures

In the event that Formosa Petrochemical is required to deliver a notice to the holders of the Notes under this Condition 7, Formosa Petrochemical shall provide such information to the Trustee as the Trustee shall require to permit the Trustee to give notice to holders of the Notes in accordance with Condition 14, which notice shall state, to the extent applicable:

(i) the relevant redemption date;

(ii) in the case of a Delisting, the date of such Delisting and, briefly, the events that resulted in such Delisting;

(iii) the date by which the Exercise Notice (as defined below) must be given by the holder;

(iv) the applicable redemption price of a Note on the redemption date and the method by which such redemption price will be paid;

(v) the names and addresses of all Paying Agents;

(vi) the procedures that holders must follow and the requirements they must satisfy in order to exercise their Holders' Redemption Right, Relevant Event Redemption Right, Non-Redemption Option, and/or Conversion Right, as the case may be;

(vii) that an Exercise Notice, once validly given, may not be withdrawn;

(viii) the principal amount of the Notes outstanding as of the latest practicable date prior to the delivery of the notice;

(ix) any identifying numbers of the Notes and/or Definitive Certificate to be redeemed;

(x) the Closing Price of the Common Shares on the most recent practicable Trading Day for which such Closing Price can be provided;

(xi) the place or places of payment; and

(xii) that payment will be made upon presentation and surrender of the Notes to be redeemed. Such notice shall also specify the date on which the right to convert the Notes or the portions thereof to be redeemed will expire. Formosa Petrochemical shall provide to the Trustee such notice as well as an officers' certificate certifying the applicable redemption price (including the Early Redemption Amount) on the Redemption Date no later than ten (10) days prior to the delivery of the notice to the Holders.

So long as the Notes are listed on the SGX-ST and the rules of that exchange so require, Formosa Petrochemical shall submit a copy of the redemption notice to the SGX-ST as soon as practicable.

To exercise its Holders' Redemption Right, Relevant Event Redemption Right or Non-Redemption Option, as the case may be, a holder must deliver a written irrevocable notice of the exercise of such right (an "Exercise Notice") in the form obtainable during normal business hours from the specified office of any of the Agents, to any Paying Agent on any Business Day that is not fewer than fifteen (15) Business Days prior to the relevant redemption date. No Exercise Notice so deposited may be withdrawn without the prior written consent of Formosa Petrochemical, and if such consent is given, Formosa Petrochemical shall notify the Principal Agent in writing no later than 5 days prior to the relevant proposed redemption date.

Payment of the redemption price (including the Early Redemption Amount) upon exercise of the Holders' Redemption Right or Relevant Event Redemption Right attaching to any Note represented by a Definitive Certificate for which an Exercise Notice has been delivered is conditioned upon the delivery of such Definitive Certificate (together with any necessary endorsements) to any Paying Agent on any Business Day, together with the delivery of such Exercise Notice, and shall be made promptly following the later of the relevant redemption date and the time of delivery of such Definitive Certificate. If the Paying Agent holds on a redemption date monies sufficient to pay the redemption price for a Note for which an Exercise Notice has been delivered, then, whether or not the Definitive Certificate representing such Note is delivered to the Paying Agent, on and after such redemption date (i) such Note shall cease to be outstanding; (ii) such Note shall be deemed paid; and (iii) all other rights of the holder shall terminate, other than the right to receive the redemption price (including the Early Redemption Amount).

(H) Partial redemption

In the event of the proposed redemption of some but not all of the Notes pursuant to Condition 7(B), the Notes to be so redeemed shall be determined individually by the drawing of lots by the Trustee or such persons, agents, delegates or nominees which the Trustee may approve or such other method in such place as the Trustee shall approve and in such manner as the Trustee shall deem to be fair and reasonable in the circumstances, taking into account prevailing market practices, subject to compliance with any applicable laws and stock exchange requirement. The identifying numbers of the Notes drawn for redemption shall be published in accordance with Condition 14 by Formosa Petrochemical not less than 30 days prior to the date fixed for redemption.

8. TAXATION

Interest and premium (if any) payable on the Notes to non-residents of the ROC is currently subject to a withholding tax in the ROC equal to 20% of the gross amount of such interest and premium (if any). A securities transaction tax of 0.3% levied on proceeds from the sale of common shares will be payable by the seller of the common shares.

All payments in respect of the Notes by Formosa Petrochemical shall be made free and clear of and without any deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed, levied, collected, withheld or assessed by or on behalf of the government of the ROC or any authority thereof or therein having power to tax, provided that, in respect of any such deduction or withholding from any such payment, Formosa Petrochemical shall pay such additional amounts ("Additional Amounts") as will result in the receipt by the holders of the Notes of the amounts that would have been receivable in the absence of any such deduction or withholding, except that no Additional Amounts shall be payable in respect of any Note:

(i) to, or on behalf of, a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its being connected with the ROC otherwise than merely by holding such Note or by the receipt of payments in respect of the Note;

(ii) to or on behalf of a holder of the Note or its beneficial owner to the extent that such holder or beneficial owner would not be liable for or subject to such deduction or withholding by making a declaration of non-residence or other claims for exemption or deduction to the relevant tax authorities if such holder or beneficial owner is eligible to make such declaration or claim and, such holder or beneficial owner fails to do so; or

(iii) if the Definitive Certificate, if issued, in respect of the Note is presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant certificate for payment on the last day of such 30-day period.

References in these Conditions to payments in respect of the Notes shall be deemed also to refer to any Additional Amounts that may be payable in respect thereof under this Condition 8.

For the purposes of these Conditions:

"Relevant Date" in relation to any Notes means (a) the due date for payment in respect thereof, or (b) if the full amount of the monies payable on such due date has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which notice is duly given to the holders of the Notes that such monies have been so received.

9. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of the Notes of not less than 25 per cent. in principal amount of the Notes then outstanding shall (in each case subject to being indemnified and/or secured by the holders of the Notes to its satisfaction), give notice in writing to Formosa Petrochemical that the Notes are immediately due and payable, if an Event of Default (as defined below) shall have occurred and be continuing. The Trustee shall publish such notice by (i) mailing it to the holders of the Notes at their respective addresses in the register of holders of the Notes maintained by the Registrar; (ii) publishing it in a leading English language newspaper having general circulation in Europe (which is expected to be the *Financial Times, London Edition*); and (iii) so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, publishing it in a leading newspaper having general circulation in Singapore (which is expected to be *The Straits Times*). Upon any such notice being given to Formosa Petrochemical, the Notes shall immediately become due and payable at their Early Redemption Amount plus any overdue interest payable in accordance with Condition 6(D). Notwithstanding the foregoing, if any of the events specified in clauses (viii), (ix) and (x) shall have occurred, the Notes shall forthwith become immediately due and payable at their Early Redemption Amount, plus any overdue interest payable in accordance with Condition 6(D), without regard to the giving of any such notice. An "Event of Default" occurs if:

(i) Formosa Petrochemical fails to pay the principal of, premium or interest, if any, on, any of the Notes within seven days after the same shall become due and payable;

(ii) Formosa Petrochemical fails to issue and deliver Common Shares as and when such Common Shares are required to be issued and delivered upon the conversion of a Note (subject to the limited circumstances under which cash may be delivered in lieu of Common Shares as specified in Condition 5(B)(iv));

(iii) Formosa Petrochemical defaults in performance or observance of or compliance with any of its other obligations set out in the Notes or the Indenture, which default is incapable of remedy or, if in the opinion of the Trustee such default is capable of remedy, such default is not remedied within 30 days after written notice of such default shall have been given to Formosa Petrochemical by the Trustee;

(iv) there shall have been entered against Formosa Petrochemical or any of its Principal Associates a final judgement, decree or order by a court of competent jurisdiction for the payment of money in excess of U.S.$30,000,000 with respect to Formosa Petrochemical or any of its Principal Associates (or its equivalent in any other currency or currencies) and 30 days shall have passed since the entry of the order without it being bonded, satisfied, discharged or stayed;

(v) (a) any other present or future indebtedness of Formosa Petrochemical or any of its Principal Associates for or in respect of monies borrowed or raised becomes due and payable prior to its stated maturity by reason of an event of default, howsoever described, or any such indebtedness is not paid when due or, as the case may be, within any applicable grace period originally provided for or (b) Formosa Petrochemical or any of its Principal Associates fails to pay when due any amount payable by Formosa Petrochemical or such Principal Associate, as the case may be, under any present or future guarantee or indemnity or arrangement or obligation having a like or similar effect, howsoever described, for any monies borrowed; provided that the aggregate amount of the relevant indebtedness or amount payable in respect of which one or more events mentioned above in this paragraph (v) have occurred equals or exceeds U.S.$30,000,000 or its equivalent in any other currency (determined as provided below);

(vi) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed, or a distress, execution or seizure before judgement is levied, enforced or sued out upon, against or in respect of the whole or any substantial part of the undertaking, property, assets or revenues of Formosa Petrochemical or any of its Principal Associates and the same is not stayed, discharged, released or satisfied (as the case may be) within 60 days (or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned) of such taking of possession, appointment, levying, enforcement or suing out (as the case may be);

(vii) any person entitled to the benefit thereof shall institute legal proceedings to enforce any mortgage, charge, pledge, lien or other encumbrance upon all or a material portion of the assets, property or revenues of Formosa Petrochemical and or any of its Principal Associates, taken as a whole, unless Formosa Petrochemical or such Principal Associate, as the case may be, are contesting such proceedings in good faith by appropriate legal proceedings and have established reserves adequate in Formosa Petrochemical's judgment with respect thereto;

(viii) a decree or order by a court having jurisdiction shall have been entered adjudging Formosa Petrochemical or any of its Principal Associates bankrupt or insolvent, or approving a petition seeking Formosa Petrochemical's reorganization or that of any of its Principal Associates under any applicable bankruptcy, insolvency or reorganization law, or for the appointment of an administrator or a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of, or all or substantially all of the business or assets of, or for the winding-up or liquidation of the affairs of, Formosa Petrochemical or any of its Principal Associates;

(ix) an order is made or an effective resolution shall be passed for the winding-up, dissolution or liquidation of Formosa Petrochemical or that of any of its Principal Associates, or Formosa Petrochemical or any of its Principal Associates becomes capable of being dissolved under ROC laws (except for the purpose of and followed by a solvent reconstruction, merger, consolidation, amalgamation or other similar arrangement the terms of which are approved by the Trustee or the holders of not less than 75% in principal amount of the Notes outstanding), or Formosa Petrochemical or any of its Principal Associates shall institute proceedings to be adjudicated as a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under any applicable bankruptcy, insolvency or reorganization law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or substantially all of its business or assets, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or Formosa Petrochemical or any of its Principal Associates is unable to pay its debts as they mature, or Formosa Petrochemical or any of its Principal Associates stops or threatens to cease to carry on its business or a substantial part of its business, or corporate action shall be taken by Formosa Petrochemical or any of its Principal Associates in furtherance of any of the aforesaid purposes;

(x) proceedings shall have been initiated against Formosa Petrochemical or any of its Principal Associates under any applicable bankruptcy, insolvency, or reorganization law and such proceedings shall not have been discharged or stayed within a period of 60 days (or such longer period as the Trustee may consider appropriate on the advice of counsel);

(xi) Formosa Petrochemical shall merge, amalgamate or consolidate with any other corporation or entity or shall sell or dispose of substantially all its business or assets whether as a single transaction or a number of transactions, related or not, to any person without obtaining the prior approval of the holders of not less than 75% in principal amount of the Notes outstanding and of such person to assume the obligations of Formosa Petrochemical under the Notes and the Indenture; provided that such agreement by such other person shall not be required if such assumption shall be effective by operation of law;

(xii) a moratorium is agreed or declared in respect of any indebtedness of Formosa Petrochemical or any of its Principal Associates or any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or a substantial part of the assets or shares of Formosa Petrochemical or any of its Principal Associates;

(xiii) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order to (i) enable Formosa Petrochemical lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes and the Indenture, (ii) ensure that those obligations are legally binding and enforceable and (iii) make the Notes and the Indenture admissible in evidence in the courts of the ROC is not taken, fulfilled or done, and such case is incapable of remedy or, if in the opinion of the Trustee is capable of remedy, is not in the opinion of the Trustee remedied within such period (being not less than 30 days) as the Trustee may consider reasonable;

(xiv) it is or will become unlawful for Formosa Petrochemical to perform or comply with one or more of its material obligations under any of the Notes, the Indenture or the Agency Agreement; or

(xv) any event occurs which under the laws of the ROC, has an analogous effect to any of the events referred to in the foregoing paragraphs.

For the purposes of clause (v) above, any indebtedness which is in a currency other than US dollars shall be translated into US dollars at the spot rate for the sale of US dollars against the purchase of the relevant currency quoted by any leading bank in the relevant market selected by the Trustee on any day when the Trustee requests such a quotation for such purpose. If no direct spot rate is available, a rate shall be calculated by reference to the cross-rates through US dollars of the relevant currency.

"Principal Associates" means Formosa Plastics Corporation, Nan Ya Plastics Corporation and Formosa Chemicals & Fibre Corporation.

Subject to the provisions of the following five paragraphs, the Conversion Right attached to any Notes shall survive the provision of the default notice and the acceleration and the payment of the Notes.

Notwithstanding receipt of any payment after the acceleration of the Notes, a Noteholder may still exercise its Conversion Right by depositing a further Conversion Notice (the "Default Conversion Notice") with a Conversion Agent or Paying Agent during the period from and including the date of a default notice with respect to an event specified in Condition 9(ii) herein (at which time Formosa Petrochemical will notify the Noteholders of the number of Common Shares per Note to be issued and delivered upon conversion, assuming all the then outstanding Notes are converted) to and including the 30th business day after such payment. The date on which the Default Conversion Notice is deposited by the Noteholder with a Conversion Agent or Paying Agent is known as the "Default Conversion Date".

If any converting Noteholder deposits a Default Conversion Notice pursuant to this Condition 9 on the business day prior to, or during, a Closed Period, the Noteholder's Conversion Right shall continue until the business day following the last day of the Closed Period, which shall be deemed the Default Conversion Date, for the purposes of such Noteholder's exercise of its Conversion Right pursuant to this Condition 9.

If the Conversion Right attached to any Note is exercised pursuant to this Condition 9, Formosa Petrochemical will deliver Common Shares (which number will be disclosed to such Noteholder as soon as practicable after the Default Conversion Notice is given) in accordance with the Conditions, failing which Formosa Petrochemical will make payment in accordance with the following paragraph.

If the Conversion Right attached to any Note is exercised pursuant to this Condition 9, Formosa Petrochemical shall, if it fails to deliver the Common Shares within 5 days from the date of the Default Conversion Notice, pay to such converting Noteholder an amount (the "Default Cure Amount"), equal to the product of (x) (i) the number of Common Shares that are required to be delivered by Formosa Petrochemical to satisfy the Conversion Right in relation to such converting Noteholder minus (ii) the number of Common Shares that are actually delivered by Formosa Petrochemical pursuant to such Noteholder's Default Conversion Notice and (y) the Reference Price (as defined below) on the original Conversion Date; provided that if such Noteholder has received any payment under the Notes pursuant to this Condition 9, the amount of such payment shall be deducted from the Default Cure Amount.

The "Reference Price" means the closing price of the Common Shares on the Taiwan Stock Exchange, on the original Conversion Date or, if no reported sales take place on such date, the average of the reported closing bid and offered prices, in either case as reported by the Taiwan Stock Exchange for such day as furnished by a reputable and independent investment bank selected from time to time by the Trustee at the expense of Formosa Petrochemical for such purpose.

10. PRESCRIPTION

Claims against any payment in respect of the Notes shall be prescribed unless made within six years from the relevant date of payment in respect thereof.

Under the laws of the ROC, claims in respect of principal and premium or interest would become unenforceable after 15 years and 5 years, respectively, from the relevant date for payment in respect thereof.

11. ENFORCEMENT

At any time after the Notes have become due and payable, the Trustee may, at its discretion and without further notice, take such proceedings against Formosa Petrochemical as it may think fit to enforce payment in respect of the Notes, including any premium and interest, and to enforce the provisions of the Indenture; provided, however, that the Trustee shall not be bound to take any such actions unless (a) it shall have been so requested in writing by the holders of at least 25% in principal amount of the Notes then outstanding or shall have been so directed by a duly convened meeting of Noteholders, and (b) it shall have been indemnified and/or secured to its satisfaction. No holder of the Notes shall be entitled to proceed directly against Formosa Petrochemical, unless (a) the Trustee, having become bound to take proceedings against Formosa Petrochemical (as described in the Indenture), fails to do so and such failure shall have continued for a period of 60 days and (b) no direction inconsistent with the Trustee taking such proceedings has been given to the Trustee during such 60-day period by the holders of not less than a majority in principal amount of the Notes then outstanding.

12. MEETINGS OF HOLDERS OF THE NOTES, MODIFICATION AND WAIVER

(A) Meetings

The Indenture will contain provisions for convening meetings of holders of the Notes to consider any matter affecting their interests, including the approval of amendments or modifications of the terms and conditions of the Notes or the provisions of the Indenture upon either the written consent of the holders of not less than a majority in principal amount of the Notes then outstanding or the approval at a meeting of holders duly called by persons entitled to vote not less than a majority in principal amount of the Notes then outstanding, with a quorum of two or more persons, holding or representing over 50% in principal amount of the Notes then outstanding; provided that no such modification of the terms and conditions of the Notes or the provisions of the Indenture may, without the consent of each holder of the Notes affected thereby:

(i) modify the Maturity Date;

(ii) reduce the principal, the Early Redemption Amount, the redemption price of, the rate of interest, if any, on, any Note or increase the Conversion Price (as adjusted in accordance with the provisions of the Indenture);

(iii) change the place or currency of payment of principal of, or interest, if any, on, any Note or the method of calculating any such payment;

(iv) impair the right to institute suit for the enforcement of any payment on any Note;

(v) alter Formosa Petrochemical's obligations relating to mergers and disposals, and the payment of Additional Amounts, as described in Conditions 3(B) and 8, respectively;

(vi) except to the extent permitted by Condition 12(B) below, modify, cancel or adversely affect the Conversion Right, Holders' Redemption Right, Relevant Event Redemption Right or Non-Redemption Option;

(vii) reduce the above-stated percentage of outstanding Notes the consent of whose holders of the Notes is necessary to modify or amend the Indenture;

(viii) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose holders of the Notes is necessary for waiver of compliance with provisions of the Indenture or for waiver of Defaults under the Indenture;

(ix) modify the provisions concerning the voting and quorum required at any meeting of holders of the Notes; or

(x) release Formosa Petrochemical from any obligation under the Indenture other than in accordance with the provisions of the Indenture, or amend or modify any provision relating to such release.

The Trustee shall publish any notice of convocation for a meeting of holders of the Notes by (i) mailing it to the holders of the Notes at their respective addresses in the register of holders of the Notes maintained by the Registrar; (ii) publishing it in a leading English language newspaper having general circulation in Europe (which is expected to be the *Financial Times, London Edition*); and (iii) so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, publishing it in a leading newspaper having general circulation in Singapore (which is expected to be *The Straits Times*).

The Indenture will provide that, in determining whether the holders of the Notes representing the requisite principal amount of Notes then outstanding are present at a meeting of holders of the Notes for quorum purposes or have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Notes owned by Formosa Petrochemical or any other obligor upon the Notes or any affiliate of Formosa Petrochemical or such other obligor shall be disregarded and deemed not to be outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such determination as to the presence of a quorum or upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes as to which the Trustee has actually received written notice shall be so disregarded.

(B) Modification of Conversion Right

Notwithstanding Condition 12(A) above, the Trustee may agree to, without the consent of the holders of the Notes, any modification to the Conversion Right that is in the Trustee's opinion (i) necessary or desirable to effect or facilitate conversion as contemplated in these Conditions and (ii) not materially prejudicial to the interests of the holders of the Notes. The Trustee's agreement may be subject to any condition which the Trustee requires, including but not limited to the delivery of an opinion of a financial or legal or other expert of recognized standing in the applicable jurisdiction, and shall be binding on the holders of the Notes. Any such modification shall be notified by Formosa Petrochemical to the holders of the Notes as soon as practicable thereafter in accordance with Condition 14 and, for so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, to the SGX-ST.

(C) Other modifications and waivers

The Trustee may also agree to, without the consent of the holders of the Notes, (i) any modification of, or the waiver or authorization of any breach or proposed breach of, the Notes, the Indenture or the Agency Agreement that is not, in the Trustee's opinion, materially prejudicial to the interests of the holders of the Notes or (ii) any modification of the Notes or the Indenture that, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. In connection with such modification, waiver or authorization, the Trustee may require a certificate from Formosa Petrochemical certifying, and a legal opinion from a legal advisor of recognized international standing advising the Trustee, that the modification, waiver or authorization is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provision of law. Any such modification, waiver or authorization shall be binding on the holders of the Note. Any such modification, waiver or authorization shall be notified by Formosa Petrochemical to the holders of the Notes as soon as practicable thereafter in accordance with Condition 14, and for so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, to the SGX-ST.

(D) Exercise of Trustee's functions

Where the Trustee is required in connection with the exercise of its powers, trusts, authorities, duties and discretions to have regard to the interests of the holders of the Notes, it shall have regard to the interests of the holders of the Notes as a class and, in particular but without prejudice to the generality of the foregoing, the Trustee shall not have regard to, or be in any way liable for, the consequences of such exercise for any individual holder resulting from it being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise, the Trustee shall not be entitled to require, and no holder of Notes shall be entitled to claim, from Formosa Petrochemical, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon such individual holder of the Notes.

13. REPLACEMENT OF CERTIFICATES

Any replacement of mutilated, defaced, destroyed, stolen or lost Definitive Certificates shall take place at the specified offices of the Registrar and Paying Agents in accordance with the provisions of the Indenture, which provisions include the following:

(i) replacement certificates shall only be issued upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as Formosa Petrochemical and the Registrar may reasonably require;

(ii) mutilated or defaced certificates must be surrendered before replacements will be issued; and

(iii) in the event any Notes represented by a mutilated, destroyed, lost or stolen Definitive Certificate has become or is about to become due and payable, Formosa Petrochemical in its discretion may, instead of issuing a new Definitive Certificate representing such Notes, make payment as consideration for the cancellation of the Notes represented thereby in accordance with the Conditions.

14. NOTICES

All notices to holders of the Notes shall be validly given if (i) made in writing in English and mailed to them at their respective addresses in the register of holders of the Notes maintained by the Registrar; (ii) published in a leading English language newspaper having general circulation in Europe (which is expected to be the *Financial Times, London Edition*); and (iii) so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, published in a leading newspaper having general circulation in Singapore (which is expected to be *The Straits Times*).

So long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, International or the alternative clearing system (as defined in the Global Certificate), notices to holders of the Notes may be given by delivery of the relevant notice to Euroclear or Clearstream, International or the alternative clearing system, for communication by it to entitled accountholders in substitution for notification as required by the Conditions except that for so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, notice shall also be published in a leading newspaper having general circulation in Singapore (which is expected to be The Straits Times).

Any such notice shall be deemed to have been given on the later of the date of such publication and the seventh day after being so mailed.

15. INDEMNIFICATION

The Indenture contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified.

16. AGENTS

Formosa Petrochemical reserves the right, subject to the provisions of the Agency Agreement, at any time to vary or terminate the appointment of Agents; provided that it shall at all times maintain an Agent having a specified office in London and, so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, a Paying, Transfer and Conversion Agent in Singapore. Notice of any such termination or appointment, of any changes in the specified offices of the Agents, or of any change in the identity or specified office of any Conversion Agent, Paying Agent or Transfer Agent shall be given promptly by Formosa Petrochemical to the holders of the Notes in accordance with Condition 14.

17. FURTHER ISSUES

Formosa Petrochemical may from time to time, without notice to or the consent of the registered holders of the Notes, issue further debt securities which will form a single series with the Notes. These further debt securities will have the same terms as to status, redemption or otherwise as the Notes and will rank equally with the Notes of the existing series in all respects.

18. GOVERNING LAW AND JURISDICTION

(A) Governing law

The Indenture, the Agency Agreement and the Notes are governed by and shall be construed in accordance with the laws of the State of New York.

(B) Jurisdiction

The courts of the State of New York sitting in the Borough of Manhattan, The City of New York, and the federal courts of the United States sitting in the Borough of Manhattan, The City of New York, are to have jurisdiction to settle any disputes that may arise out of or in connection with the Notes and accordingly any legal action or proceedings arising out of or in connection with the Notes ("Proceedings") may be brought in such court. Formosa Petrochemical has in the Indenture irrevocably submitted to the jurisdiction of such courts.

(C) Agent for service of process

Formosa Petrochemical has irrevocably appointed Law Debenture Corporate Services, Inc., as its agent in the State of New York to receive service of process in any Proceedings in the State of New York based on any of the Notes.

TERMS AND CONDITIONS OF THE FORMOSA PLASTICS EXCHANGEABLE NOTES

The following is a description of the Terms and Conditions (the "Conditions") of the Formosa Plastics Exchangeable Notes (except for the sentences in italics), which includes summaries of, and is subject to, the more detailed provisions of the Indenture referred to below.

The issue of Zero Coupon Exchangeable Notes Due 2011 (the "Notes", which shall include any Optional Notes issued pursuant to the option to increase the principal amount of the Notes described in the Indenture (as defined below)) of Formosa Plastics Corporation ("Formosa Plastics") was authorized by a resolution of the board of directors of Formosa Plastics adopted on April 30, 2004. The Notes are initially limited to U.S.$200,000,000 aggregate principal amount (or U.S.$250,000,000 if the option granted to the Representative is exercised in full). Formosa Plastics may from time to time, without notice to or consent of the holders of the Notes, issue further notes, which will form a single series with the Notes. Any such additional notes will be identical in all respects to the Notes, except that any notes issued in the future will have different issuance prices and issuance dates. The Notes will be issued on or about June 30, 2004 (the "Issue Date") pursuant to an indenture (the "Indenture") dated the Issue Date between Formosa Plastics and The Hongkong and Shanghai Banking Corporation Limited, as trustee (the "Trustee", which term shall include all persons for the time being appointed as trustee or trustees under the Indenture) for the holders of the Notes. Formosa Plastics will also enter into an agency agreement (the "Agency Agreement") dated the Issue Date among, inter alia, the Trustee and The Hongkong and Shanghai Banking Corporation Limited as the registrar and principal paying, exchange, and transfer agent appointed thereunder, and any other paying, exchange and transfer agent appointed thereunder (collectively, the "Agents") in relation to the Notes. The registrar, paying agent, exchange agent and transfer agent are referred to below as the "Registrar", the "Paying Agents" (which expression shall include the Principal Paying Agent), the "Exchange Agents" and the "Transfer Agents", respectively. Copies of the Indenture and the Agency Agreement are available for inspection during normal business hours at the principal office of the Trustee and at the specified offices of each of the Agents. The holders of the Notes are entitled to the benefit of the Indenture and are bound by, and are deemed to have notice of, all of the provisions of the Indenture and the Agency Agreement.

1. STATUS

The Notes constitute senior, direct, unconditional, unsubordinated and, subject to the provisions of Condition 3, unsecured obligations of Formosa Plastics and shall at all times rank pari passu and without any preference or priority among themselves and, subject to the provisions of Condition 3, with all other present and future senior, direct, unconditional, unsubordinated and unsecured obligations of Formosa Plastics (other than any obligation preferred by mandatory provisions of law).

2. FORM, DENOMINATION AND TITLE

(A) Form and denomination

The Notes shall be issued in registered form in the denomination of U.S.$1,000 each. The Notes shall initially be represented by a global certificate (the "Global Certificate"), and only under the limited circumstances described in the Global Certificate and the Indenture shall definitive bond certificates (each a "Definitive Certificate") be issued to holders of the Notes in respect of their individual holdings. Each Note and each Definitive Certificate, if issued, shall be serially numbered and shall have an identifying number which shall be recorded on the relevant certificate and in the register of holders of the Notes, which Formosa Plastics shall procure to be kept by the Registrar.

The Notes will be represented by a Global Certificate which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, International.

Except in the limited circumstances described in the Global Certificate, owners of interests in the Notes represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of the Notes. The Notes are not issuable in bearer form.

(B) Title

The Notes shall be registered instruments, and title to the Notes shall pass by transfer and registration of title in the register of holders of the Notes. The holder of any Note shall, except as otherwise required by law, be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Definitive Certificate issued in respect of it), and no person shall be liable for so treating the holder. In these Conditions, "Noteholder", "holder of the Notes" and "holder" in relation to a Note shall mean the person in whose name a Note is registered in the register of holders of the Notes.

3. CERTAIN COVENANTS

(A) Negative pledge

So long as any of the Notes remains outstanding (as defined in the Indenture), Formosa Plastics will not, and will not permit any of its subsidiaries, to create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("Security") upon the whole or any part of the property, assets or revenues of Formosa Plastics or such subsidiary, as the case may be, present or future, to secure for the benefit of the holders of any International Investment Securities (as defined below) any payment of any sum due in respect of or under any guarantee of or payment indemnity or other like obligation relating to any such International Investment Securities, unless, in any such case, at the same time or prior thereto, either (i) the same Security is granted to the holders of the Notes or (ii) there is outstanding any guarantee, indemnity or other like obligation or such other security that is not materially less beneficial to the holders of the Notes or as shall be approved by holders of the Notes holding not less than 75% of the principal amount of the outstanding Notes.

For the purposes of these Conditions:

"International Investment Securities" mean bonds, debentures, notes or other similar investment securities of Formosa Plastics or any of its subsidiaries evidencing indebtedness with a maturity of not less than one year that (a) either (i) are by their terms payable, or confer a right to receive payment, in any currency other than NT dollars or (ii) are denominated or payable in NT dollars and more than 50% of the aggregate principal amount thereof is initially distributed outside the ROC by Formosa Plastics or with its authorization; and (b) are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange, quotation system or over-the-counter or other similar securities market outside the ROC.

(B) Mergers and disposals

So long as any of the Notes remains outstanding (as defined in the Indenture), Formosa Plastics shall not merge, amalgamate or consolidate with or into any other corporation or entity or sell or transfer all, or substantially all, of its assets, whether as a single transaction or a number of transactions, related or not, to any corporation, entity or person or to one or more members of any group under the common control of any corporation, entity or person unless:

(i) Formosa Plastics has notified the holders of the Notes of such event in accordance with Condition 14; and

(ii) Formosa Plastics and such corporation, entity or person have executed an indenture supplemental to the Indenture, in form and substance satisfactory to the Trustee, and the supplemental indenture includes the express assumption by such corporation, entity or person of Formosa Plastics' obligations under the Notes, the Indenture and the Agency Agreement, including the covenants contained in this Condition 3(B) relating to subsequent mergers, amalgamations, consolidations, sales or transfers.

Formosa Plastics shall, so long as the Notes are listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST") and the rules of that exchange so require, submit a copy of the supplemental indenture to the SGX-ST as soon as practicable and shall make such supplemental indenture available for inspection during normal business hours at the specified offices of the Trustee.

4. TRANSFERS OF NOTES; ISSUE OF CERTIFICATES

(A) Transfers

A Note may be transferred as follows: (i) in the case of a Note represented by a Definitive Certificate, by depositing such certificate at the specified offices of any Transfer Agent, with the form of transfer on the back of such certificate duly completed and signed, or (ii) in the case of a Note represented by the Global Certificate, by delivery at such office of a form of transfer duly completed and executed, and any other evidence that such Transfer Agent may require.

The forms of transfer are available at the specified offices of any Transfer Agent during normal business hours. Transfers of interests in the Notes evidenced by the Global Certificate shall be effected in accordance with the rules of the relevant clearing systems. Transfers of interests in Notes represented by Definitive Certificates shall be made by delivery thereof to the office of the Transfer Agent.

(B) Delivery of new Definitive Certificates

Each new Definitive Certificate to be issued upon transfer of the Notes shall, within five Business Days of receipt by the Transfer Agent of the duly signed and completed form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Notes to the address specified in the form of transfer.

Where some but not all the Notes in respect of which a Definitive Certificate is issued are to be transferred, exchanged or redeemed, a new Definitive Certificate in respect of the Notes not so transferred, exchanged or redeemed shall, within five Business Days of deposit or surrender of the original certificate with or to the relevant Agent, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred, exchanged or redeemed to the address of such holder appearing on the register of holders of the Notes.

For the purposes of this Condition 4:

"Business Day" means a day (other than a Saturday or Sunday) on which banks are open for business in the city in which the specified office of the Agent with whom a Definitive Certificate is deposited in connection with a transfer is located.

(C) Formalities free of charge

Registration of transfer of the Notes shall be effected without charge by or on behalf of Formosa Plastics or any of the Agents, subject to payment (and the giving of such indemnity as Formosa Plastics or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to it.

(D) Restricted transfer period

No holder of the Notes may require the transfer of a Note to be registered (i) during the period of 15 days ending on (and including) the due date for any payment of principal or any Early Redemption Amount (as defined herein) in respect of the Note pursuant to Condition 6, (ii) after the Note has been selected for redemption pursuant to Condition 7(B), (iii) following exercise by the holder of its option to require Formosa Plastics to redeem the Note pursuant to Condition 7(D) or (iv) following exercise by the holder of its option to exchange the Note pursuant to Condition 5(A) or of its Non-Redemption Option pursuant to Condition 7(C).

(E) Provisions on transfer

All transfers of the Notes and entries on the register of holders of the Notes shall be made subject to the detailed provisions concerning transfer of the Notes set forth in the Agency Agreement. Such provisions may not be changed without the prior written approval of the Trustee and the Registrar. A copy of the current provisions shall be available for inspection during normal business hours at the specified office of the Transfer Agent and shall be mailed (or sent via facsimile) by the Registrar to any holder of the Notes upon written request.

5. EXCHANGE

Within five ROC Business Days (as defined below) from each Exchange Date (as defined in Condition 5(B)(i)), Formosa Plastics will deliver or procure the delivery of the Reference Shares (as defined below) or the Exchange Property (as defined in Condition 5(A)(v)), as applicable, to the exchanging holder or its designee.

(A) Exchange Right

(i) *Exchange Period.* Each holder of the Notes has the right hereunder to exchange any or all of the Notes held by such holder into Reference Shares or Exchange Property, as applicable (the "Exchange Right"). The Exchange Right attaching to any Note may be exercised, at the option of the holder of the Note, at any time (i) on or after December 26, 2004 and prior to the close of business (at the place where such Note is deposited for exchange) on the day which is 10 days prior to the Maturity Date (as defined herein) (or if such day shall not be a Business Day (as defined below) at such place, on the immediately preceding Business Day at such place) (but in no event thereafter) or (ii) if such Note shall have been called for redemption on a redemption date on or prior to the Maturity Date (as defined herein) (or if such day shall not be a Business Day at the place where such Note is deposited for exchange, on the immediately preceding Business Day at such place), then up to the close of business (at the place aforesaid) on the seventh Business Day prior to the date fixed for redemption thereof (or if such day shall not be a

Business Day at such place, on the immediately preceding Business Day at such place) (the "Exchange Period"); provided, however, that the Exchange Right during any Closed Period (as defined below) shall be suspended and the Exchange Period shall not include any such Closed Period. Holders of the Notes shall be given not less than 10 and not more than 60 days' notice in accordance with Condition 14 of the commencement of any Closed Period.

For the purposes of these Conditions:

"Closed Period" means (i) the 60-day period prior to the date of any general shareholders' meetings of Formosa Petrochemical (as defined below) or of an issuer of Exchange Property Securities (as defined below) organized in the ROC; (ii) the 30-day period prior to the date of any special shareholders' meetings of Formosa Petrochemical or any such issuer of Exchange Property Securities organized in the ROC; (iii) the five days prior to the record date for determination of shareholders entitled to receive dividends or rights distributions or other benefits and bonuses determined by Formosa Petrochemical or such issuer of Exchange Property Securities (as the case may be); and (iv) such other periods during which Formosa Petrochemical or any such issuer of Exchange Property Securities may be required to close its stock transfer books under ROC laws and regulations applicable from time to time.

"Formosa Petrochemical" means Formosa Petrochemical Corporation.

"Formosa Petrochemical Common Shares" shall mean (a) fully-paid and non-assessable shares of the capital stock of Formosa Petrochemical, which are designated as common capital stock of Formosa Petrochemical, par value NT$10 per share, together with shares of any class or classes resulting from any subdivision, consolidation or reclassification of those shares, and (b) fully-paid and non-assessable shares of any class or classes of the capital stock of Formosa Petrochemical authorized after the date of the Indenture, which in either case, as between them, have no preference in respect of dividends or amounts payable in the event of any voluntary or involuntary liquidation or winding-up of Formosa Petrochemical.

"Exchange Property Securities" means any securities (including, without limitation, any options, warrants, rights or evidences of indebtedness) of the one or more series constituting the Exchange Property from time to time.

"Offer" means an offer to acquire Exchange Property Securities of any series, whether expressed as a legal offer, an invitation to tender or in any other way, in circumstances where such offer is available to all holders of the applicable Exchange Property Securities or all such holders other than any holder who is, or is connected with, or is deemed to be acting in concert with, the person making such offer (or is excluded from the offer by reason of being connected with one or more specific jurisdictions).

"Reference Shares" means Formosa Petrochemical Common Shares, currently owned or to be owned by Formosa Plastics.

"Scheme" means a scheme of arrangement, merger, amalgamation, reorganization, reconstruction, demerger, compromise, liquidation, dissolution, or similar matter (whether or not involving liquidation or dissolution).

"Trading Day" means a day when the Taiwan Stock Exchange is open for business.

For the purposes of this Condition 5:

"Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in Hong Kong and the city in which the specified office of the Exchange Agent with whom an Exchange Notice is deposited in connection with the exchange is located.

"ROC Business Day" means a day on which commercial banks are open for business in Taipei, Taiwan, the Republic of China.

Under current ROC law, regulation and policy, PRC persons are not permitted to exchange the Notes or to register as a shareholder of Formosa Petrochemical or any other entity incorporated in the ROC. Under current ROC law, "PRC person" means an individual holding a passport issued by the PRC; a resident of any area of China under the effective control or jurisdiction of the PRC (but not including a special administrative region of the PRC such as Hong Kong or Macau, if so excluded by applicable laws of the ROC); and save as aforesaid, any agency or instrumentality of the PRC; and any corporation, partnership or other entity organized under the laws of any such area or controlled or beneficially owned by any such person, resident, agency or instrumentality.

Under current ROC law, a non-ROC exchanging holder of the Notes, when exercising its exchange right to exchange the Notes, is required to appoint a Tax Guarantor (whose qualifications are set by the ROC Ministry of Finance), in the ROC to file tax returns and make tax payments on its behalf. In addition, a non-ROC exchanging holder is required to appoint a local agent in the ROC with such qualifications as are set by the ROC Securities and Futures Commission. Such local agent shall open a securities trading account with a local brokerage firm and an NT dollar bank account, remit funds, exercise shareholders' rights and perform such other matters as may be designated by such exchanging holder on behalf of and as agent for such person. In addition, such non-ROC exchanging holder must also appoint a custodian bank to hold the securities for safekeeping, make confirmation and settlement of trades, and report all relevant information. Without first obtaining the approval of the Taiwan Stock Exchange and opening such accounts, the exchanging holder of the Notes would not be able to hold or sell or otherwise transfer the shares received on the Taiwan Stock Exchange or otherwise.

(ii) *Number of Reference Shares Deliverable on Exchange.* The number of Reference Shares deliverable upon exchange of any Note shall be determined by dividing the principal amount of the Note (translated into NT dollars at a fixed exchange rate of NT$33.733 = U.S.$1.00, the "Fixed Exchange Rate") by the Exchange Price (as defined in Condition 5(A)(iii)) in effect on the Exchange Date (as defined in Condition 5(B)(i)). If more than one Note shall be deposited for exchange at any one time by the same holder of the Notes, the number of Reference Shares to be delivered upon exchange thereof shall be calculated on the basis of the aggregate principal amount of the Notes so deposited. Fractions of Reference Shares shall not be delivered on exchange, and cash adjustments shall not be made in respect thereof by Formosa Plastics. Notwithstanding the foregoing, in the event of a consolidation or reclassification of Reference Shares by operation of law or otherwise that occurs after the date of the original issuance of the Notes, Formosa Plastics shall upon exchange of the Notes pay in US dollars a sum equal to such portion of the principal amount of the Notes deposited for exchange as corresponds to any fraction of a Reference Share not delivered as aforesaid if such sum exceeds U.S.$10. For the purpose of calculating the amount of such payment, Formosa Plastics shall use the Fixed Exchange Rate.

(iii) *Initial Exchange Price.* The price at which Reference Shares shall be delivered upon exchange (the "Exchange Price") shall initially be NT$58.3 per Reference Share (the "Initial Exchange Price"), but shall be subject to adjustment in the manner provided in Condition 5(C).

(iv) *Revival on Default.* Notwithstanding the provisions of Condition 5(A)(i), if an Event of Default (as defined in Condition 9) occurs, the Exchange Right attaching to a Note shall continue to be exercisable up to and including the close of business at the place where the relevant Exchange Notice (as defined in Condition 5(B)(i)) is deposited for exchange on the date upon which the full amount of the monies payable in respect of such Note has been duly received by the Trustee or the Principal Paying Agent and notice of such receipt has been duly given to the holders of the Notes.

(v) *Delivery of the Exchange Property Following a Change of Control of Formosa Petrochemical.* Following the effective date of a Change of Control (as defined in Condition 7(D)) of Formosa Petrochemical, the Exchange Right attaching to each Note shall entitle the holder of such Note only to the Exchange Property (the "Exchange Property"). The Exchange Property shall consist of either (i) Reference Shares, if Formosa Petrochemical is the surviving entity, or (ii) such securities or assets (including cash) as are receivable by Formosa Plastics as the holder of the Reference Shares in connection with such Change of Control, if Formosa Petrochemical is not the surviving entity. On the exercise of Exchange Rights following a Change of Control, Noteholders shall be entitled to the delivery or transfer to, or to the order of, each relevant Noteholder of a pro rata share of the Exchange Property per U.S.$1,000 principal amount of Notes outstanding as of the Deposit Date and at the Exchange Price in effect at the time of the Change of Control.

(a) To the extent that (1) any Exchange Property Securities are subject to subdivision, consolidation or reclassification, (2) any warrants, options or rights are issued with respect to Exchange Property Securities, or (3) any Exchange Property Securities are subject to cash dividends or bonus or dividend issues of securities, Capital Distributions or Schemes, such assets shall be included in the Exchange Property as set forth in the Indenture.

(b) Formosa Plastics shall monitor all corporate actions by the issuers of securities constituting Exchange Property, including, but not limited to, the declaration and distribution of dividends, interest, rights issues, bonus issues, capital distributions, reorganizations, subdivisions, consolidations, reclassifications, and Offers and Schemes. Formosa Plastics shall give notice to the Trustee and the Calculation Agent (as defined below) containing details of any change in composition of the Exchange Property as soon as reasonably practicable following such change. Notice of any such change will be provided to the Noteholders as soon as practicable.

(c) Formosa Plastics hereby agrees that, following a Change of Control of Formosa Petrochemical and for so long as any of the Notes remain outstanding, there will at all times be a calculation agent (the "Calculation Agent"), which shall be an investment bank of international repute, appointed to check Formosa Plastics' calculation of, among other things, the pro rata share of the Exchange Property with respect to each U.S.$1,000 in principal amount of the Notes to be delivered to an exchanging Noteholder. The Calculation Agent is not obliged to check any such calculation unless, and until, Formosa Plastics provides to the Calculation Agent such calculation. The

Calculation Agent may appoint, at the expense of Formosa Plastics, an independent financial advisor for the purpose of verifying any calculation made under Condition 5(A)(v).

(vi) *Share Custody.* Formosa Plastics will deposit 115,722,120 Reference Shares ("Initial Custody Shares") with the Trustee on December 26, 2004. Formosa Plastics will also deposit additional Reference Shares and Exchange Property (any such additional Reference Shares or Exchange Property, together with the Initial Custody Shares, the "Custody Property") with the Trustee as necessary to maintain the number of Reference Shares and other Exchange Property on deposit with the Trustee that would be deliverable upon exchange of the outstanding Notes. Additionally, Formosa Plastics will not transfer or deliver any Custody Property to any third party except for the purpose of delivering the Custody Property to exchanging Noteholders.

Under ROC law, this is not an escrow arrangement nor does it create a charge in favor of the Noteholders. In addition, the Reference Shares remain an asset of Formosa Plastics subject to third party claims.

(B) Exchange procedures

(i) *Exercise Procedures; Exchange Notice; Deposit Date; Exchange Date.* To exercise the Exchange Right attaching to any Note, a holder of the Note shall deposit the following at its own expense during normal business hours on any Business Day on which the Note is presented for exchange during the Exchange Period at the specified office of an Exchange Agent outside the ROC:

(a) a notice of exchange (an "Exchange Notice") in duplicate, duly completed and signed, in the then current form obtainable from the specified office of any Exchange Agent, together with the relevant Definitive Certificate, if issued, in respect of the relevant Note;

(b) any certificates and other documents as may be required under the law of the ROC or the jurisdiction in which such Exchange Agent shall be located; and

(c) any amount required to be paid by the holder of the Note referred to in Condition 5(B)(ii) below.

Any of the above items deposited outside the hours specified above or on a day that is not a Business Day shall for all purposes be deemed to have been deposited with that Agent on the immediately succeeding Business Day. The Exchange Notice shall contain, among other things, (i) the appointment of a local agent; (ii) an irrevocable instruction to exchange the Notes into Reference Shares or Exchange Property, as applicable; and (iii) other information required by ROC laws and regulations. Once deposited, the Exchange Notice may not be withdrawn without Formosa Plastics' consent in writing. The price at which such Note shall be exchanged shall be the Exchange Price in effect on the Exchange Date (as defined below).

The Exchange Notice shall include a certification that, at the time of such exchange, the exchanging holder is not in the United States, is not a U.S. person (as defined in Regulation S under the Securities Act) and is not exchanging the Notes on behalf of a U.S. person.

Formosa Plastics will covenant in the Indenture that Formosa Plastics will send to the Trustee an Officer's Certificate, which certificate the Trustee may exclusively rely on, certifying to the best knowledge of such officer, there has been no change in the laws or regulations of the ROC affecting the exchange of the Notes, including any changes in ROC laws or regulations in connection with any certificates or other documents required for the exchange of the Notes.

For the purposes of these Conditions:

"Deposit Date" means the first date on which (i) the Definitive Certificate, if issued, in respect of the Note to be exchanged, (ii) a duly signed and completed Exchange Notice (in duplicate), (iii) any certificates or other documents, as may be required, relating thereto, and (iv) the payments referred to in Condition 5(B)(ii) below, as may be required, have all been deposited with an Exchange Agent.

"Exchange Date" means the ROC Business Day next following the Deposit Date that is not within a Closed Period.

(ii) *Taxes and Expenses.* As conditions precedent to the exercise of the Exchange Right attaching to any Note, together with the delivery of the Exchange Notice, the Definitive Certificate, if issued, and any certificates or other documents as may be required, the holder of the Note must pay all stamp, issue, registration and similar taxes and duties, if any, arising on exchange in the country in which the Note is deposited for exchange or payable in any jurisdiction upon delivery of Reference Shares or Exchange Property, as applicable, or any other property or cash upon exchange to or to the order of the exchanging holder of the Note or any other person. Except as aforesaid, Formosa Plastics shall pay the expenses arising in the ROC on the delivery of Reference Shares or Exchange Property, as applicable, upon exchange of the Note and all charges and expenses of the Exchange Agents in connection therewith.

(iii) *Transfer of Beneficial Ownership in Reference Shares or Exchange Property Securities.* With effect from the opening of business in the ROC on the Exchange Date, Formosa Plastics will use its best efforts to cause Formosa Petrochemical, or any issuer of Exchange Property Securities, as applicable, to deem the exchanging holder of a Note as indicated in the Exchange Notice to be the beneficial owner of the number of Reference Shares, or the relevant Exchange Property, as applicable, to be delivered upon such exchange, disregarding any retroactive adjustment of the Exchange Price referred to below prior to the time such retroactive adjustment shall have become effective. At such time, subject to Condition 5(B)(v), the rights of such exchanging holder with respect to the Note deposited for exchange shall cease, except rights arising under Condition 5(B)(vi).

(iv) *Cash Payment Option.* Within three ROC Business Days after the Exchange Date, to the extent permitted under applicable laws, Formosa Plastics may elect to deliver the Cash Equivalent (as defined in Condition 5(B)(v)) in lieu of the Reference Shares and Exchange Property, as applicable, to satisfy the exchange of any Note (the "Cash Payment Option"). To exercise its Cash Payment Option, Formosa Plastics will as soon as practicable after receipt of an Exchange Notice and in any event within three ROC Business Days after the Exchange Date, deliver a cash payment notice (the "Cash Payment Notice") to the exchanging Noteholder stating that cash payment in lieu of delivery of Reference Shares and Exchange Property, as applicable, shall be made pursuant to this Condition 5(B)(iv) and the number of Reference Shares or Exchange Property Securities for which cash payment will be made. In the event that Formosa Plastics, subsequent to an exercise of the Cash

Payment Option, fails to pay the Cash Equivalent (as defined below) within 30 days after the date of the Cash Payment Notice, Formosa Plastics' exercise of the Cash Payment Option will be null and void and the respective Noteholder will be entitled to receive delivery of the Reference Shares and any Exchange Property, as applicable.

(v) *Delivery of Reference Shares, Exchange Property or Cash Equivalent.* Except with respect to the exchange of any Note or any portion thereof for which Formosa Plastics has exercised its Cash Payment Option, Formosa Plastics will ensure that, on the Exchange Delivery Date, Formosa Petrochemical or the issuer of Exchange Property Securities, as applicable, registers the exchanging holder of a Note or such exchanging holder's designee in the shareholders' register of Formosa Petrochemical or such other issuer as the owner of the number of Reference Shares to be delivered pursuant to Condition 5(B)(iii), or Exchange Property Securities to be delivered pursuant to Condition 5(B)(vi), upon exchange of such Notes. Subject to any applicable limitations then imposed by ROC laws and regulations, Formosa Plastics shall deliver in accordance with the Indenture and the request made in the relevant Exchange Notice as soon as practicable, and in any event within five ROC Business Days (subject to applicable law) following the Exchange Date, for the benefit of the exchanging holder, the following:

(a) the relevant Reference Shares or Exchange Property Securities, through book-entry transfer to an account registered in the name of the exchanging holder or its designee at Taiwan Securities Central Depository Co., Ltd.;

(b) any other property or cash (including, any cash payable pursuant to Condition 5(A)(ii)) (other than the Cash Equivalent) required to be delivered upon exchange; and

(c) such documents as may be required by law to effect the delivery thereof; and

as soon as practicable, and in any event no later than 30 days after the date of the Cash Payment Notice, any Cash Equivalent (as defined below).

The "Exchange Delivery Date" shall be the date on which such transfer is completed, although no later than the fifth ROC Business Day after the relevant Exchange Date.

For the purposes of these Conditions:

"Cash Equivalent" means, if and to the extent that Formosa Plastics has exercised the Cash Payment Option to satisfy the exchange of any Note, pursuant to Condition 5B(iv), an amount in US dollars equal to the product of (x) the average closing prices of the Reference Shares or the Exchange Property Securities on the Taiwan Stock Exchange or other applicable exchange for 20 consecutive Trading Days starting from the applicable date of the Cash Payment Notice (or such fewer number of Trading Days as available within 30 days after the applicable date of the Cash Payment Notice) converted to US dollars at the Prevailing Rate of each such Trading Day and (y) the number of Reference Shares or Exchange Property Securities specified in the Cash Payment Notice.

"Prevailing Rate" for any Trading Day means U.S. dollar/NT dollar noon buying rate published by the Federal Reserve Bank of New York on such Trading Day or, if no buying rate is quoted on such Trading Day, the last available buying rate quoted on the immediately preceding Trading Day.

Formosa Petrochemical has certain disclosure obligations and reporting obligations under ROC law and regulations if:

(i) the person to be registered as a shareholder is a "related party" of Formosa Petrochemical under the Statement of Financial Accounting Standard No. 6 of the ROC and such person beneficially owns Reference Shares exchanged from the Notes, or

(ii) the person to be registered as a holder of Reference Shares owns Reference Shares received on exchange of his Notes, and the Reference Shares exchanged exceed 10% of the total number of Reference Shares expected to be exchanged based on the exchange price at the time of issue of the Notes.

These obligations may also apply to issuers of Exchange Property Securities. Due to these obligations, the Indenture provides that, if Formosa Plastics so instruct, the Trustee may ask exchanging holders of the Notes to disclose the name of the person to be registered as the shareholder and to provide proof of identity and genuineness of any signature and other documents before it exchanges the Notes. The exchange of the Notes may be delayed until the Trustee receives the required information and evidence of compliance with relevant laws and regulations by the exchanging holder of the Notes. The information that an exchanging holder of the Notes is required to provide includes the name and nationality of the person to be registered as shareholder and the total number of Reference Shares, or Exchange Property Securities, as applicable, such person has or will receive as a result of the exchange of the Notes it holds.

In the event the exchange of a Note shall result in a payment to the exchanging holder as provided above, Formosa Plastics shall deliver a notice setting forth the above details to the address of the exchanging holder appearing on the register of holders of the Notes.

(vi) *Retroactive Adjustment of Exchange Price.* If (a) the Exchange Date in relation to any Note shall be on or after a date on which a decrease to the Exchange Price takes retroactive effect pursuant to any of the provisions referred to in Condition 5(C) and the Indenture and (b) the relevant Exchange Date falls on a date when the relevant adjustment has not been reflected in the Exchange Price, Formosa Plastics shall, (i) in the event that it is entitled to receive property from Formosa Petrochemical in connection with the event that caused the Antidilution Adjustment, within 5 ROC Business Days of the receipt of such property or (ii) in the event that it is not entitled to receive any such property in connection with the event that caused the Antidilution Adjustment, within 20 days of such adjustment of the Exchange Price, deliver to the local agent appointed by the exchanging holder of the Note such number of Reference Shares as is equal to the excess of (1) the number of Reference Shares that would have been required to be delivered on exchange of such Note if the relevant retroactive adjustment had been made as of the said Exchange Date over (2) the number of Reference Shares previously delivered pursuant to such exchange, or such number of Exchange Property Securities as would otherwise be appropriate; and in such event and in respect of such number of Reference Shares or Exchange Property Securities, references in Conditions 5(B)(iii) and 5(B)(iv) to the Exchange Date shall be deemed to refer to the date upon which such retroactive adjustment becomes effective disregarding the fact that it becomes effective retroactively. Fractions of shares shall not be delivered, and no cash adjustment shall be made in respect thereof.

(vii) *Entitlements on Exchange.* With effect from, and including, the Exchange Delivery Date, the exchanging Noteholder shall, as between it and Formosa Plastics, be entitled to exercise all rights in respect of the Reference Shares, or Exchange Property Securities, as applicable, and receive all income or other assets arising out of the Reference Shares, or Exchange Property Securities, as applicable (except where such rights, income or other assets accrue by reference to a record date which precedes the Exchange Delivery Date). The rights of an exchanging Noteholder in respect of the Reference Shares, or Exchange Property Securities, as applicable, as between it and any other person shall be as provided by applicable law or regulation. In particular, the rights of the exchanging Noteholder with respect to Reference Shares, or Exchange Property Securities, as applicable, as between it and Formosa Petrochemical or the issuer of the Exchange Property Securities, as applicable (assuming that the issuer is an ROC corporation), will be determined by the date on which the name of the Noteholder (or its designee) is registered as owner of the Reference Shares, or Exchange Property Securities, as applicable, in the applicable shareholders' register.

As permitted by ROC law and regulations, if the Exchange Date falls within five ROC Business Days before the beginning of, and during, a Closed Period, a Noteholder (or its designee) will not be registered as owner of the Reference Shares or Exchange Property Securities in the shareholders' register of Formosa Petrochemical or the issuer of the Exchange Property Securities, as applicable (assuming that the issuer is an ROC corporation), until the Closed Period lapses. As a result, the right of an exchanging Noteholder to attend a shareholders meeting to vote with respect to the Reference Shares or Exchange Property Securities it receives upon the exchange of the Notes will not be recognized by Formosa Petrochemical or the issuer of the Exchange Property Securities, as applicable (assuming that the issuer is an ROC corporation), until such Noteholder (or its designee) is registered as owner of the Reference Shares or Exchange Property Securities in the shareholders' register.

Subject to the following paragraph and assuming no Change of Control of Formosa Petrochemical (where Formosa Petrochemical is not the surviving entity), Formosa Plastics will ensure that the Reference Shares delivered on exchange of Notes (if applicable) will in all respects rank pari passu with the Reference Shares in issue on the relevant Exchange Delivery Date (except for any right the record date for which precedes the date on which the Exchanging Noteholder (or its designee) is registered as the owner of the Reference Shares in the shareholders' register of Formosa Petrochemical, and except for any other right excluded by mandatory provisions of applicable law).

The Reference Shares or the Exchange Property Securities, as applicable, to be delivered on exercise of Exchange Rights shall not include any dividends or other income thereon declared or paid by reference to a record date prior to the Exchange Date. The Reference Shares or the Exchange Property Securities, as applicable, delivered pursuant to exercise of Exchange Rights shall qualify for dividends or other distributions declared or paid by reference to any record date in respect of such dividends or distributions falling after the Exchange Date.

(viii) *Dividend Shares.* If an Exchange Date in relation to any exchanged Note shall fall within five ROC Business Days before the beginning of, or during, a Closed Period, Formosa Plastics will not be able to transfer and deliver to the exchanging Noteholder any dividend shares, if any, in relation to Reference Shares or Exchange Property Securities, as applicable (assuming that the issuer is an ROC corporation), delivered upon the exchange of the Notes during such period, because, according to the law and regulations of the ROC, ROC corporations are restricted from registering the exchanging Noteholder as an owner of securities. Such transfer and delivery of dividend shares will be made by Formosa Plastics after the expiry of the Closed Period and within five ROC Business Days after the receipt of such dividend shares by Formosa Plastics.

(ix) *Exchange Agents.* Formosa Plastics reserves the right, subject to the provisions of the Agency Agreement and with the prior written consent of the Trustee, to vary or terminate the appointment of any Exchange Agent and to appoint other Exchange Agents at any time; provided that Formosa Plastics shall at all times maintain an Exchange Agent having specified a office in London and, so long as the Notes are listed on the SGX-ST and the rules of the exchange so require, in Singapore. Notice of any such termination or appointment and of any changes in the specified offices of the Exchange Agents shall be given promptly by Formosa Plastics to the holders of the Notes in accordance with Condition 14 and, so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, to the SGX-ST.

(x) *Depositary Receipts.* Formosa Plastics may, at its option, but is not required to, make arrangements satisfactory to the Trustee for the Notes to be exchanged for depositary receipts or other scrip evidencing the common shares of Formosa Petrochemical. Any such arrangements shall be in addition to the provisions of these Conditions relating to exchange of Notes into common shares of Formosa Petrochemical.

Formosa Petrochemical has not, at the date of this Offering Circular, established or authorized the establishment of any depositary receipt facility. Accordingly, the option to exchange Notes for depositary receipts is not and may not be available in the foreseeable future. If in the future a depositary receipt facility is established or authorized by Formosa Petrochemical, Formosa Plastics may, at its option, but is not required to, to the extent permitted by applicable laws and regulations, make arrangements satisfactory to the Trustee for common shares of Formosa Petrochemical delivered on exchange of Notes to be accepted for deposit (at the option of the exchanging holder of the Notes) into such depositary receipt facility, subject always to the terms of such depositary receipt facility, which terms may include certification or other requirements as conditions to the acceptance for deposit of the common shares of Formosa Petrochemical. In such an event, Formosa Plastics will give notice of any such arrangements to holders of the Notes in accordance with Condition 14. There can be no assurance that Formosa Petrochemical will in the future establish or authorize any depositary receipt facility or that any arrangements for the deposit of the common shares of Formosa Petrochemical into such depositary receipt facility would be available to all holders of the Notes.

(xi) *Adjustment of Global Certificate on the Exchange of Notes.* Where Exchange Rights are exercised in respect of only some of the Notes represented by a Global Certificate, the principal amount of such Notes shall be noted on the relevant schedule to such Global Certificate and, on the Exchange Date the principal amount of such Global Certificate shall be reduced accordingly.

(C) Adjustments to Exchange Price

The Exchange Price shall be subject to adjustment as follows, each such adjustment an "Antidilution Adjustment":

(i) ***Free distribution, bonus issue, division, consolidation and reclassification of Reference Shares:***

If Formosa Petrochemical shall (a) make a free distribution of Reference Shares, (b) make a bonus issue of Reference Shares, (c) divide the outstanding Reference Shares, (d) consolidate the outstanding Reference Shares into a smaller number of Reference Shares, or (e) re-classify any of the Reference Shares into other securities of Formosa Petrochemical, then the Exchange Price shall be appropriately adjusted so that the holder of any Note, the Exchange Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5(C)(i), shall be entitled to receive on exercise of the Exchange Right the number of Reference Shares and/or other securities of Formosa Petrochemical which he would have held or have been entitled to receive after the happening of any of the events described above had such Note been exchanged immediately prior to the happening of such event (or, if Formosa Petrochemical has fixed a prior record date for the determination of shareholders entitled to receive any such free distribution or bonus issue of Reference Shares or other securities issued upon any such division, consolidation or reclassification, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Exchange Price made with effect from the date of the happening of such event (or such record date) or any time thereafter.

Effective date of adjustment: An adjustment made pursuant to this Condition 5(C)(i) shall become effective immediately on the relevant event referred to in this Condition 5(C)(i) becoming effective or, if a record date is fixed therefor, immediately after such record date; provided that in the case of a free distribution or bonus issue of Reference Shares which must, under applicable laws of the ROC, be submitted for approval to a general meeting of shareholders or be approved by a meeting of the board of directors of Formosa Petrochemical before being legally paid or made, and which is so approved after the record date fixed for the determination of shareholders entitled to receive such distribution or issue, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date.

(ii) ***Declaration of dividend in Reference Shares:***

If Formosa Petrochemical shall declare a dividend in Reference Shares then the Exchange Price shall be appropriately adjusted so that the holder of any Note, the Exchange Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5(C)(ii), shall be entitled to receive on exercise of the Exchange Right the number of Reference Shares and/or other securities of Formosa Petrochemical which he would have held or would have been entitled to receive after the date when such dividend is declared had such Note been exchanged immediately prior to the happening of such event (or, if Formosa Petrochemical has fixed a prior record date for the determination of shareholders entitled to receive such dividend, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Exchange Price made with effect from the date of the happening of such event (or such record date) or any time thereafter. No account is to be taken of, or credit given for, the par value of Reference Shares issued in a dividend in Reference Shares in calculating the appropriate Exchange Price adjustment, so that the full dilutive effect is provided for.

Effective date of adjustment: An adjustment made pursuant to this Condition 5(C)(ii) shall become effective immediately on the relevant event referred to in this Condition 5(C)(ii) becoming effective or, if a record date is fixed therefor, immediately after such record date; provided that in the case of a dividend in Reference Shares which must, under applicable laws of the ROC, be submitted for approval to a general meeting of shareholders of Formosa Petrochemical before being legally paid or made, and which is so approved after the record date fixed for the determination of shareholders entitled to receive such dividend, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date.

(iii) ***Concurrent adjustment events:***

If Formosa Petrochemical shall declare a dividend in, or make a free distribution or bonus issue of, Reference Shares, which dividend, issue or distribution is to be paid or made to shareholders as of a record date which is also:

(a) the record date for the issue of any rights or warrants which requires an adjustment of the Exchange Price pursuant to Condition 5(C)(iv), 5(C)(v) or 5(C)(vi);

(b) the day immediately before the date of issue of any securities convertible into or exchangeable for Reference Shares which requires an adjustment of the Exchange Price pursuant to Condition 5(C)(viii);

(c) the day immediately before the date of issue of any Reference Shares which requires an adjustment of the Exchange Price pursuant to Condition 5(C)(ix) or (if applicable) the record date for the determination of stock dividend entitlement as referred to in Condition 5(C)(ix);

(d) the day immediately before the date of issue of any rights, options or warrants which requires an adjustment of the Exchange Price pursuant to Condition 5(C)(x); or

(e) determined by Formosa Plastics and notified by Formosa Plastics to the Trustee in writing to be the relevant date for an event or circumstance which requires an adjustment to the Exchange Price pursuant to Condition 5(C)(xii),

then (except where such dividend, bonus issue or free distribution gives rise to a retroactive adjustment of the Exchange Price under Condition 5(C)(i) or 5(C)(ii)) no adjustment of the Exchange Price in respect of such dividend, bonus issue or free distribution shall be made under this Condition 5(C)(iii), but in lieu thereof an adjustment shall be made under Condition 5(C)(iv), 5(C)(v), 5(C)(vi), 5(C)(viii), 5(C)(ix) or 5(C)(x) (as the case may require) by including in the denominator of the fraction described therein the aggregate number of Reference Shares to be issued pursuant to such dividend, bonus issue or free distribution.

(iv) *Rights issues to shareholders:*

If Formosa Petrochemical shall grant, issue or offer to the holders of Reference Shares rights entitling them to subscribe for or purchase Reference Shares (including those Reference Shares which are required to be offered to employees and persons other than shareholders in connection with such grant, issue or offer):

(a) at a consideration per Reference Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) which is fixed on or prior to the record date mentioned below and is less than the Current Market Price (as defined in Condition 5(C)(xiv)) per Reference Share at such record date; or

(b) at a consideration per Reference Share receivable by Formosa Petrochemical which is fixed after the record date mentioned below and is less than the Current Market Price per Reference Share on the date Formosa Petrochemical fixes the said consideration,

then the Exchange Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such rights or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

where:

NEP = the Exchange Price after such adjustment.

OEP = the Exchange Price before such adjustment.

N = the number of Reference Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC (in a case within (a) above) on such record date or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration.

n = the number of Reference Shares initially to be issued upon exercise of such rights at the said consideration being (aa) the number of Reference Shares which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Reference Shares for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa).

v = the number of Reference Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Reference Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective immediately after the latest date for the submission of applications for such Reference Shares by shareholders entitled to the same pursuant to such rights or (if later) immediately after Formosa Petrochemical fixes the said consideration but retroactively to immediately after the record date mentioned above.

Rights not taken up by shareholders: If, in connection with a grant, issue or offer to the holders of Reference Shares of rights entitling them to subscribe for or purchase Reference Shares, any Reference Shares which are not subscribed for or purchased by the persons entitled thereto are underwritten by other persons prior to the latest date for the submission of applications for such Reference Shares, an adjustment shall be made to the Exchange Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after Formosa Petrochemical fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Reference Shares of rights entitling them to subscribe for or purchase Reference Shares, any such Reference Shares which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred such rights) who have submitted applications for such Reference Shares as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Exchange Price by reason of such offer and/or subscription.

(v) ***Warrants issued to shareholders:***

If Formosa Petrochemical shall grant, issue or offer to the holders of Reference Shares warrants entitling them to subscribe for or purchase Reference Shares:

(a) at a consideration per Reference Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) which is fixed on or prior to the record date for the determination of shareholders entitled to receive such warrants and is less than the Current Market Price per Reference Share at such record date; or

(b) at a consideration per Reference Share receivable by Formosa Petrochemical which is fixed after the record date mentioned above and is less than the Current Market Price per Reference Share on the date Formosa Petrochemical fixes the said consideration,

then the Exchange Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such warrants or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Reference Shares outstanding (having regard to Condition 5(C)(xvi) at the close of business in the ROC (in a case within (a) above) on such record date or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration.

n = the number of Reference Shares to be issued upon exercise of such warrants at the said consideration which, where no applications by shareholders entitled to such warrants are required, shall be based on the number of warrants issued. Where applications by shareholders entitled to such warrants are required, the number of such Reference Shares shall be calculated based upon (aa) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of warrants for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa).

v = the number of Reference Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Reference Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective (i) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (ii) where applications by shareholders entitled to the same are required as aforesaid, immediately after the latest date for the submission of such applications or (if later) immediately after Formosa Petrochemical fixes the said consideration but in all cases retroactively to immediately after the record date mentioned above.

Warrants not subscribed for by shareholders: If, in connection with a grant, issue or offer to the holders of Reference Shares of warrants entitling them to subscribe for or purchase Reference Shares in the circumstances described in (a) and (b) of this Condition 5(C)(v), any warrants which are not subscribed for or purchased by the shareholders entitled thereto are underwritten by others prior to the latest date for the submission of applications for such warrants, an adjustment shall be made to the Exchange Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after Formosa Petrochemical fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Reference Shares of warrants entitling them to subscribe for or purchase Reference Shares, any warrants which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred the right to purchase such warrants) who have submitted applications for such warrants as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Exchange Price by reason of such offer and/or subscription.

(vi) *Issues of rights or warrants for equity-related securities to shareholders:*

If Formosa Petrochemical shall grant, issue or offer to the holders of Reference Shares rights or warrants entitling them to subscribe for or purchase any securities convertible into or exchangeable for Reference Shares:

(a) at a consideration per Reference Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) which is fixed on or prior to the record date mentioned below and is less than the Current Market Price per Reference Share at such record date; or

(b) at a consideration per Reference Share receivable by Formosa Petrochemical (determined as aforesaid) which is fixed after the record date mentioned below and is less than the Current Market Price per Reference Share on the date Formosa Petrochemical fixes the said consideration,

then the Exchange Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Reference Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC (in a case within (a) above) on such record date or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration.

n = the number of Reference Shares initially to be issued upon exercise of such rights or warrants and conversion or exchange of such convertible or exchangeable securities at the said consideration being, in the case of rights, (aa) the number of Reference Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities which the underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Reference Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa) and which, in the case of warrants, where no applications by shareholders entitled to such warrants are required, shall be based on the number of warrants issued. Where applications by shareholders entitled to such warrants are required, the number of such Reference Shares shall be calculated based upon (x) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the case may be, (y) the number of warrants for which applications are received from shareholders as referred to below save to the extent already adjusted for under (x).

v = the number of Reference Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Reference Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective (a) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (b) where applications by shareholders entitled to the warrants are required as aforesaid and in the case of applications for convertible or exchangeable securities by shareholders entitled to the same pursuant to such rights, immediately after the latest date for the submission of such

applications or (if later) immediately after Formosa Petrochemical fixes the said consideration; but in all cases retroactively to immediately after the record date mentioned above.

Rights or warrants not taken up by shareholders: If, in connection with a grant, issue or offer to the holders of Reference Shares of rights or warrants entitling them to subscribe for or purchase securities convertible into or exchangeable for Reference Shares in the circumstances described in this Condition 5(C)(vi), any convertible or exchangeable securities or warrants which are not subscribed for or purchased by the shareholders entitled thereto are underwritten by others prior to the latest date for the submission of applications for such convertible or exchangeable securities or warrants, an adjustment shall be made to the Exchange Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after Formosa Petrochemical fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Reference Shares or of rights or warrants entitling them to subscribe for or purchase securities convertible into or exchangeable for Reference Shares, any convertible or exchangeable securities or warrants which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred such rights or the right to purchase such warrants) who have submitted applications for such convertible or exchangeable securities or warrants as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Exchange Price by reason of such offer and/or subscription.

(vii) *Capital Distribution:*

If Formosa Petrochemical shall pay or make any Capital Distribution (as defined below) to its shareholders, then the Exchange Price shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{CMP - fmv}{CMP}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv).

CMP = the Current Market Price per Reference Share on the last Trading Day preceding the date on which the Capital Distribution is publicly announced.

fmv = the aggregate fair market value on the date of such announcement, as determined in good faith by two leading independent investment banks of international repute selected by Formosa Plastics and approved by the Trustee and acting as experts, of the portion of the Capital Distribution attributable to one Reference Share.

Effective date of adjustment: Such adjustment shall become effective immediately after the record date for the determination of shareholders entitled to receive such Capital Distribution. Provided that (a) in the case of such a Capital Distribution which must, under applicable law of the ROC, be submitted for approval to a general meeting of

shareholders or be approved by a meeting of the board of directors of Formosa Petrochemical before such Capital Distribution may legally be made and is so approved after the record date fixed for the determination of shareholders entitled to receive such Capital Distribution, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date and (b) if the fair market value of such Capital Distribution cannot be determined until the record date fixed for the determination of shareholders entitled to receive such Capital Distribution, such adjustment shall, immediately upon such fair market value being determined, become effective retroactively to immediately after such record date.

If Formosa Petrochemical shall pay or make any Capital Distribution in cash only then, in such case, the Exchange Price shall be adjusted (with such adjustment to be effective on the record date for the determination of shareholders entitled to receive such Capital Distribution in cash) in accordance with the following formula:

$$NEP = OEP \times \frac{M - C}{M}$$

where:

NEP and OEP shall have the meanings ascribed thereto in Condition 5(C)(iv).

M = the Current Market Price per Reference Share on such record date.

C = the amount of Capital Distribution in cash so distributed applicable to one Reference Share.

For the purposes of this Condition 5(C)(vii):

"Capital Distribution" means any dividend or distribution, whether of cash, assets or other property, and whenever paid or made and however described (and for these purposes a distribution of assets includes, without limitation, an issue of shares or other Securities (as defined below) credited as fully or partly paid up) provided that:

(a) where a cash Capital Distribution is announced which is to be, or may at the election of a holder or holders of Reference Shares be, satisfied by the issue or delivery of Reference Shares or other property or assets, then for the purposes of the above formula the Capital Distribution in question shall be treated as a Capital Distribution of (1) the cash Capital Distribution so announced or (2) the fair market value on the date of announcement of such Capital Distribution, of such Reference Shares or other property or assets to be issued or delivered in satisfaction of such Capital Distribution (or which would be issued if all holders of Reference Shares elected therefor, regardless of whether any such election is made) if the fair market value of such Reference Shares or other property or assets is greater than the cash Capital Distribution so announced;

(b) any issue of Reference Shares falling within Condition 5(C)(ii) shall be disregarded; and

(c) a purchase or redemption of share capital by or on behalf of Formosa Petrochemical (whether by tender or exchange offer or otherwise) shall not constitute a Capital Distribution unless in the case of purchase of Reference Shares by or on behalf of Formosa Petrochemical, the weighted average price (before expenses) on any one day in respect of such purchase exceeds the closing price of the Reference Shares published by the Taiwan Stock

Exchange either (1) on that date, or (2) where an announcement has been made of the intention to purchase Reference Shares at some future date at a specified price, on the Trading Day immediately preceding the date of such announcement and, if in the case of either (1) or (2), the relevant day is not a Trading Day, the immediately preceding Trading Day, in which case such purchase shall be deemed to constitute a Capital Distribution in the amount of such excess.

"Securities" includes, without limitation, shares in the capital of Formosa Petrochemical or options, warrants or other rights to subscribe for or purchase shares in the capital of Formosa Petrochemical or evidences of its indebtedness.

(viii) *Issue of convertible or exchangeable securities other than to shareholders or on exercise of warrants:*

If Formosa Petrochemical shall issue any securities convertible into or exchangeable for Reference Shares (other than the Notes, or in any of the circumstances described in Condition 5(C)(vi) and Condition 5(C)(x)) and the consideration per Reference Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) shall be less than the Current Market Price per Reference Share on the date in the ROC on which Formosa Petrochemical fixes the said consideration (or, if the issue of such securities is subject to approval by a general meeting of shareholders, on the date on which the board of directors of Formosa Petrochemical fixes the consideration to be recommended at such meeting), then the Exchange Price in effect immediately prior to the date of issue of such convertible or exchangeable securities shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv).

N = the number of Reference Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC on the day immediately prior to the date of such issue.

n = the number of Reference Shares to be issued upon conversion or exchange of such convertible or exchangeable securities at the initial conversion or exchange price or rate.

v = the number of Reference Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Reference Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in the ROC corresponding to the calendar day at the place of issue on which such convertible or exchangeable securities are issued.

(ix) ***Other issues of Reference Shares:***

If Formosa Petrochemical shall issue any Reference Shares (other than Reference Shares issued upon conversion or exchange of any convertible or exchangeable securities (including the Notes) issued by Formosa Petrochemical or upon exercise of any rights or warrants granted, offered or issued by Formosa Petrochemical or in any of the circumstances described in Conditions 5(C)(i) and 5(C)(ii), but including Reference Shares issued pursuant to any employee dividend or profit-sharing arrangements) for a consideration per Reference Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) which is less than the Current Market Price per Reference Share on the date in the ROC on which Formosa Petrochemical fixes the said consideration (or, if the issue of such Reference Shares is subject to approval by a general meeting of shareholders, on the date on which the board of directors of Formosa Petrochemical fixes the consideration to be recommended at such meeting), then the Exchange Price in effect immediately prior to the issue of such additional Reference Shares shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Reference Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC on the day immediately prior to the date of issue of such additional Reference Shares.

n = the number of additional Reference Shares issued as aforesaid.

v = the number of Reference Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Reference Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in the ROC of the issue of such additional Reference Shares or, in the case of an issue to employees under any employee dividend or profit sharing arrangements, where such an issue is announced at the same time as a stock dividend, such adjustment shall become effective as of the record date for determination of the identity of the shareholders entitled to receive any such dividend.

(x) ***Issue of equity related securities:***

If Formosa Petrochemical shall grant, issue or offer options, warrants or rights (excluding those rights and warrants referred to in Conditions 5(C)(iv), 5(C)(v), 5(C)(vi) and 5(C)(vii)) to subscribe for or purchase Reference Shares or securities convertible into or exchangeable for Reference Shares and the consideration per Reference Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) shall be less than the Current Market Price per Reference Share on the date in the ROC on which Formosa Petrochemical fixes the said consideration (or, if the offer, grant or issue of such rights, options or warrants is subject to approval by a general meeting of shareholders, on the date on which the board of directors of Formosa Petrochemical fixes

the consideration to be recommended at such meeting), then the Exchange Price in effect immediately prior to the date of the offer, grant or issue of such rights, options or warrants shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Reference Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC on the day immediately prior to the date of such issue.

n = the number of Reference Shares to be issued on exercise of such rights or warrants and (if applicable) conversion or exchange of such convertible or exchangeable securities at the said consideration.

v = the number of Reference Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Reference Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in the ROC corresponding to the calendar day at the place of issue on which such rights or warrants are issued.

(xi) *Tender or exchange offer:*

In case a tender or exchange offer made by Formosa Petrochemical or any subsidiary of Formosa Petrochemical for all or any portion of the Reference Shares shall expire and such tender or exchange offer shall involve the payment by Formosa Petrochemical or such subsidiary of consideration per Reference Share having a fair market value (as determined in good faith by two leading independent investment banks of international repute selected by Formosa Plastics and approved by the Trustee and acting as experts) at the last time (the "Expiration Date") tenders or exchanges could have been made pursuant to such tender or exchange offer (as it shall have been amended) that exceeds the Current Market Price per Reference Share, as of the Expiration Date, the Exchange Price shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N \times CMP}{fmv = [(N - n) \times CMP]}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Reference Shares outstanding (including any tendered or exchanged Reference Shares) on the Expiration Date.

CMP = Current Market Price per Reference Share as of the Expiration Date.

fmv = the fair market value (as determined in good faith by two leading independent investment banks of international repute selected by Formosa Plastics and approved by the Trustee and acting as experts) of the aggregate consideration payable to the holders of Reference Shares based on the acceptance (up to a maximum specified in the terms of the tender or exchange offer) of all Reference Shares validly tendered or exchanged and not withdrawn as of the Expiration Date (the Reference Shares deemed so accepted up to any such maximum, being referred to as the "Purchased Reference Shares").

n = the number of Purchased Reference Shares.

Effective date of adjustment: Such adjustment shall become retroactively effective immediately prior to the opening of business on the day following the Expiration Date.

(xii) *Analogous events and modifications:*

If (a) the rights of conversion or exchange, purchase or subscription attaching to any options, rights or warrants to subscribe for or purchase Reference Shares or any securities convertible into or exchangeable for, or which carry rights to subscribe for or purchase Reference Shares are modified (other than pursuant to and as provided in the terms and conditions of such options, rights, warrants or securities) or (b) Formosa Plastics determines or written notice has been given to the Trustee that any other event or circumstance has occurred which has or would have an effect on the position of the holders of the Notes as a class compared with the position of the holders of all the securities (and options and rights relating thereto) of Formosa Petrochemical, taken as a class which is analogous to any of the events referred to in Conditions 5(C)(i) to 5(C)(xi), then, in any such case, Formosa Plastics shall notify the Trustee thereof or if the Trustee has been notified under (b), the Trustee shall notify Formosa Plastics thereof and Formosa Plastics shall consult with two leading independent investment banks of international repute selected by Formosa Petrochemical and approved by the Trustee as to what adjustment, if any, should be made to the Exchange Price (and the timing of any such adjustment) to preserve the value of the Exchange Right, and any such adjustment shall be made.

(xiii) *Simultaneous issues of different classes of shares:*

In the event of simultaneous issues of two or more classes of share capital comprising Reference Shares or rights or warrants in respect of, or securities convertible into or exchangeable for, two or more classes of share capital comprising Reference Shares, then, for the purposes of this Condition, the formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

shall be restated as:

$$NEP = OEP \times \frac{N + v1 + v2 + v3}{N + n1 + n3 + n3}$$

where v1 and n1 shall have the same meanings as "v" and "n" but by reference to one class of Reference Shares, v2 and n2 shall have the same meanings as "v" and "n" but by reference to a second class of Reference Shares, v3 and n3 shall have the same meanings as "v" and "n" but by reference to a third class of Reference Shares and so on.

(xiv) *Current Market Price per Reference Share:*

"Current Market Price", in relation to the Formosa Petrochemical Common Shares, for any day means (a) the average Closing Prices of the Reference Shares for the 30 consecutive Trading Days commencing 45 Trading Days before such day and (b) when used with respect to any issuance or distribution, the average Closing Prices for the 30 consecutive Trading Days commencing not more than 45 Trading Days (with the commencement date selected by Formosa Plastics) before the first day on which the Formosa Petrochemical Common Shares without the right to receive such issuance or distribution trade in a regular way on the Taiwan Stock Exchange, other applicable securities exchange or any applicable securities market; provided, however, if no Closing Price is available for one or more Trading Days, such day or days shall be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of consecutive Trading Days.

"Closing Price", in relation to the Formosa Petrochemical Common Shares, for any Trading Day means the last reported transaction price or, if no transaction takes place on such day, the last available reported transaction price of the Formosa Petrochemical Common Shares on the Taiwan Stock Exchange in effect on the Trading Day immediately preceding such day or, if the Formosa Petrochemical Common Shares are not at that time listed or admitted to trading on the Taiwan Stock Exchange, the average of the closing bid and offered prices of Formosa Petrochemical Common Shares for such day as furnished by a leading independent securities firm licensed to trade on the Taiwan Stock Exchange selected by Formosa Plastics for that purpose. In respect of any security traded on another exchange or market, this definition shall apply with reference to that exchange or market.

(xv) *Consideration receivable by Formosa Petrochemical:*

For the purposes of any calculation of the consideration receivable by Formosa Petrochemical pursuant to Conditions 5(C)(iv), 5(C)(v), 5(C)(vi), 5(C)(viii), 5(C)(ix) and 5(C)(x), the following provisions shall be applicable:

(a) in the case of the issue of Reference Shares for cash, the consideration shall be the amount of such cash, provided that in no such case shall any deduction be made for any commissions or any expenses paid or incurred by Formosa Petrochemical for any underwriting of the issue or otherwise in connection therewith;

(b) in the case of the issue of Reference Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by Formosa Petrochemical (and in making such determination Formosa Petrochemical shall consult two leading independent investment banks of international repute, selected by Formosa Petrochemical and approved by the Trustee and shall take fully into account the advice received from such banks) or, if pursuant to applicable law of the ROC such determination is to be made by application to a court of competent jurisdiction, as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof;

(c) in the case of the issue (whether initially or upon the exercise of rights or warrants) of securities convertible into or exchangeable for Reference Shares, the aggregate consideration receivable by Formosa Petrochemical shall be deemed to be the consideration received by Formosa Petrochemical for such securities and (if applicable) rights or warrants plus the additional consideration (if any) to be received by Formosa Petrochemical upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in (a) and (b) above) and the consideration per Reference Share receivable by Formosa Petrochemical shall be such aggregate consideration divided by the number of Reference Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price;

(d) in the case of the issue of rights or warrants to subscribe for or purchase Reference Shares, the aggregate consideration receivable by Formosa Petrochemical shall be deemed to be the consideration received by Formosa Petrochemical for any such rights or warrants plus the additional consideration to be received by Formosa Petrochemical upon (and assuming) the exercise of such rights or warrants at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in (a) and (b) above) and the consideration per Reference Share receivable by Formosa Petrochemical shall be such aggregate consideration divided by the number of Reference Shares to be issued upon (and assuming) the exercise of such rights or warrants at the initial subscription or purchase price;

(e) if any of the consideration referred to in any of the preceding paragraphs of this Condition 5(C)(xiv) is receivable in a currency other than NT dollars, such consideration shall (in any case where there is a fixed rate of exchange between the NT dollar and the relevant currency for the purposes of the issue of the Reference Shares, the conversion or exchange of such securities or the exercise of such rights or warrants) be translated into NT dollars for the purposes of this Condition 5(C)(xiv) at such fixed rate of exchange and shall (in all other cases) be translated into NT dollars at the mean of the exchange rate quotations (being quotations for the cross rate through US dollars if no direct rate is quoted) by a leading bank in the ROC for buying and selling spot units of the relevant currency by telegraphic transfer against NT dollars on the date as of which the said consideration is required to be calculated as aforesaid; and

(f) in the case of the issue of Reference Shares (including, without limitation, to employees under any employee dividend or profit sharing arrangements) credited as fully paid out of retained earnings or capitalisation of reserves at their par value, the aggregate consideration receivable by Formosa Petrochemical shall be deemed to be zero (and accordingly the number of Reference Shares which such aggregate consideration receivable by Formosa Petrochemical could purchase at the relevant Current Market Price per Reference Share shall also be deemed to be zero).

(xvi) *Cumulative adjustments:*

If, at the time of computing an adjustment (the "later adjustment") of the Exchange Price pursuant to any of Conditions 5(C)(ii), 5(C)(iv), 5(C)(v), 5(C)(viii), 5(C)(ix) and 5(C)(x), the Exchange Price already incorporates an adjustment made (or taken or to be taken into account pursuant to the proviso to Condition 5(C)(xvii)) to reflect an issue of Reference Shares or of securities convertible into or exchangeable for Reference Shares or of rights or warrants to subscribe for or purchase Reference Shares or securities, to the extent that the number of such Reference Shares or securities taken into account for the purposes of calculating such adjustment exceeds the number of such Reference Shares in issue at the time relevant for ascertaining the number of outstanding Reference Shares for the purposes of computing the later adjustment, such excess Reference Shares shall be deemed to be outstanding for the purposes of making such computation.

(xvii) ***Minor adjustments:***

No adjustment will be made where such adjustment would be less than 1% of the Exchange Price then in effect; provided, however, that any adjustment that otherwise would be required to be made will be carried forward and taken into account in determining any subsequent adjustment.

(xviii) ***Reference to "fixed":***

Any references in this Condition 5(C) to the date on which a consideration is "fixed" shall, where the consideration is originally expressed by reference to a formula which cannot be expressed as an actual cash amount until a later date, be construed as a reference to the first day on which such actual cash amount can be ascertained.

(xix) ***Calculations:***

All calculations relating to adjustment of the Exchange Price shall be performed by Formosa Plastics, subject to approval by an independent, internationally recognized investment bank or accounting firm selected by Formosa Plastics and approved by the Trustee, or such other person as shall be nominated by Formosa Plastics and subject to the approval of the Trustee.

(xx) ***Downward adjustment:***

No adjustment involving an increase in the Exchange Price will be made, except in the case of a consolidation of the Reference Shares, as referred to in Condition 5(c)(i) above.

(xxi) ***Notification:***

Any adjustment will be notified promptly by Formosa Plastics to the Noteholders, the Trustee, the Agents, in accordance with Condition 14 and, so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, to the SGX-ST. Any such notice relating to an adjustment of the Exchange Price should set forth the event giving rise to the adjustment, the Exchange Price prior to the adjustment, the effective date of such adjustment and the Exchange Price after the adjustment.

(xxii) ***Trustee has no obligation to monitor:***

The Trustee shall not be obliged to monitor whether any event has occurred that might fall within (i) to (xiii) above and shall assume that no such event has occurred until it has actual knowledge by way of notice in writing from Formosa Plastics to the contrary.

(D) Exchange Price Reset

In the event that the average of the Closing Prices of the Reference Shares on the Taiwan Stock Exchange, for the period of 5 consecutive Trading Days ("Average Market Price") prior to December 26, 2004 and each anniversary thereafter (each a "Reset Date"),

converted into U.S. dollars at each such Trading Day at the Prevailing Exchange Rate, is less than the Exchange Price then in effect converted into U.S. dollars at the Fixed Exchange Rate, the Exchange Price shall be adjusted downwards in accordance with the following formula:

Adjusted Exchange Price = 110% x Average Market Price x (Fixed Exchange Rate/ Prevailing Exchange Rate)

provided that (i) any such reset shall only reset the Exchange Price downwards only and (ii) any adjustment to the Exchange Price shall be limited so that the adjusted Exchange Price shall not be less than 80% of the Initial Exchange Price (as adjusted to reflect any antidilution adjustments which may have occurred prior to the relevant Reset Date.

"Prevailing Exchange Rate" has the same meaning as "Prevailing Rate".

Any such adjustment shall become effective as of the relevant Reset Date and shall be notified to the holders within five days of the relevant Reset Date.

(E) Voting and other rights

Pending exercise of the Exchange Rights, Formosa Plastics will be entitled to exercise the voting and other rights attaching to the Reference Shares or the Exchange Property Securities, as applicable, in accordance with the terms of the Indenture. The Noteholders shall have no voting or other rights attaching to the Reference Shares or Exchange Property Securities prior to their registration as shareholders of Formosa Petrochemical or any Exchange Property issuer.

In exercising such voting rights, Formosa Plastics may have regard to its own interests to the exclusion of the interests of Noteholders.

(F) Undertakings

Formosa Plastics has undertaken in the Indenture that, so long as any Note remains outstanding:

(i) it will use its best efforts to ensure that Formosa Petrochemical maintains a listing for all the Formosa Petrochemical Common Shares on the Taiwan Stock Exchange;

(ii) it will pay the expenses arising in the ROC on the transfer and delivery of any Reference Shares or any Exchange Property Securities on exchange of Notes;

(iii) to the extent permitted by applicable laws, it will use its best efforts to ensure that any Reference Shares or Exchange Property Securities deliverable on exchange of Notes may be transferred and sold to any person, corporation, partnership or association, regardless of nationality (except for persons of the PRC); and

(iv) it will not create or purport or attempt to create, assume or permit to subsist, any mortgage, charge, pledge, hypothecation, lien, interest under a trust or other encumbrance over the Custody Property.

Formosa Plastics has also given certain other undertakings in the Indenture for the protection of the Exchange Rights.

6. PAYMENTS

(A) Manner of payment

Payment in respect of a Note shall be made (i) by transfer to the registered account of the holder of the Note or (ii) if such holder does not have a registered account, by a US dollar check mailed to its registered address. The registered account and address of a holder of the Notes means its account and address appearing on the register of holders of the Notes at the close of business on the second Business Day (as defined below) before the due date for payment.

References in these Conditions, the Indenture and the Agency Agreement to payment in respect of a Note shall, where the context so permits, be deemed to include not only a reference to the principal of, but also to any premium, interest and other amounts payable on, such Note.

For the purposes of this Condition 6 and Condition 7:

"Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in The City of New York, in Taiwan, in Hong Kong and, in the case of the surrender of a Definitive Certificate, in the place where the Definitive Certificate is surrendered.

(B) Commissions and expenses

All payments are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the holders of the Notes in respect of such payments.

(C) Date of payment

Where payment is to be made by transfer to a registered account, payment instructions for value on the due date (or, if that date is not a Business Day, for value the next Business Day) shall be initiated. Where payment is to be made by check, the check shall be mailed on the Business Day preceding the due date for payment. Notwithstanding the above, payment of principal of a Note represented by a Definitive Certificate shall not be made earlier than the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

(D) Default interest and payment delay

If Formosa Plastics fails to pay any sum in respect of the Notes when the same becomes due and payable under these Conditions, interest shall accrue on the overdue sum at the rate of 4.0% per annum from the due date. Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day year consisting of 12 months of 30 days each.

A holder of the Notes shall not be entitled to any interest or other payment for any delay in receiving the amount due if (i) the due date is not a Business Day, (ii) the Note is represented by a Definitive Certificate and the holder is late in surrendering its Definitive Certificate (if required to do so) or (iii) a check mailed in accordance with this Condition 6 arrives after the due date for payment.

7. REDEMPTION, REPURCHASE AND CANCELLATION

(A) Redemption at maturity

Unless previously redeemed, repurchased and cancelled, or exchanged as herein provided, Formosa Plastics shall redeem each Note at 103.6 per cent. of its principal amount, on June 30, 2011 (the "Maturity Date") or if such day is not a Business Day, on the immediately preceding Business Day. The Notes may be redeemed prior to that date only as provided in Conditions 7(B), (C) and (D) below, but without prejudice to Condition 9.

(B) Redemption at the option of Formosa Plastics

At any time after June 30, 2006 and prior to the Maturity Date, Formosa Plastics may, having given not less than 30 or more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable and delivered in accordance with Condition 7(H) and Condition 14), redeem the Notes in whole, or from time to time in part, at their Early Redemption Amount (as defined below) if the Closing Price (as defined in Condition 5(C)) of the Reference Shares, translated into US dollars at the Prevailing Rate (as defined in Condition 5(B)), for any 20 Trading Days out of the 30 consecutive Trading Days immediately preceding the date of such notice of redemption, is at least 120% of the Exchange Price then in effect, translated into US dollars at the Fixed Exchange Rate. If an event giving rise to a change in the Exchange Price occurs during such 30 consecutive Trading Days, appropriate adjustments for the relevant days shall be made for the purpose of calculating the Closing Price for such days.

Formosa Plastics may, at any time, having given not less than 30 or more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable and delivered in accordance with Condition 7(G) and Condition 14), redeem the Notes in whole, but not in part, at their Early Redemption Amount (as defined below) in US dollars if at least 90% in principal amount of the Notes has already been redeemed, repurchased and cancelled or exchanged.

"Early Redemption Amount" means, in relation to a Note to be redeemed on any redemption date, or to be repaid upon acceleration, an amount of principal that would result in an annual yield on the Note purchased on June 30, 2004, the date of the original issuance of the Note, at its principal amount, of 0.5 per cent. per annum through to the redemption date, or the date of acceleration, as the case may be, calculated on a semi-annual bond equivalent basis using a 360-day year consisting of twelve 30-day months.

(C) Redemption for taxation reasons

At any time, Formosa Plastics may, having given not less than 30 or more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable and delivered in accordance with Condition 7(G) and Condition 14), redeem the Notes in whole, but not in part (subject to the provisions of the last paragraph of this Condition 7(Q), at their Early Redemption Amount, provided that Formosa Plastics satisfies the Trustee that, immediately prior to the giving of such notice:

(i) Formosa Plastics has become obliged to pay Additional Amounts (as defined in Condition 8) as a result of any change in, or amendment to, the laws or regulations of the ROC or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective after the date of the original issuance of the Notes and would require Formosa Plastics to gross up for payment of principal or to gross up for payment of interest or premium, if any, at a rate greater than 20%; and

(ii) such obligation cannot be avoided by Formosa Plastics taking reasonable measures available to it.

Notwithstanding the foregoing, no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which Formosa Plastics would be obliged to pay such Additional Amounts.

Prior to the delivery of any notice of redemption pursuant to this Condition 7(C), Formosa Plastics shall deliver to the Trustee (1) a certificate signed by two of its authorized officers stating that the obligation referred to in (i) above cannot be avoided by taking reasonable measures available to it, and the Trustee shall be entitled to accept such certificate as sufficient and conclusive evidence of the satisfaction of the condition precedent set out in clause (ii) above and (2) an opinion addressed to the Trustee by an independent law firm of recognized standing admitted to practice in the ROC, or written advice of a qualified tax advisor of recognized standing in the ROC, to the effect that Formosa Plastics has or will become obliged to pay such Additional Amounts as a result of such change or amendment, and the Trustee shall be entitled to accept such certificate and opinion or advice as sufficient and conclusive evidence of the conditions precedent referred to in this Condition 7(C), in which event it shall be conclusive and binding on the holders of the Notes. The Notes in respect of which a notice of redemption has been given under Condition 7(B) or 7(D) shall not be affected by any notice given subsequently under this Condition 7(C).

If Formosa Plastics gives a notice of redemption of the Notes under Condition 7(C), each holder of the Notes shall have the right (the "Non-Redemption Option") to elect that all or a portion (being U.S.$1,000 in principal amount or an integral multiple thereof) of its Notes not be redeemed. Upon the exercise of the Non-Redemption Option with respect to such Notes, no Additional Amounts referred to in Condition 8 shall be payable on the payments due after the relevant date in respect of such Notes and, subject to Condition 8, such payments shall be made subject to the deduction or withholding required under the laws or regulations of the ROC. For the avoidance of doubt, any increased amounts that had been payable in respect of the Notes under Condition 8 as a result of the laws or regulations of the ROC in effect on the original date of their issuance shall continue to be payable to such holders of the Notes.

(D) Redemption at the option of the holders

Each holder of the Notes shall have the right (the "Holders' Redemption Right") to require Formosa Plastics to redeem in whole, or in part only (being U.S.$1,000 in principal amount or an integral multiple thereof), the Notes held by such holder, on June 30, 2006 (the "First Put Date") at their Early Redemption Amount and on June 30, 2009 (the "Second Put Date") at their Early Redemption Amount.

Not less than 30 or more than 60 days prior to each of the First Put Date and the Second Put Date, Formosa Plastics shall notify the holders of the Holders' Redemption Right, which notice shall be delivered in accordance with Condition 7(H) and Condition 14.

Following the occurrence of a Relevant Event (as defined below), the holder of each Note will have the right at such holder's option (the "Relevant Event Redemption Right"), to require Formosa Plastics to redeem all or some only of the Notes on the Relevant Event Redemption Date (as defined below) at their Early Redemption Amount on the 5th Business Day (as defined in Condition 6(A)) after the date of the respective Relevant Event Notice. To exercise such right, the holder of the relevant Note must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent ("Relevant Event Redemption Notice") together with the Notes to be redeemed by not later than 60 days following a Relevant Event, or, if later, 60 days following the date upon which notice thereof is given to Noteholders by Formosa Plastics in accordance with Condition 14. The "Relevant Event Redemption Date" shall be the 14th day after the expiry of such period of 60 days as referred to above.

A Relevant Event Redemption Notice, once delivered, shall be irrevocable and Formosa Plastics shall redeem the Notes the subject of Relevant Event Redemption Notices delivered as aforesaid on the Relevant Event Redemption Date.

The Trustee shall not be required to take any steps to ascertain whether a Relevant Event or any event which could lead to the occurrence of a Relevant Event has occurred.

Formosa Plastics shall give notice, each a "Relevant Event Notice", to Noteholders in accordance with Condition 7(G) and Condition 14 as soon as practicable, and in any event no later than 10 days following the first day on which it becomes aware of the occurrence of a Relevant Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Notes pursuant to this Condition 7(D).

A "Relevant Event" occurs:

(i) when the Reference Shares cease to be listed or admitted to trading on the Taiwan Stock Exchange (a "Delisting"); or

(ii) when there is a Change of Control (as defined below) with respect to Formosa Petrochemical.

"Change of Control" occurs when:

(a) any person or person (as defined below) acting together acquires control of Formosa Petrochemical if such person or persons does not or do not have, and would not be deemed to have, control (as defined below) of Formosa Petrochemical on the date of issue of the Notes;

(b) Formosa Petrochemical consolidates with or merges into or sells or transfers all or substantially all of Formosa Petrochemical's assets to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over Formosa Petrochemical or the successor entity; or

(c) one or more persons (as defined below) acquires control (as defined below) of Formosa Petrochemical.

"control" means the right to appoint and/or remove all or the majority of the members of Formosa Petrochemical's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise.

a "person" includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include Formosa Petrochemical's directors or any other governing board and does not include Formosa Petrochemical's wholly-owned direct or indirect subsidiaries.

(E) Repurchase and cancellation

Formosa Plastics may at any time and from time to time repurchase the Notes in the open market or otherwise at any price. Formosa Plastics shall promptly surrender any Notes so repurchased to the Principal Paying Agent for cancellation.

(F) Cancellation

All Notes that are redeemed, repurchased or exchanged and surrendered to any Agent shall forthwith be cancelled. In the case of Notes represented by Definitive Certificates, certificates in respect of all Notes cancelled shall be forwarded to or to the order of the Principal Paying Agent. Notes cancelled may not be reissued or resold.

(G) Redemption procedures

In the event that Formosa Plastics is required to deliver a notice to the holders of the Notes under this Condition 7, Formosa Plastics shall provide such information to the Trustee as the Trustee shall require to permit the Trustee to give notice to holders of the Notes in accordance with Condition 14, which notice shall state, to the extent applicable:

(i) the relevant redemption date;

(ii) in the case of a Delisting, the date of such Delisting and, briefly, the events that resulted in such Delisting;

(iii) the date by which the Exercise Notice (as defined below) must be given by the holder;

(iv) the applicable redemption price of a Note on the redemption date and the method by which such redemption price will be paid;

(v) the names and addresses of all Paying Agents;

(vi) the procedures that holders must follow and the requirements they must satisfy in order to exercise their Holders' Redemption Right, Relevant Event Redemption Right, Non-Redemption Option, and/or Exchange Right, as the case may be;

(vii) that an Exercise Notice, once validly given, may not be withdrawn;

(viii) the principal amount of the Notes outstanding as of the latest practicable date prior to the delivery of the notice;

(ix) any identifying numbers of the Notes and/or Definitive Certificate to be redeemed;

(x) the Closing Price of the Reference Shares on the most recent practicable Trading Day for which such Closing Price can be provided;

(xi) the place or places of payment; and

(xii) that payment will be made upon presentation and surrender of the Notes to be redeemed. Such notice shall also specify the date on which the right to exchange the Notes or the portions thereof to be redeemed will expire. Formosa Plastics shall provide to the Trustee such notice as well as an officers' certificate certifying the applicable redemption price (including the Early Redemption Amount) on the Redemption Date no later than ten (10) days prior to the delivery of the notice to the Holders.

So long as the Notes are listed on the SGX-ST and the rules of that exchange so require, Formosa Plastics shall submit a copy of the redemption notice to the SGX-ST as soon as practicable.

To exercise its Holders' Redemption Right, Relevant Event Redemption Right or Non-Redemption Option, as the case may be, a holder must deliver a written irrevocable notice of the exercise of such right (an "Exercise Notice") in the form obtainable during normal business hours from the specified office of any of the Agents, to any Paying Agent on any Business Day that is not fewer than fifteen (15) Business Days prior to the relevant redemption date. No Exercise Notice so deposited may be withdrawn without the prior written consent of Formosa Plastics, and if such consent is given, Formosa Plastics shall notify the Principal Agent in writing no later than 5 days prior to the relevant proposed redemption date.

Payment of the redemption price (including the Early Redemption Amount) upon exercise of the Holders' Redemption Right or Relevant Event Redemption Right attaching to any Note represented by a Definitive Certificate for which an Exercise Notice has been delivered is conditioned upon the delivery of such Definitive Certificate (together with any necessary endorsements) to any Paying Agent on any Business Day, together with the delivery of such Exercise Notice, and shall be made promptly following the later of the relevant redemption date and the time of delivery of such Definitive Certificate. If the Paying Agent holds on a redemption date monies sufficient to pay the redemption price for a Note for which an Exercise Notice has been delivered, then, whether or not the Definitive Certificate representing such Note is delivered to the Paying Agent, on and after such redemption date (i) such Note shall cease to be outstanding; (ii) such Note shall be deemed paid; and (iii) all other rights of the holder shall terminate, other than the right to receive the redemption price (including the Early Redemption Amount).

(H) Partial redemption

In the event of the proposed redemption of some but not all of the Notes pursuant to Condition 7(B), the Notes to be so redeemed shall be determined individually by the drawing of lots by the Trustee or such persons, agents, delegates or nominees which the Trustee may approve or such other method in such place as the Trustee shall approve and in such manner as the Trustee shall deem to be fair and reasonable in the circumstances, taking into account prevailing market practices, subject to compliance with any applicable laws and stock exchange requirement. The identifying numbers of the Notes drawn for redemption shall be published in accordance with Condition 14 by Formosa Plastics not less than 30 days prior to the date fixed for redemption.

8. TAXATION

Interest and premium (if any) payable on the Notes to non-residents of the ROC is currently subject to a withholding tax in the ROC equal to 20% of the gross amount of such interest and premium (if any). A securities transaction tax of 0.3% levied on proceeds from the sale of common shares will be payable by the seller of the common shares.

All payments in respect of the Notes by Formosa Plastics shall be made free and clear of and without any deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed, levied, collected, withheld or assessed by or on behalf of the government of the ROC or any authority thereof or therein having power to tax, provided that, in respect of any such deduction or withholding from any such payment, Formosa Plastics shall pay such additional amounts ("Additional Amounts") as will result in the receipt by the holders of the Notes of the amounts that would have been receivable in the absence of any such deduction or withholding, except that no Additional Amounts shall be payable in respect of any Note:

(i) to, or on behalf of, a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its being connected with the ROC otherwise than merely by holding such Note or by the receipt of payments in respect of the Note;

(ii) to or on behalf of a holder of the Note or its beneficial owner to the extent that such holder or beneficial owner would not be liable for or subject to such deduction or withholding by making a declaration of non-residence or other claims for exemption or deduction to the relevant tax authorities if such holder or beneficial owner is eligible to make such declaration or claim and, such holder or beneficial owner fails to do so; or

(iii) if the Definitive Certificate, if issued, in respect of the Note is presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant certificate for payment on the last day of such 30-day period.

References in these Conditions to payments in respect of the Notes shall be deemed also to refer to any Additional Amounts that may be payable in respect thereof under this Condition 8.

For the purposes of these Conditions:

"Relevant Date" in relation to any Notes means (a) the due date for payment in respect thereof, or (b) if the full amount of the monies payable on such due date has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which notice is duly given to the holders of the Notes that such monies have been so received.

9. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of the Notes of not less than 25 per cent. in principal amount of the Notes then outstanding shall (in each case subject to being indemnified and/or secured by the holders of the Notes to its satisfaction), give notice in writing to Formosa Plastics that the Notes are immediately due and payable, if an Event of Default (as defined below) shall have occurred and be continuing. The Trustee shall publish such notice by (i) mailing it to the holders of the Notes at their respective addresses in the register of holders of the Notes maintained by the Registrar; (ii) publishing it in a leading English language newspaper having general circulation in Europe (which is expected to be the *Financial Times, London Edition*); and (iii) so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, publishing it in a leading newspaper having general circulation in Singapore (which is expected to be *The Straits Times*). Upon any such notice being given to Formosa Plastics, the Notes shall immediately become due and payable at their Early Redemption Amount plus any overdue interest payable in accordance with Condition 6(D). Notwithstanding the foregoing, if any of the events specified in clauses (viii), (ix) and (x) shall have occurred, the Notes shall forthwith become immediately due and payable at their Early Redemption Amount, plus any overdue interest payable in accordance with Condition 6(D), without regard to the giving of any such notice. An "Event of Default" occurs if:

(i) Formosa Plastics fails to pay the principal of, premium or interest, if any, on, any of the Notes within seven days after the same shall become due and payable;

(ii) Formosa Plastics fails to deliver Reference Shares or Exchange Property as and when such Reference Shares or Exchange Property are required to be delivered upon the exchange of a Note (subject to the limited circumstances under which cash may be delivered in lieu of Reference Shares or Exchange Property as specified in Condition 5(B)(iv));

(iii) Formosa Plastics defaults in performance or observance of or compliance with any of its other obligations set out in the Notes or the Indenture, which default is incapable of remedy or, if in the opinion of the Trustee such default is capable of remedy, such default is not remedied within 30 days after written notice of such default shall have been given to Formosa Plastics by the Trustee;

(iv) there shall have been entered against Formosa Plastics or any of its Principal Associates a final judgement, decree or order by a court of competent jurisdiction for the payment of money in excess of U.S.$30,000,000 with respect to Formosa Plastics or any of its Principal Associates (or its equivalent in any other currency or currencies) and 30 days shall have passed since the entry of the order without it being bonded, satisfied, discharged or stayed;

(v) (a) any other present or future indebtedness of Formosa Plastics or any of its Principal Associates for or in respect of monies borrowed or raised becomes due and payable prior to its stated maturity by reason of an event of default, howsoever described, or any such indebtedness is not paid when due or, as the case may be, within any applicable grace period originally provided for or (b) Formosa Plastics or any of its Principal Associates fails to pay when due any amount payable by Formosa Plastics or such Principal Associate, as the case may be, under any present or future guarantee or indemnity or arrangement or obligation having a like or similar effect, howsoever described, for any monies borrowed; provided that the aggregate amount of the relevant indebtedness or amount payable in respect of which one or more events mentioned above in this paragraph (v) have occurred equals or exceeds U.S.$30,000,000 or its equivalent in any other currency (determined as provided below);

(vi) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed, or a distress, execution or seizure before judgement is levied, enforced or sued out upon, against or in respect of the whole or any substantial part of the undertaking, property, assets or revenues of Formosa Plastics or any of its Principal Associates and the same is not stayed, discharged, released or satisfied (as the case may be) within 60 days (or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned) of such taking of possession, appointment, levying, enforcement or suing out (as the case may be);

(vii) any person entitled to the benefit thereof shall institute legal proceedings to enforce any mortgage, charge, pledge, lien or other encumbrance upon all or a material portion of the assets, property or revenues of Formosa Plastics and or any of its Principal Associates, taken as a whole, unless Formosa Plastics or such Principal Associate, as the case may be, are contesting such proceedings in good faith by appropriate legal proceedings and have established reserves adequate in Formosa Plastics' judgment with respect thereto;

(viii) a decree or order by a court having jurisdiction shall have been entered adjudging Formosa Plastics or any of its Principal Associates bankrupt or insolvent, or approving a petition seeking Formosa Plastics' reorganization or that of any of its Principal Associates under any applicable bankruptcy, insolvency or reorganization law, or for the appointment of an administrator or a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of, or all or substantially all of the business or assets of, or for the winding-up or liquidation of the affairs of, Formosa Plastics or any of its Principal Associates;

(ix) an order is made or an effective resolution shall be passed for the winding-up, dissolution or liquidation of Formosa Plastics or that of any of its Principal Associates, or Formosa Plastics or any of its Principal Associates becomes capable of being dissolved under ROC laws (except for the purpose of and followed by a solvent reconstruction, merger, consolidation, amalgamation or other similar arrangement the terms of which are approved by the Trustee or the holders of not less than 75% in principal amount of the Notes outstanding), or Formosa Plastics or any of its Principal Associates shall institute proceedings to be adjudicated as a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under any applicable bankruptcy, insolvency or reorganization law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or substantially all of its business or assets, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or Formosa Plastics or any of its Principal Associates is unable to pay its debts as they mature, or Formosa Plastics or any of its Principal Associates stops or threatens to cease to carry on its business or a substantial part of its business, or corporate action shall be taken by Formosa Plastics or any of its Principal Associates in furtherance of any of the aforesaid purposes;

(x) proceedings shall have been initiated against Formosa Plastics or any of its Principal Associates under any applicable bankruptcy, insolvency, or reorganization law and such proceedings shall not have been discharged or stayed within a period of 60 days (or such longer period as the Trustee may consider appropriate on the advice of counsel);

(xi) Formosa Plastics shall merge, amalgamate or consolidate with any other corporation or entity or shall sell or dispose of substantially all its business or assets whether as a single transaction or a number of transactions, related or not, to any person without obtaining the prior approval of the holders of not less than 75% in principal amount of the Notes outstanding and of such person to assume the obligations of Formosa Plastics under the Notes and the Indenture; provided that such agreement by such other person shall not be required if such assumption shall be effective by operation of law;

(xii) a moratorium is agreed or declared in respect of any indebtedness of Formosa Plastics or any of its Principal Associates or any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or a substantial part of the assets or shares of Formosa Plastics or any of its Principal Associates;

(xiii) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order to (i) enable Formosa Plastics lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes and the Indenture, (ii) ensure that those obligations are legally binding and enforceable and (iii) make the Notes and the Indenture admissible in evidence in the courts of the ROC is not taken, fulfilled or done, and such case is incapable of remedy or, if in the opinion of the Trustee is capable of remedy, is not in the opinion of the Trustee remedied within such period (being not less than 30 days) as the Trustee may consider reasonable;

(xiv) it is or will become unlawful for Formosa Plastics to perform or comply with one or more of its material obligations under any of the Notes, the Indenture or the Agency Agreement; or

(xv) any event occurs which under the laws of the ROC, has an analogous effect to any of the events referred to in the foregoing paragraphs.

For the purposes of clause (v) above, any indebtedness which is in a currency other than US dollars shall be translated into US dollars at the spot rate for the sale of US dollars against the purchase of the relevant currency quoted by any leading bank in the relevant market selected by the Trustee on any day when the Trustee requests such a quotation for such purpose. If no direct spot rate is available, a rate shall be calculated by reference to the cross-rates through US dollars of the relevant currency.

"Principal Associates" means Formosa Petrochemical, Nan Ya Plastics Corporation and Formosa Chemicals & Fibre Corporation.

Subject to the provisions of the following five paragraphs, the Exchange Right attached to any Notes shall survive the provision of the default notice and the acceleration and the payment of the Notes.

Notwithstanding receipt of any payment after the acceleration of the Notes, a Noteholder may still exercise its Exchange Right by depositing a further Exchange Notice (the "Default Exchange Notice") with an Exchange Agent or Paying Agent during the period from and including the date of a default notice with respect to an event specified in Condition 9(ii) herein (at which time Formosa Plastics will notify the Noteholders of the number of Reference Shares or Exchange Property Securities (as the case may be) per Note to be delivered upon exchange, assuming all the then outstanding Notes are exchanged) to and including the 30th business day after such payment. The date on which the Default Exchange Notice is deposited by the Noteholder with an Exchange Agent or Paying Agent is known as the "Default Exchange Date".

If any exchanging Noteholder deposits a Default Exchange Notice pursuant to this Condition 9 on the business day prior to, or during, a Closed Period, the Noteholder's Exchange Right shall continue until the business day following the last day of the Closed Period, which shall be deemed the Default Exchange Date, for the purposes of such Noteholder's exercise of its Exchange Right pursuant to this Condition 9.

If the Exchange Right attached to any Note is exercised pursuant to this Condition 9, Formosa Plastics will deliver Reference Shares or Exchange Property Securities (as the case may be) (which number will be disclosed to such Noteholder as soon as practicable after the Default Exchange Notice is given) in accordance with the Conditions, failing which Formosa Plastics will make payment in accordance with the following paragraph.

If the Exchange Right attached to any Note is exercised pursuant to this Condition 9, Formosa Plastics shall, if it fails to deliver the Reference Shares or Exchange Property Securities (as the case may be) within 5 days from the date of the Default Exchange Notice, pay to such exchanging Noteholder an amount (the "Default Cure Amount"), equal to the product of (x) (i) the number of Reference Shares or Exchange Property Securities (as the case may be) that are required to be delivered by Formosa Plastics to satisfy the Exchange Right in relation to such exchanging Noteholder minus (ii) the number of Reference Shares or Exchange Property Securities (as the case may be) that are actually delivered by Formosa Plastics pursuant to such Noteholder's Default Exchange Notice and (y) the Reference Price (as defined below) on the original Exchange Date; provided that if such Noteholder has received any payment under the Notes pursuant to this Condition 9, the amount of such payment shall be deducted from the Default Cure Amount.

The "Reference Price" means the closing price of the Reference Shares on the Taiwan Stock Exchange or the closing price of the Exchange Property Securities on the applicable securities exchange on which the Exchange Property Securities are listed, on the original Exchange Date or, if no reported sales take place on such date, the average of the reported closing bid and offered prices, in either case as reported by the Taiwan Stock Exchange or other applicable securities exchange on which the Exchange Property Securities are listed for such day as furnished by a reputable and independent investment bank selected from time to time by the Trustee at the expense of Formosa Plastics for such purpose.

10. PRESCRIPTION

Claims against any payment in respect of the Notes shall be prescribed unless made within six years from the relevant date of payment in respect thereof.

Under the laws of the ROC, claims in respect of principal and premium or interest would become unenforceable after 15 years and 5 years, respectively, from the relevant date for payment in respect thereof.

11. ENFORCEMENT

At any time after the Notes have become due and payable, the Trustee may, at its discretion and without further notice, take such proceedings against Formosa Plastics as it may think fit to enforce payment in respect of the Notes, including any premium and interest, and to enforce the provisions of the Indenture; provided, however, that the Trustee shall not be bound to take any such actions unless (a) it shall have been so requested in writing by the holders of at least 25% in principal amount of the Notes then outstanding or shall have been so directed by a duly convened meeting of Noteholders, and (b) it shall have been indemnified and/or secured to its satisfaction. No holder of the Notes shall be entitled to proceed directly against Formosa Plastics, unless (a) the Trustee, having become bound to take proceedings against Formosa Plastics (as described in the Indenture), fails to do so and such failure shall have continued for a period of 60 days and (b) no direction inconsistent with the Trustee taking such proceedings has been given to the Trustee during such 60-day period by the holders of not less than a majority in principal amount of the Notes then outstanding.

12. MEETINGS OF HOLDERS OF THE NOTES, MODIFICATION AND WAIVER

(A) Meetings

The Indenture will contain provisions for convening meetings of holders of the Notes to consider any matter affecting their interests, including the approval of amendments or modifications of the terms and conditions of the Notes or the provisions of the Indenture upon either the written consent of the holders of not less than a majority in principal amount of the Notes then outstanding or the approval at a meeting of holders duly called by persons entitled to vote not less than a majority in principal amount of the Notes then outstanding, with a quorum of two or more persons, holding or representing over 50% in principal amount of the Notes then outstanding; provided that no such modification of the terms and conditions of the Notes or the provisions of the Indenture may, without the consent of each holder of the Notes affected thereby:

(i) modify the Maturity Date;

(ii) reduce the principal, the Early Redemption Amount, the redemption price of, the rate of interest, if any, on, any Note or increase the Exchange Price (as adjusted in accordance with the provisions of the Indenture);

(iii) change the place or currency of payment of principal of, or interest, if any, on, any Note or the method of calculating any such payment;

(iv) impair the right to institute suit for the enforcement of any payment on any Note;

(v) alter Formosa Plastics' obligations relating to mergers and disposals, and the payment of Additional Amounts, as described in Conditions 3(B) and 8, respectively;

(vi) except to the extent permitted by Condition 12(B) below, modify, cancel or adversely affect the Exchange Right, Holders' Redemption Right, Relevant Event Redemption Right or Non-Redemption Option;

(vii) reduce the above-stated percentage of outstanding Notes the consent of whose holders of the Notes is necessary to modify or amend the Indenture;

(viii) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose holders of the Notes is necessary for waiver of compliance with provisions of the Indenture or for waiver of Defaults under the Indenture;

(ix) modify the provisions concerning the voting and quorum required at any meeting of holders of the Notes; or

(x) release Formosa Plastics from any obligation under the Indenture other than in accordance with the provisions of the Indenture, or amend or modify any provision relating to such release.

The Trustee shall publish any notice of convocation for a meeting of holders of the Notes by (i) mailing it to the holders of the Notes at their respective addresses in the register of holders of the Notes maintained by the Registrar; (ii) publishing it in a leading English language newspaper having general circulation in Europe (which is expected to be the *Financial Times, London Edition*); and (iii) so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, publishing it in a leading newspaper having general circulation in Singapore (which is expected to be *The Straits Times*).

The Indenture will provide that, in determining whether the holders of the Notes representing the requisite principal amount of Notes then outstanding are present at a meeting of holders of the Notes for quorum purposes or have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Notes owned by Formosa Plastics or any other obligor upon the Notes or any affiliate of Formosa Plastics or such other obligor shall be disregarded and deemed not to be outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such determination as to the presence of a quorum or upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes as to which the Trustee has actually received written notice shall be so disregarded.

(B) Modification of Exchange Right

Notwithstanding Condition 12(A) above, the Trustee may agree to, without the consent of the holders of the Notes, any modification to the Exchange Right that is in the Trustee's opinion (i) necessary or desirable to effect or facilitate exchange as contemplated in these Conditions and (ii) not materially prejudicial to the interests of the holders of the Notes. The Trustee's agreement may be subject to any condition which the Trustee requires, including but not limited to the delivery of an opinion of a financial or legal or other expert of recognized standing in the applicable jurisdiction, and shall be binding on the holders of the Notes. Any such modification shall be notified by Formosa Plastics to the holders of the Notes as soon as practicable thereafter in accordance with Condition 14 and, for so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, to the SGX-ST.

(C) Other modifications and waivers

The Trustee may also agree to, without the consent of the holders of the Notes, (i) any modification of, or the waiver or authorization of any breach or proposed breach of, the Notes, the Indenture or the Agency Agreement that is not, in the Trustee's opinion, materially prejudicial to the interests of the holders of the Notes or (ii) any modification of the Notes or the Indenture that, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. In connection with such modification, waiver or authorization, the Trustee may require a certificate from Formosa Plastics certifying, and a legal opinion from a legal advisor of recognized international standing advising the Trustee, that the modification, waiver or authorization is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provision of law. Any such modification, waiver or authorization shall be binding on the holders of the Note. Any such modification, waiver or authorization shall be notified by Formosa Plastics to the holders of the Notes as soon as practicable thereafter in accordance with Condition 14, and for so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, to the SGX-ST.

(D) Exercise of Trustee's functions

Where the Trustee is required in connection with the exercise of its powers, trusts, authorities, duties and discretions to have regard to the interests of the holders of the Notes, it shall have regard to the interests of the holders of the Notes as a class and, in particular but without prejudice to the generality of the foregoing, the Trustee shall not have regard to, or be in any way liable for, the consequences of such exercise for any individual holder resulting from it being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise, the Trustee shall not be entitled to require, and no holder of Notes shall be entitled to claim, from Formosa Plastics, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon such individual holder of the Notes.

13. REPLACEMENT OF CERTIFICATES

Any replacement of mutilated, defaced, destroyed, stolen or lost Definitive Certificates shall take place at the specified offices of the Registrar and Paying Agents in accordance with the provisions of the Indenture, which provisions include the following:

(i) replacement certificates shall only be issued upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as Formosa Plastics and the Registrar may reasonably require;

(ii) mutilated or defaced certificates must be surrendered before replacements will be issued; and

(iii) in the event any Notes represented by a mutilated, destroyed, lost or stolen Definitive Certificate has become or is about to become due and payable, Formosa Plastics in its discretion may, instead of issuing a new Definitive Certificate representing such Notes, make payment as consideration for the cancellation of the Notes represented thereby in accordance with the Conditions.

14. NOTICES

All notices to holders of the Notes shall be validly given if (i) made in writing in English and mailed to them at their respective addresses in the register of holders of the Notes maintained by the Registrar; (ii) published in a leading English language newspaper having general circulation in

Europe (which is expected to be the *Financial Times, London Edition*); and (iii) so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, published in a leading newspaper having general circulation in Singapore (which is expected to be *The Straits Times*).

So long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, International or the alternative clearing system (as defined in the Global Certificate), notices to holders of the Notes may be given by delivery of the relevant notice to Euroclear or Clearstream, International or the alternative clearing system, for communication by it to entitled accountholders in substitution for notification as required by the Conditions except that for so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, notice shall also be published in a leading newspaper having general circulation in Singapore (which is expected to be The Straits Times).

Any such notice shall be deemed to have been given on the later of the date of such publication and the seventh day after being so mailed.

15. INDEMNIFICATION

The Indenture contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified.

16. AGENTS

Formosa Plastics reserves the right, subject to the provisions of the Agency Agreement, at any time to vary or terminate the appointment of Agents; provided that it shall at all times maintain an Agent having a specified office in London and, so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, a Paying, Transfer and Exchange Agent in Singapore. Notice of any such termination or appointment, of any changes in the specified offices of the Agents, or of any change in the identity or specified office of any Exchange Agent, Paying Agent or Transfer Agent shall be given promptly by Formosa Plastics to the holders of the Notes in accordance with Condition 14.

17. FURTHER ISSUES

Formosa Plastics may from time to time, without notice to or the consent of the registered holders of the Notes, issue further debt securities which will form a single series with the Notes. These further debt securities will have the same terms as to status, redemption or otherwise as the Notes and will rank equally with the Notes of the existing series in all respects.

18. GOVERNING LAW AND JURISDICTION

(A) Governing law

The Indenture, the Agency Agreement and the Notes are governed by and shall be construed in accordance with the laws of the State of New York.

(B) Jurisdiction

The courts of the State of New York sitting in the Borough of Manhattan, The City of New York, and the federal courts of the United States sitting in the Borough of Manhattan, The City of New York, are to have jurisdiction to settle any disputes that may arise out of or in connection with the Notes and accordingly any legal action or proceedings arising out of or in connection with the Notes ("Proceedings") may be brought in such court. Formosa Plastics has in the Indenture irrevocably submitted to the jurisdiction of such courts.

(C) Agent for service of process

Formosa Plastics has irrevocably appointed Law Debenture Corporate Services, Inc., as its agent in the State of New York to receive service of process in any Proceedings in the State of New York based on any of the Notes.

TERMS AND CONDITIONS OF THE NAN YA PLASTICS EXCHANGEABLE NOTES

The following is a description of the Terms and Conditions (the "Conditions") of the Nan Ya Plastics Exchangeable Notes (except for the sentences in italics), which includes summaries of, and is subject to, the more detailed provisions of the Indenture referred to below.

The issue of Zero Coupon Exchangeable Notes Due 2011 (the "Notes", which shall include any Optional Notes issued pursuant to the option to increase the principal amount of the Notes described in the Indenture (as defined below)) of Nan Ya Plastics Corporation ("Nan Ya Plastics") was authorized by a resolution of the board of directors of Nan Ya Plastics adopted on April 30, 2004. The Notes are initially limited to U.S.$200,000,000 aggregate principal amount (or U.S.$250,000,000 if the option granted to the Representative is exercised in full). Nan Ya Plastics may from time to time, without notice to or consent of the holders of the Notes, issue further notes, which will form a single series with the Notes. Any such additional notes will be identical in all respects to the Notes, except that any notes issued in the future will have different issuance prices and issuance dates. The Notes will be issued on or about June 30, 2004 (the "Issue Date") pursuant to an indenture (the "Indenture") dated the Issue Date between Nan Ya Plastics and The Hongkong and Shanghai Banking Corporation Limited, as trustee (the "Trustee", which term shall include all persons for the time being appointed as trustee or trustees under the Indenture) for the holders of the Notes. Nan Ya Plastics will also enter into an agency agreement (the "Agency Agreement") dated the Issue Date among, inter alia, the Trustee and The Hongkong and Shanghai Banking Corporation Limited as the registrar and principal paying, exchange, and transfer agent appointed thereunder, and any other paying, exchange and transfer agent appointed thereunder (collectively, the "Agents") in relation to the Notes. The registrar, paying agent, exchange agent and transfer agent are referred to below as the "Registrar", the "Paying Agents" (which expression shall include the Principal Paying Agent), the "Exchange Agents" and the "Transfer Agents", respectively. Copies of the Indenture and the Agency Agreement are available for inspection during normal business hours at the principal office of the Trustee and at the specified offices of each of the Agents. The holders of the Notes are entitled to the benefit of the Indenture and are bound by, and are deemed to have notice of, all of the provisions of the Indenture and the Agency Agreement.

1. STATUS

The Notes constitute senior, direct, unconditional, unsubordinated and, subject to the provisions of Condition 3, unsecured obligations of Nan Ya Plastics and shall at all times rank pari passu and without any preference or priority among themselves and, subject to the provisions of Condition 3, with all other present and future senior, direct, unconditional, unsubordinated and unsecured obligations of Nan Ya Plastics (other than any obligation preferred by mandatory provisions of law).

2. FORM, DENOMINATION AND TITLE

(A) Form and denomination

The Notes shall be issued in registered form in the denomination of U.S.$1,000 each. The Notes shall initially be represented by a global certificate (the "Global Certificate"), and only under the limited circumstances described in the Global Certificate and the Indenture shall definitive bond certificates (each a "Definitive Certificate") be issued to holders of the Notes in respect of their individual holdings. Each Note and each Definitive Certificate, if issued, shall be serially numbered and shall have an identifying number which shall be recorded on the relevant certificate and in the register of holders of the Notes, which Nan Ya Plastics shall procure to be kept by the Registrar.

The Notes will be represented by a Global Certificate which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, International.

Except in the limited circumstances described in the Global Certificate, owners of interests in the Notes represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of the Notes. The Notes are not issuable in bearer form.

(B) Title

The Notes shall be registered instruments, and title to the Notes shall pass by transfer and registration of title in the register of holders of the Notes. The holder of any Note shall, except as otherwise required by law, be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Definitive Certificate issued in respect of it), and no person shall be liable for so treating the holder. In these Conditions, "Noteholder", "holder of the Notes" and "holder" in relation to a Note shall mean the person in whose name a Note is registered in the register of holders of the Notes.

3. CERTAIN COVENANTS

(A) Negative pledge

So long as any of the Notes remains outstanding (as defined in the Indenture), Nan Ya Plastics will not, and will not permit any of its subsidiaries, to create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("Security") upon the whole or any part of the property, assets or revenues of Nan Ya Plastics or such subsidiary, as the case may be, present or future, to secure for the benefit of the holders of any International Investment Securities (as defined below) any payment of any sum due in respect of or under any guarantee of or payment indemnity or other like obligation relating to any such International Investment Securities, unless, in any such case, at the same time or prior thereto, either (i) the same Security is granted to the holders of the Notes or (ii) there is outstanding any guarantee, indemnity or other like obligation or such other security that is not materially less beneficial to the holders of the Notes or as shall be approved by holders of the Notes holding not less than 75% of the principal amount of the outstanding Notes.

For the purposes of these Conditions:

"International Investment Securities" mean bonds, debentures, notes or other similar investment securities of Nan Ya Plastics or any of its subsidiaries evidencing indebtedness with a maturity of not less than one year that (a) either (i) are by their terms payable, or confer a right to receive payment, in any currency other than NT dollars or (ii) are denominated or payable in NT dollars and more than 50% of the aggregate principal amount thereof is initially distributed outside the ROC by Nan Ya Plastics or with its authorization; and (b) are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange, quotation system or over-the-counter or other similar securities market outside the ROC.

(B) Mergers and disposals

So long as any of the Notes remains outstanding (as defined in the Indenture), Nan Ya Plastics shall not merge, amalgamate or consolidate with or into any other corporation or entity or sell or transfer all, or substantially all, of its assets, whether as a single transaction or a number of transactions, related or not, to any corporation, entity or person or to one or more members of any group under the common control of any corporation, entity or person unless:

(i) Nan Ya Plastics has notified the holders of the Notes of such event in accordance with Condition 14; and

(ii) Nan Ya Plastics and such corporation, entity or person have executed an indenture supplemental to the Indenture, in form and substance satisfactory to the Trustee, and the supplemental indenture includes the express assumption by such corporation, entity or person of Nan Ya Plastics' obligations under the Notes, the Indenture and the Agency Agreement, including the covenants contained in this Condition 3(B) relating to subsequent mergers, amalgamations, consolidations, sales or transfers.

Nan Ya Plastics shall, so long as the Notes are listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST") and the rules of that exchange so require, submit a copy of the supplemental indenture to the SGX-ST as soon as practicable and shall make such supplemental indenture available for inspection during normal business hours at the specified offices of the Trustee.

4. TRANSFERS OF NOTES; ISSUE OF CERTIFICATES

(A) Transfers

A Note may be transferred as follows: (i) in the case of a Note represented by a Definitive Certificate, by depositing such certificate at the specified offices of any Transfer Agent, with the form of transfer on the back of such certificate duly completed and signed, or (ii) in the case of a Note represented by the Global Certificate, by delivery at such office of a form of transfer duly completed and executed, and any other evidence that such Transfer Agent may require.

The forms of transfer are available at the specified offices of any Transfer Agent during normal business hours. Transfers of interests in the Notes evidenced by the Global Certificate shall be effected in accordance with the rules of the relevant clearing systems. Transfers of interests in Notes represented by Definitive Certificates shall be made by delivery thereof to the office of the Transfer Agent.

(B) Delivery of new Definitive Certificates

Each new Definitive Certificate to be issued upon transfer of the Notes shall, within five Business Days of receipt by the Transfer Agent of the duly signed and completed form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Notes to the address specified in the form of transfer.

Where some but not all the Notes in respect of which a Definitive Certificate is issued are to be transferred, exchanged or redeemed, a new Definitive Certificate in respect of the Notes not so transferred, exchanged or redeemed shall, within five Business Days of deposit or surrender of the original certificate with or to the relevant Agent, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred, exchanged or redeemed to the address of such holder appearing on the register of holders of the Notes.

For the purposes of this Condition 4:

"Business Day" means a day (other than a Saturday or Sunday) on which banks are open for business in the city in which the specified office of the Agent with whom a Definitive Certificate is deposited in connection with a transfer is located.

(C) Formalities free of charge

Registration of transfer of the Notes shall be effected without charge by or on behalf of Nan Ya Plastics or any of the Agents, subject to payment (and the giving of such indemnity as Nan Ya Plastics or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to it.

(D) Restricted transfer period

No holder of the Notes may require the transfer of a Note to be registered (i) during the period of 15 days ending on (and including) the due date for any payment of principal or any Early Redemption Amount (as defined herein) in respect of the Note pursuant to Condition 6, (ii) after the Note has been selected for redemption pursuant to Condition 7(B), (iii) following exercise by the holder of its option to require Nan Ya Plastics to redeem the Note pursuant to Condition 7(D) or (iv) following exercise by the holder of its option to exchange the Note pursuant to Condition 5(A) or of its Non-Redemption Option pursuant to Condition 7(C).

(E) Provisions on transfer

All transfers of the Notes and entries on the register of holders of the Notes shall be made subject to the detailed provisions concerning transfer of the Notes set forth in the Agency Agreement. Such provisions may not be changed without the prior written approval of the Trustee and the Registrar. A copy of the current provisions shall be available for inspection during normal business hours at the specified office of the Transfer Agent and shall be mailed (or sent via facsimile) by the Registrar to any holder of the Notes upon written request.

5 EXCHANGE

Within five ROC Business Days (as defined below) from each Exchange Date (as defined in Condition 5(B)(i)), Nan Ya Plastics will deliver or procure the delivery of the Reference Shares (as defined below) or the Exchange Property (as defined in Condition 5(A)(v)), as applicable, to the exchanging holder or its designee.

(A) Exchange Right

(i) *Exchange Period.* Each holder of the Notes has the right hereunder to exchange any or all of the Notes held by such holder into Reference Shares or Exchange Property, as applicable (the "Exchange Right"). The Exchange Right attaching to any Note may be exercised, at the option of the holder of the Note, at any time (i) on or after December 26, 2004 and prior to the close of business (at the place where such Note is deposited for exchange) on the day which is 10 days prior to the Maturity Date (as defined herein) (or if such day shall not be a Business Day (as defined below) at such place, on the immediately preceding Business Day at such place) (but in no event thereafter) or (ii) if such Note shall have been called for redemption on a redemption date on or prior to the Maturity Date (as defined herein) (or if such day shall not be a Business Day at the place where such Note is deposited for exchange, on the immediately preceding Business Day at such place), then up to the close of business (at the place aforesaid) on the seventh Business Day prior to the date fixed for redemption thereof (or if such day shall not be a

Business Day at such place, on the immediately preceding Business Day at such place) (the "Exchange Period"); provided, however, that the Exchange Right during any Closed Period (as defined below) shall be suspended and the Exchange Period shall not include any such Closed Period. Holders of the Notes shall be given not less than 10 and not more than 60 days' notice in accordance with Condition 14 of the commencement of any Closed Period.

For the purposes of these Conditions:

"Closed Period" means (i) the 60-day period prior to the date of any general shareholders' meetings of Formosa Petrochemical (as defined below) or of an issuer of Exchange Property Securities (as defined below) organized in the ROC; (ii) the 30-day period prior to the date of any special shareholders' meetings of Formosa Petrochemical or any such issuer of Exchange Property Securities organized in the ROC; (iii) the five days prior to the record date for determination of shareholders entitled to receive dividends or rights distributions or other benefits and bonuses determined by Formosa Petrochemical or such issuer of Exchange Property Securities (as the case may be); and (iv) such other periods during which Formosa Petrochemical or any such issuer of Exchange Property Securities may be required to close its stock transfer books under ROC laws and regulations applicable from time to time.

"Formosa Petrochemical" means Formosa Petrochemical Corporation.

"Formosa Petrochemical Common Shares" shall mean (a) fully-paid and non-assessable shares of the capital stock of Formosa Petrochemical, which are designated as common capital stock of Formosa Petrochemical, par value NT$10 per share, together with shares of any class or classes resulting from any subdivision, consolidation or reclassification of those shares, and (b) fully-paid and non-assessable shares of any class or classes of the capital stock of Formosa Petrochemical authorized after the date of the Indenture, which in either case, as between them, have no preference in respect of dividends or amounts payable in the event of any voluntary or involuntary liquidation or winding-up of Formosa Petrochemical.

"Exchange Property Securities" means any securities (including, without limitation, any options, warrants, rights or evidences of indebtedness) of the one or more series constituting the Exchange Property from time to time.

"Offer" means an offer to acquire Exchange Property Securities of any series, whether expressed as a legal offer, an invitation to tender or in any other way, in circumstances where such offer is available to all holders of the applicable Exchange Property Securities or all such holders other than any holder who is, or is connected with, or is deemed to be acting in concert with, the person making such offer (or is excluded from the offer by reason of being connected with one or more specific jurisdictions).

"Reference Shares" means Formosa Petrochemical Common Shares, currently owned or to be owned by Nan Ya Plastics.

"Scheme" means a scheme of arrangement, merger, amalgamation, reorganization, reconstruction, demerger, compromise, liquidation, dissolution, or similar matter (whether or not involving liquidation or dissolution).

"Trading Day" means a day when the Taiwan Stock Exchange is open for business.

For the purposes of this Condition 5:

"Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in Hong Kong and the city in which the specified office of the Exchange Agent with whom an Exchange Notice is deposited in connection with the exchange is located.

"ROC Business Day" means a day on which commercial banks are open for business in Taipei, Taiwan, the Republic of China.

Under current ROC law, regulation and policy, PRC persons are not permitted to exchange the Notes or to register as a shareholder of Formosa Petrochemical or any other entity incorporated in the ROC. Under current ROC law, "PRC person" means an individual holding a passport issued by the PRC; a resident of any area of China under the effective control or jurisdiction of the PRC (but not including a special administrative region of the PRC such as Hong Kong or Macau, if so excluded by applicable laws of the ROC); and save as aforesaid, any agency or instrumentality of the PRC; and any corporation, partnership or other entity organized under the laws of any such area or controlled or beneficially owned by any such person, resident, agency or instrumentality.

Under current ROC law, a non-ROC exchanging holder of the Notes, when exercising its exchange right to exchange the Notes, is required to appoint a Tax Guarantor (whose qualifications are set by the ROC Ministry of Finance), in the ROC to file tax returns and make tax payments on its behalf. In addition, a non-ROC exchanging holder is required to appoint a local agent in the ROC with such qualifications as are set by the ROC Securities and Futures Commission. Such local agent shall open a securities trading account with a local brokerage firm and an NT dollar bank account, remit funds, exercise shareholders' rights and perform such other matters as may be designated by such exchanging holder on behalf of and as agent for such person. In addition, such non-ROC exchanging holder must also appoint a custodian bank to hold the securities for safekeeping, make confirmation and settlement of trades, and report all relevant information. Without first obtaining the approval of the Taiwan Stock Exchange and opening such accounts, the exchanging holder of the Notes would not be able to hold or sell or otherwise transfer the shares received on the Taiwan Stock Exchange or otherwise.

(ii) *Number of Reference Shares Deliverable on Exchange.* The number of Reference Shares deliverable upon exchange of any Note shall be determined by dividing the principal amount of the Note (translated into NT dollars at a fixed exchange rate of NT$33.733 = U.S.$1.00, the "Fixed Exchange Rate") by the Exchange Price (as defined in Condition 5(A)(iii)) in effect on the Exchange Date (as defined in Condition 5(B)(i)). If more than one Note shall be deposited for exchange at any one time by the same holder of the Notes, the number of Reference Shares to be delivered upon exchange thereof shall be calculated on the basis of the aggregate principal amount of the Notes so deposited. Fractions of Reference Shares shall not be delivered on exchange, and cash adjustments shall not be made in respect thereof by Nan Ya Plastics. Notwithstanding the foregoing, in the event of a consolidation or reclassification of Reference Shares by operation of law or otherwise that occurs after the date of the original issuance of the Notes, Nan Ya Plastics shall upon exchange of the Notes pay in US dollars a sum equal to such portion of the principal amount of the Notes deposited for exchange as corresponds to any fraction of a Reference Share not delivered as aforesaid if such sum exceeds U.S.$10. For the purpose of calculating the amount of such payment, Nan Ya Plastics shall use the Fixed Exchange Rate.

(iii) *Initial Exchange Price.* The price at which Reference Shares shall be delivered upon exchange (the "Exchange Price") shall initially be NT$58.3 per Reference Share (the "Initial Exchange Price"), but shall be subject to adjustment in the manner provided in Condition 5(C).

(iv) *Revival on Default.* Notwithstanding the provisions of Condition 5(A)(i), if an Event of Default (as defined in Condition 9) occurs, the Exchange Right attaching to a Note shall continue to be exercisable up to and including the close of business at the place where the relevant Exchange Notice (as defined in Condition 5(B)(i)) is deposited for exchange on the date upon which the full amount of the monies payable in respect of such Note has been duly received by the Trustee or the Principal Paying Agent and notice of such receipt has been duly given to the holders of the Notes.

(v) *Delivery of the Exchange Property Following a Change of Control of Formosa Petrochemical.* Following the effective date of a Change of Control (as defined in Condition 7(D)) of Formosa Petrochemical, the Exchange Right attaching to each Note shall entitle the holder of such Note only to the Exchange Property (the "Exchange Property"). The Exchange Property shall consist of either (i) Reference Shares, if Formosa Petrochemical is the surviving entity, or (ii) such securities or assets (including cash) as are receivable by Nan Ya Plastics as the holder of the Reference Shares in connection with such Change of Control, if Formosa Petrochemical is not the surviving entity. On the exercise of Exchange Rights following a Change of Control, Noteholders shall be entitled to the delivery or transfer to, or to the order of, each relevant Noteholder of a *pro rata* share of the Exchange Property per U.S.$1,000 principal amount of Notes outstanding as of the Deposit Date and at the Exchange Price in effect at the time of the Change of Control.

(a) To the extent that (1) any Exchange Property Securities are subject to subdivision, consolidation or reclassification, (2) any warrants, options or rights are issued with respect to Exchange Property Securities, or (3) any Exchange Property Securities are subject to cash dividends or bonus or dividend issues of securities, Capital Distributions or Schemes, such assets shall be included in the Exchange Property as set forth in the Indenture.

(b) Nan Ya Plastics shall monitor all corporate actions by the issuers of securities constituting Exchange Property, including, but not limited to, the declaration and distribution of dividends, interest, rights issues, bonus issues, capital distributions, reorganizations, subdivisions, consolidations, reclassifications, and Offers and Schemes. Nan Ya Plastics shall give notice to the Trustee and the Calculation Agent (as defined below) containing details of any change in composition of the Exchange Property as soon as reasonably practicable following such change. Notice of any such change will be provided to the Noteholders as soon as practicable.

(c) Nan Ya Plastics hereby agrees that, following a Change of Control of Formosa Petrochemical and for so long as any of the Notes remain outstanding, there will at all times be a calculation agent (the "Calculation Agent"), which shall be an investment bank of international repute, appointed to check Nan Ya Plastics' calculation of, among other things, the *pro rata* share of the Exchange Property with respect to each U.S.$1,000 in principal amount of the Notes to be delivered to an exchanging Noteholder. The Calculation Agent is not obliged to check any such calculation unless, and until, Nan Ya Plastics provides to the Calculation Agent such calculation. The Calculation Agent may appoint, at the expense of Nan Ya Plastics, an independent financial advisor for the purpose of verifying any calculation made under Condition 5(A)(v).

(vi) *Share Custody.* Nan Ya Plastics will deposit 115,722,120 Reference Shares ("Initial Custody Shares") with the Trustee on December 26, 2004. Nan Ya Plastics will also deposit additional Reference Shares and Exchange Property (any such additional Reference Shares or Exchange Property, together with the Initial Custody Shares, the "Custody Property") with the Trustee as necessary to maintain the number of Reference Shares and other Exchange Property on deposit with the Trustee that would be deliverable upon exchange of the outstanding Notes. Additionally, Nan Ya Plastics will not transfer or deliver any Custody Property to any third party except for the purpose of delivering the Custody Property to exchanging Noteholders.

Under ROC law, this is not an escrow arrangement nor does it create a charge in favor of the Noteholders. In addition, the Reference Shares remain an asset of Nan Ya Plastics subject to third party claims.

(B) Exchange procedures

(i) *Exercise Procedures; Exchange Notice; Deposit Date; Exchange Date*. To exercise the Exchange Right attaching to any Note, a holder of the Note shall deposit the following at its own expense during normal business hours on any Business Day on which the Note is presented for exchange during the Exchange Period at the specified office of an Exchange Agent outside the ROC:

(a) a notice of exchange (an "Exchange Notice") in duplicate, duly completed and signed, in the then current form obtainable from the specified office of any Exchange Agent, together with the relevant Definitive Certificate, if issued, in respect of the relevant Note;

(b) any certificates and other documents as may be required under the law of the ROC or the jurisdiction in which such Exchange Agent shall be located; and

(c) any amount required to be paid by the holder of the Note referred to in Condition 5(B)(ii) below.

Any of the above items deposited outside the hours specified above or on a day that is not a Business Day shall for all purposes be deemed to have been deposited with that Agent on the immediately succeeding Business Day. The Exchange Notice shall contain, among other things, (i) the appointment of a local agent; (ii) an irrevocable instruction to exchange the Notes into Reference Shares or Exchange Property, as applicable; and (iii) other information required by ROC laws and regulations. Once deposited, the Exchange Notice may not be withdrawn without Nan Ya Plastics' consent in writing. The price at which such Note shall be exchanged shall be the Exchange Price in effect on the Exchange Date (as defined below).

The Exchange Notice shall include a certification that, at the time of such exchange, the exchanging holder is not in the United States, is not a U.S. person (as defined in Regulation S under the Securities Act) and is not exchanging the Notes on behalf of a U.S. person.

Nan Ya Plastics will covenant in the Indenture that Nan Ya Plastics will send to the Trustee an Officer's Certificate, which certificate the Trustee may exclusively rely on, certifying to the best knowledge of such officer, there has been no change in the laws or regulations of the ROC affecting the exchange of the Notes, including any changes in ROC laws or regulations in connection with any certificates or other documents required for the exchange of the Notes.

For the purposes of these Conditions:

"Deposit Date" means the first date on which (i) the Definitive Certificate, if issued, in respect of the Note to be exchanged, (ii) a duly signed and completed Exchange Notice (in duplicate), (iii) any certificates or other documents, as may be required, relating thereto, and (iv) the payments referred to in Condition 5(B)(ii) below, as may be required, have all been deposited with an Exchange Agent.

"Exchange Date" means the ROC Business Day next following the Deposit Date that is not within a Closed Period.

(ii) *Taxes and Expenses.* As conditions precedent to the exercise of the Exchange Right attaching to any Note, together with the delivery of the Exchange Notice, the Definitive Certificate, if issued, and any certificates or other documents as may be required, the holder of the Note must pay all stamp, issue, registration and similar taxes and duties, if any, arising on exchange in the country in which the Note is deposited for exchange or payable in any jurisdiction upon delivery of Reference Shares or Exchange Property, as applicable, or any other property or cash upon exchange to or to the order of the exchanging holder of the Note or any other person. Except as aforesaid, Nan Ya Plastics shall pay the expenses arising in the ROC on the delivery of Reference Shares or Exchange Property, as applicable, upon exchange of the Note and all charges and expenses of the Exchange Agents in connection therewith.

(iii) *Transfer of Beneficial Ownership in Reference Shares or Exchange Property Securities.* With effect from the opening of business in the ROC on the Exchange Date, Nan Ya Plastics will use its best efforts to cause Formosa Petrochemical, or any issuer of Exchange Property Securities, as applicable, to deem the exchanging holder of a Note as indicated in the Exchange Notice to be the beneficial owner of the number of Reference Shares, or the relevant Exchange Property, as applicable, to be delivered upon such exchange, disregarding any retroactive adjustment of the Exchange Price referred to below prior to the time such retroactive adjustment shall have become effective. At such time, subject to Condition 5(B)(v), the rights of such exchanging holder with respect to the Note deposited for exchange shall cease, except rights arising under Condition 5(B)(vi).

(iv) *Cash Payment Option.* Within three ROC Business Days after the Exchange Date, to the extent permitted under applicable laws, Nan Ya Plastics may elect to deliver the Cash Equivalent (as defined in Condition 5(B)(v)) in lieu of the Reference Shares and Exchange Property, as applicable, to satisfy the exchange of any Note (the "Cash Payment Option"). To exercise its Cash Payment Option, Nan Ya Plastics will as soon as practicable after receipt of an Exchange Notice and in any event within three ROC Business Days after the Exchange Date, deliver a cash payment notice (the "Cash Payment Notice") to the exchanging Noteholder stating that cash payment in lieu of delivery of Reference Shares and Exchange Property, as applicable, shall be made pursuant to this Condition 5(B)(iv) and the number of Reference Shares or Exchange Property Securities for which cash payment will be made. In the event that Nan Ya Plastics, subsequent to an exercise of the Cash

Payment Option, fails to pay the Cash Equivalent (as defined below) within 30 days after the date of the Cash Payment Notice, Nan Ya Plastics' exercise of the Cash Payment Option will be null and void and the respective Noteholder will be entitled to receive delivery of the Reference Shares and any Exchange Property, as applicable.

(v) *Delivery of Reference Shares, Exchange Property or Cash Equivalent.* Except with respect to the exchange of any Note or any portion thereof for which Nan Ya Plastics has exercised its Cash Payment Option, Nan Ya Plastics will ensure that, on the Exchange Delivery Date, Formosa Petrochemical or the issuer of Exchange Property Securities, as applicable, registers the exchanging holder of a Note or such exchanging holder's designee in the shareholders' register of Formosa Petrochemical or such other issuer as the owner of the number of Reference Shares to be delivered pursuant to Condition 5(B)(iii), or Exchange Property Securities to be delivered pursuant to Condition 5(B)(vi), upon exchange of such Notes. Subject to any applicable limitations then imposed by ROC laws and regulations, Nan Ya Plastics shall deliver in accordance with the Indenture and the request made in the relevant Exchange Notice as soon as practicable, and in any event within five ROC Business Days (subject to applicable law) following the Exchange Date, for the benefit of the exchanging holder, the following:

(a) the relevant Reference Shares or Exchange Property Securities, through book-entry transfer to an account registered in the name of the exchanging holder or its designee at Taiwan Securities Central Depository Co., Ltd.;

(b) any other property or cash (including, any cash payable pursuant to Condition 5(A)(ii)) (other than the Cash Equivalent) required to be delivered upon exchange; and

(c) such documents as may be required by law to effect the delivery thereof; and

as soon as practicable, and in any event no later than 30 days after the date of the Cash Payment Notice, any Cash Equivalent (as defined below).

The "Exchange Delivery Date" shall be the date on which such transfer is completed, although no later than the fifth ROC Business Day after the relevant Exchange Date.

For the purposes of these Conditions:

"Cash Equivalent" means, if and to the extent that Nan Ya Plastics has exercised the Cash Payment Option to satisfy the exchange of any Note, pursuant to Condition 5B(iv), an amount in US dollars equal to the product of (x) the average closing prices of the Reference Shares or the Exchange Property Securities on the Taiwan Stock Exchange or other applicable exchange for 20 consecutive Trading Days starting from the applicable date of the Cash Payment Notice (or such fewer number of Trading Days as available within 30 days after the applicable date of the Cash Payment Notice) converted to US dollars at the Prevailing Rate of each such Trading Day and (y) the number of Reference Shares or Exchange Property Securities specified in the Cash Payment Notice.

"Prevailing Rate" for any Trading Day means U.S. dollar/NT dollar noon buying rate published by the Federal Reserve Bank of New York on such Trading Day or, if no buying rate is quoted on such Trading Day, the last available buying rate quoted on the immediately preceding Trading Day.

Formosa Petrochemical has certain disclosure obligations and reporting obligations under ROC law and regulations if:

(i) *the person to be registered as a shareholder is a "related party" of Formosa Petrochemical under the Statement of Financial Accounting Standard No. 6 of the ROC and such person beneficially owns Reference Shares exchanged from the Notes, or*

(ii) *the person to be registered as a holder of Reference Shares owns Reference Shares received on exchange of his Notes, and the Reference Shares exchanged exceed 10% of the total number of Reference Shares expected to be exchanged based on the exchange price at the time of issue of the Notes.*

These obligations may also apply to issuers of Exchange Property Securities. Due to these obligations, the Indenture provides that, if Nan Ya Plastics so instruct, the Trustee may ask exchanging holders of the Notes to disclose the name of the person to be registered as the shareholder and to provide proof of identity and genuineness of any signature and other documents before it exchanges the Notes. The exchange of the Notes may be delayed until the Trustee receives the required information and evidence of compliance with relevant laws and regulations by the exchanging holder of the Notes. The information that an exchanging holder of the Notes is required to provide includes the name and nationality of the person to be registered as shareholder and the total number of Reference Shares, or Exchange Property Securities, as applicable, such person has or will receive as a result of the exchange of the Notes it holds.

In the event the exchange of a Note shall result in a payment to the exchanging holder as provided above, Nan Ya Plastics shall deliver a notice setting forth the above details to the address of the exchanging holder appearing on the register of holders of the Notes.

(vi) *Retroactive Adjustment of Exchange Price.* If (a) the Exchange Date in relation to any Note shall be on or after a date on which a decrease to the Exchange Price takes retroactive effect pursuant to any of the provisions referred to in Condition 5(C) and the Indenture and (b) the relevant Exchange Date falls on a date when the relevant adjustment has not been reflected in the Exchange Price, Nan Ya Plastics shall, (i) in the event that it is entitled to receive property from Formosa Petrochemical in connection with the event that caused the Antidilution Adjustment, within 5 ROC Business Days of the receipt of such property or (ii) in the event that it is not entitled to receive any such property in connection with the event that caused the Antidilution Adjustment, within 20 days of such adjustment of the Exchange Price, deliver to the local agent appointed by the exchanging holder of the Note such number of Reference Shares as is equal to the excess of (1) the number of Reference Shares that would have been required to be delivered on exchange of such Note if the relevant retroactive adjustment had been made as of the said Exchange Date over (2) the number of Reference Shares previously delivered pursuant to such exchange, or such number of Exchange Property Securities as would otherwise be appropriate; and in such event and in respect of such number of Reference Shares or Exchange Property Securities, references in Conditions 5(B)(iii) and 5(B)(iv) to the Exchange Date shall be deemed to refer to the date upon which such retroactive adjustment becomes effective disregarding the fact that it becomes effective retroactively. Fractions of shares shall not be delivered, and no cash adjustment shall be made in respect thereof.

(vii) *Entitlements on Exchange.* With effect from, and including, the Exchange Delivery Date, the exchanging Noteholder shall, as between it and Nan Ya Plastics, be entitled to exercise all rights in respect of the Reference Shares, or Exchange Property Securities, as applicable, and receive all income or other assets arising out of the Reference Shares, or Exchange Property Securities, as applicable (except where such rights, income or other assets accrue by reference to a record date which precedes the Exchange Delivery Date). The rights of an exchanging Noteholder in respect of the Reference Shares, or Exchange Property Securities, as applicable, as between it and any other person shall be as provided by applicable law or regulation. In particular, the rights of the exchanging Noteholder with respect to Reference Shares, or Exchange Property Securities, as applicable, as between it and Formosa Petrochemical or the issuer of the Exchange Property Securities, as applicable (assuming that the issuer is an ROC corporation), will be determined by the date on which the name of the Noteholder (or its designee) is registered as owner of the Reference Shares, or Exchange Property Securities, as applicable, in the applicable shareholders' register.

As permitted by ROC law and regulations, if the Exchange Date falls within five ROC Business Days before the beginning of, and during, a Closed Period, a Noteholder (or its designee) will not be registered as owner of the Reference Shares or Exchange Property Securities in the shareholders' register of Formosa Petrochemical or the issuer of the Exchange Property Securities, as applicable (assuming that the issuer is an ROC corporation), until the Closed Period lapses. As a result, the right of an exchanging Noteholder to attend a shareholders meeting to vote with respect to the Reference Shares or Exchange Property Securities it receives upon the exchange of the Notes will not be recognized by Formosa Petrochemical or the issuer of the Exchange Property Securities, as applicable (assuming that the issuer is an ROC corporation), until such Noteholder (or its designee) is registered as owner of the Reference Shares or Exchange Property Securities in the shareholders' register.

Subject to the following paragraph and assuming no Change of Control of Formosa Petrochemical (where Formosa Petrochemical is not the surviving entity), Nan Ya Plastics will ensure that the Reference Shares delivered on exchange of Notes (if applicable) will in all respects rank *pari passu* with the Reference Shares in issue on the relevant Exchange Delivery Date (except for any right the record date for which precedes the date on which the Exchanging Noteholder (or its designee) is registered as the owner of the Reference Shares in the shareholders' register of Formosa Petrochemical, and except for any other right excluded by mandatory provisions of applicable law).

The Reference Shares or the Exchange Property Securities, as applicable, to be delivered on exercise of Exchange Rights shall not include any dividends or other income thereon declared or paid by reference to a record date prior to the Exchange Date. The Reference Shares or the Exchange Property Securities, as applicable, delivered pursuant to exercise of Exchange Rights shall qualify for dividends or other distributions declared or paid by reference to any record date in respect of such dividends or distributions falling after the Exchange Date.

(viii) *Dividend Shares.* If an Exchange Date in relation to any exchanged Note shall fall within five ROC Business Days before the beginning of, or during, a Closed Period, Nan Ya Plastics will not be able to transfer and deliver to the exchanging Noteholder any dividend shares, if any, in relation to Reference Shares or Exchange Property Securities, as applicable (assuming that the issuer is an ROC corporation), delivered upon the exchange of the Notes during such period, because, according to the law and regulations of the ROC, ROC corporations are restricted from registering the exchanging Noteholder as an owner of securities. Such transfer and delivery of dividend shares will be made by Nan Ya Plastics after the expiry of the Closed Period and within five ROC Business Days after the receipt of such dividend shares by Nan Ya Plastics.

(ix) *Exchange Agents.* Nan Ya Plastics reserves the right, subject to the provisions of the Agency Agreement and with the prior written consent of the Trustee, to vary or terminate the appointment of any Exchange Agent and to appoint other Exchange Agents at any time; provided that Nan Ya Plastics shall at all times maintain an Exchange Agent having specified a office in London and, so long as the Notes are listed on the SGX-ST and the rules of the exchange so require, in Singapore. Notice of any such termination or appointment and of any changes in the specified offices of the Exchange Agents shall be given promptly by Nan Ya Plastics to the holders of the Notes in accordance with Condition 14 and, so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, to the SGX-ST.

(x) *Depositary Receipts.* Nan Ya Plastics may, at its option, but is not required to, make arrangements satisfactory to the Trustee for the Notes to be exchanged for depositary receipts or other scrip evidencing the common shares of Formosa Petrochemical. Any such arrangements shall be in addition to the provisions of these Conditions relating to exchange of Notes into common shares of Formosa Petrochemical.

Formosa Petrochemical has not, at the date of this Offering Circular, established or authorized the establishment of any depositary receipt facility. Accordingly, the option to exchange Notes for depositary receipts is not and may not be available in the foreseeable future. If in the future a depositary receipt facility is established or authorized by Formosa Petrochemical, Nan Ya Plastics may, at its option, but is not required to, to the extent permitted by applicable laws and regulations, make arrangements satisfactory to the Trustee for common shares of Formosa Petrochemical delivered on exchange of Notes to be accepted for deposit (at the option of the exchanging holder of the Notes) into such depositary receipt facility, subject always to the terms of such depositary receipt facility, which terms may include certification or other requirements as conditions to the acceptance for deposit of the common shares of Formosa Petrochemical. In such an event, Nan Ya Plastics will give notice of any such arrangements to holders of the Notes in accordance with Condition 14. There can be no assurance that Formosa Petrochemical will in the future establish or authorize any depositary receipt facility or that any arrangements for the deposit of the common shares of Formosa Petrochemical into such depositary receipt facility would be available to all holders of the Notes.

(xi) *Adjustment of Global Certificate on the Exchange of Notes.* Where Exchange Rights are exercised in respect of only some of the Notes represented by a Global Certificate, the principal amount of such Notes shall be noted on the relevant schedule to such Global Certificate and, on the Exchange Date the principal amount of such Global Certificate shall be reduced accordingly.

(C) Adjustments to Exchange Price

The Exchange Price shall be subject to adjustment as follows, each such adjustment an "Antidilution Adjustment":

(i) ***Free distribution, bonus issue, division, consolidation and reclassification of Reference Shares:***

If Formosa Petrochemical shall (a) make a free distribution of Reference Shares, (b) make a bonus issue of Reference Shares, (c) divide the outstanding Reference Shares, (d) consolidate the outstanding Reference Shares into a smaller number of Reference Shares, or (e) re-classify any of the Reference Shares into other securities of Formosa Petrochemical, then the Exchange Price shall be appropriately adjusted so that the holder of any Note, the Exchange Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5(C)(i), shall be entitled to receive on exercise of the Exchange Right the number of Reference Shares and/or other securities of Formosa Petrochemical which he would have held or have been entitled to receive after the happening of any of the events described above had such Note been exchanged immediately prior to the happening of such event (or, if Formosa Petrochemical has fixed a prior record date for the determination of shareholders entitled to receive any such free distribution or bonus issue of Reference Shares or other securities issued upon any such division, consolidation or reclassification, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Exchange Price made with effect from the date of the happening of such event (or such record date) or any time thereafter.

Effective date of adjustment: An adjustment made pursuant to this Condition 5(C)(i) shall become effective immediately on the relevant event referred to in this Condition 5(C)(i) becoming effective or, if a record date is fixed therefor, immediately after such record date; provided that in the case of a free distribution or bonus issue of Reference Shares which must, under applicable laws of the ROC, be submitted for approval to a general meeting of shareholders or be approved by a meeting of the board of directors of Formosa Petrochemical before being legally paid or made, and which is so approved after the record date fixed for the determination of shareholders entitled to receive such distribution or issue, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date.

(ii) ***Declaration of dividend in Reference Shares:***

If Formosa Petrochemical shall declare a dividend in Reference Shares then the Exchange Price shall be appropriately adjusted so that the holder of any Note, the Exchange Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5(C)(ii), shall be entitled to receive on exercise of the Exchange Right the number of Reference Shares and/or other securities of Formosa Petrochemical which he would have held or would have been entitled to receive after the date when such dividend is declared had such Note been exchanged immediately prior to the happening of such event (or, if Formosa Petrochemical has fixed a prior record date for the determination of shareholders entitled to receive such dividend, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Exchange Price made with effect from the date of the happening of such event (or such record date) or any time thereafter. No account is to be taken of, or credit given for, the par value of Reference Shares issued in a dividend in Reference Shares in calculating the appropriate Exchange Price adjustment, so that the full dilutive effect is provided for.

Effective date of adjustment: An adjustment made pursuant to this Condition 5(C)(ii) shall become effective immediately on the relevant event referred to in this Condition 5(C)(ii) becoming effective or, if a record date is fixed therefor, immediately after such record date; provided that in the case of a dividend in Reference Shares which must, under applicable laws of the ROC, be submitted for approval to a general meeting of shareholders of Formosa Petrochemical before being legally paid or made, and which is so approved after the record date fixed for the determination of shareholders entitled to receive such dividend, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date.

(iii) ***Concurrent adjustment events:***

If Formosa Petrochemical shall declare a dividend in, or make a free distribution or bonus issue of, Reference Shares, which dividend, issue or distribution is to be paid or made to shareholders as of a record date which is also:

(a) the record date for the issue of any rights or warrants which requires an adjustment of the Exchange Price pursuant to Condition 5(C)(iv), 5(C)(v) or 5(C)(vi);

(b) the day immediately before the date of issue of any securities convertible into or exchangeable for Reference Shares which requires an adjustment of the Exchange Price pursuant to Condition 5(C)(viii);

(c) the day immediately before the date of issue of any Reference Shares which requires an adjustment of the Exchange Price pursuant to Condition 5(C)(ix) or (if applicable) the record date for the determination of stock dividend entitlement as referred to in Condition 5(C)(ix);

(d) the day immediately before the date of issue of any rights, options or warrants which requires an adjustment of the Exchange Price pursuant to Condition 5(C)(x); or

(e) determined by Nan Ya Plastics and notified by Nan Ya Plastics to the Trustee in writing to be the relevant date for an event or circumstance which requires an adjustment to the Exchange Price pursuant to Condition 5(C)(xii),

then (except where such dividend, bonus issue or free distribution gives rise to a retroactive adjustment of the Exchange Price under Condition 5(C)(i) or 5(C)(ii)) no adjustment of the Exchange Price in respect of such dividend, bonus issue or free distribution shall be made under this Condition 5(C)(iii), but in lieu thereof an adjustment shall be made under Condition 5(C)(iv), 5(C)(v), 5(C)(vi), 5(C)(viii), 5(C)(ix) or 5(C)(x) (as the case may require) by including in the denominator of the fraction described therein the aggregate number of Reference Shares to be issued pursuant to such dividend, bonus issue or free distribution.

(iv) *Rights issues to shareholders:*

If Formosa Petrochemical shall grant, issue or offer to the holders of Reference Shares rights entitling them to subscribe for or purchase Reference Shares (including those Reference Shares which are required to be offered to employees and persons other than shareholders in connection with such grant, issue or offer):

(a) at a consideration per Reference Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) which is fixed on or prior to the record date mentioned below and is less than the Current Market Price (as defined in Condition 5(C)(xiv)) per Reference Share at such record date; or

(b) at a consideration per Reference Share receivable by Formosa Petrochemical which is fixed after the record date mentioned below and is less than the Current Market Price per Reference Share on the date Formosa Petrochemical fixes the said consideration,

then the Exchange Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such rights or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

where:

NEP = the Exchange Price after such adjustment.

OEP = the Exchange Price before such adjustment.

N = the number of Reference Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC (in a case within (a) above) on such record date or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration.

n = the number of Reference Shares initially to be issued upon exercise of such rights at the said consideration being (aa) the number of Reference Shares which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Reference Shares for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa).

v = the number of Reference Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Reference Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective immediately after the latest date for the submission of applications for such Reference Shares by shareholders entitled to the same pursuant to such rights or (if later) immediately after Formosa Petrochemical fixes the said consideration but retroactively to immediately after the record date mentioned above.

Rights not taken up by shareholders: If, in connection with a grant, issue or offer to the holders of Reference Shares of rights entitling them to subscribe for or purchase Reference Shares, any Reference Shares which are not subscribed for or purchased by the persons entitled thereto are underwritten by other persons prior to the latest date for the submission of applications for such Reference Shares, an adjustment shall be made to the Exchange Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after Formosa Petrochemical fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Reference Shares of rights entitling them to subscribe for or purchase Reference Shares, any such Reference Shares which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred such rights) who have submitted applications for such Reference Shares as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Exchange Price by reason of such offer and/or subscription.

(v) ***Warrants issued to shareholders:***

If Formosa Petrochemical shall grant, issue or offer to the holders of Reference Shares warrants entitling them to subscribe for or purchase Reference Shares:

(a) at a consideration per Reference Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) which is fixed on or prior to the record date for the determination of shareholders entitled to receive such warrants and is less than the Current Market Price per Reference Share at such record date; or

(b) at a consideration per Reference Share receivable by Formosa Petrochemical which is fixed after the record date mentioned above and is less than the Current Market Price per Reference Share on the date Formosa Petrochemical fixes the said consideration,

then the Exchange Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such warrants or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Reference Shares outstanding (having regard to Condition 5(C)(xvi) at the close of business in the ROC (in a case within (a) above) on such record date or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration.

n = the number of Reference Shares to be issued upon exercise of such warrants at the said consideration which, where no applications by shareholders entitled to such warrants are required, shall be based on the number of warrants issued. Where applications by shareholders entitled to such warrants are required, the number of such Reference Shares shall be calculated based upon (aa) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of warrants for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa).

v = the number of Reference Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Reference Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective (i) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (ii) where applications by shareholders entitled to the same are required as aforesaid, immediately after the latest date for the submission of such applications or (if later) immediately after Formosa Petrochemical fixes the said consideration but in all cases retroactively to immediately after the record date mentioned above.

Warrants not subscribed for by shareholders: If, in connection with a grant, issue or offer to the holders of Reference Shares of warrants entitling them to subscribe for or purchase Reference Shares in the circumstances described in (a) and (b) of this Condition 5(C)(v), any warrants which are not subscribed for or purchased by the shareholders entitled thereto are underwritten by others prior to the latest date for the submission of applications for such warrants, an adjustment shall be made to the Exchange Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after Formosa Petrochemical fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Reference Shares of warrants entitling them to subscribe for or purchase Reference Shares, any warrants which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred the right to purchase such warrants) who have submitted applications for such warrants as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Exchange Price by reason of such offer and/or subscription.

(vi) *Issues of rights or warrants for equity-related securities to shareholders:*

If Formosa Petrochemical shall grant, issue or offer to the holders of Reference Shares rights or warrants entitling them to subscribe for or purchase any securities convertible into or exchangeable for Reference Shares:

(a) at a consideration per Reference Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) which is fixed on or prior to the record date mentioned below and is less than the Current Market Price per Reference Share at such record date; or

(b) at a consideration per Reference Share receivable by Formosa Petrochemical (determined as aforesaid) which is fixed after the record date mentioned below and is less than the Current Market Price per Reference Share on the date Formosa Petrochemical fixes the said consideration,

then the Exchange Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Reference Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC (in a case within (a) above) on such record date or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration.

n = the number of Reference Shares initially to be issued upon exercise of such rights or warrants and conversion or exchange of such convertible or exchangeable securities at the said consideration being, in the case of rights, (aa) the number of Reference Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities which the underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Reference Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa) and which, in the case of warrants, where no applications by shareholders entitled to such warrants are required, shall be based on the number of warrants issued. Where applications by shareholders entitled to such warrants are required, the number of such Reference Shares shall be calculated based upon (x) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the case may be, (y) the number of warrants for which applications are received from shareholders as referred to below save to the extent already adjusted for under (x).

v = the number of Reference Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Reference Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective (a) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (b) where applications by shareholders entitled to the warrants are required as aforesaid and in the case of applications for convertible or exchangeable securities by shareholders entitled to the same pursuant to such rights, immediately after the latest date for the submission of such

applications or (if later) immediately after Formosa Petrochemical fixes the said consideration; but in all cases retroactively to immediately after the record date mentioned above.

Rights or warrants not taken up by shareholders: If, in connection with a grant, issue or offer to the holders of Reference Shares of rights or warrants entitling them to subscribe for or purchase securities convertible into or exchangeable for Reference Shares in the circumstances described in this Condition 5(C)(vi), any convertible or exchangeable securities or warrants which are not subscribed for or purchased by the shareholders entitled thereto are underwritten by others prior to the latest date for the submission of applications for such convertible or exchangeable securities or warrants, an adjustment shall be made to the Exchange Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after Formosa Petrochemical fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Reference Shares or of rights or warrants entitling them to subscribe for or purchase securities convertible into or exchangeable for Reference Shares, any convertible or exchangeable securities or warrants which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred such rights or the right to purchase such warrants) who have submitted applications for such convertible or exchangeable securities or warrants as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Exchange Price by reason of such offer and/or subscription.

(vii) *Capital Distribution:*

If Formosa Petrochemical shall pay or make any Capital Distribution (as defined below) to its shareholders, then the Exchange Price shall be adjusted in accordance with the following formula:

$$\mathrm{NEP} = \mathrm{OEP} \times \frac{\mathrm{CMP} + \mathrm{fmv}}{\mathrm{CMP}}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv).

CMP = the Current Market Price per Reference Share on the last Trading Day preceding the date on which the Capital Distribution is publicly announced.

fmv = the aggregate fair market value on the date of such announcement, as determined in good faith by two leading independent investment banks of international repute selected by Nan Ya Plastics and approved by the Trustee and acting as experts, of the portion of the Capital Distribution attributable to one Reference Share.

Effective date of adjustment: Such adjustment shall become effective immediately after the record date for the determination of shareholders entitled to receive such Capital Distribution. Provided that (a) in the case of such a Capital Distribution which must, under applicable law of the ROC, be submitted for approval to a general meeting of

shareholders or be approved by a meeting of the board of directors of Formosa Petrochemical before such Capital Distribution may legally be made and is so approved after the record date fixed for the determination of shareholders entitled to receive such Capital Distribution, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date and (b) if the fair market value of such Capital Distribution cannot be determined until the record date fixed for the determination of shareholders entitled to receive such Capital Distribution, such adjustment shall, immediately upon such fair market value being determined, become effective retroactively to immediately after such record date.

If Formosa Petrochemical shall pay or make any Capital Distribution in cash only then, in such case, the Exchange Price shall be adjusted (with such adjustment to be effective on the record date for the determination of shareholders entitled to receive such Capital Distribution in cash) in accordance with the following formula:

$$NEP = OEP \times \frac{M - C}{M}$$

where:

NEP and OEP shall have the meanings ascribed thereto in Condition 5(C)(iv).

M = the Current Market Price per Reference Share on such record date.

C = the amount of Capital Distribution in cash so distributed applicable to one Reference Share.

For the purposes of this Condition 5(C)(vii):

"Capital Distribution" means any dividend or distribution, whether of cash, assets or other property, and whenever paid or made and however described (and for these purposes a distribution of assets includes, without limitation, an issue of shares or other Securities (as defined below) credited as fully or partly paid up) provided that:

(a) where a cash Capital Distribution is announced which is to be, or may at the election of a holder or holders of Reference Shares be, satisfied by the issue or delivery of Reference Shares or other property or assets, then for the purposes of the above formula the Capital Distribution in question shall be treated as a Capital Distribution of (1) the cash Capital Distribution so announced or (2) the fair market value on the date of announcement of such Capital Distribution, of such Reference Shares or other property or assets to be issued or delivered in satisfaction of such Capital Distribution (or which would be issued if all holders of Reference Shares elected therefor, regardless of whether any such election is made) if the fair market value of such Reference Shares or other property or assets is greater than the cash Capital Distribution so announced;

(b) any issue of Reference Shares falling within Condition 5(C)(ii) shall be disregarded; and

(c) a purchase or redemption of share capital by or on behalf of Formosa Petrochemical (whether by tender or exchange offer or otherwise) shall not constitute a Capital Distribution unless in the case of purchase of Reference Shares by or on behalf of Formosa Petrochemical, the weighted average price (before expenses) on any one day in respect of such purchase exceeds the closing price of the Reference Shares published by the Taiwan Stock

Exchange either (1) on that date, or (2) where an announcement has been made of the intention to purchase Reference Shares at some future date at a specified price, on the Trading Day immediately preceding the date of such announcement and, if in the case of either (1) or (2), the relevant day is not a Trading Day, the immediately preceding Trading Day, in which case such purchase shall be deemed to constitute a Capital Distribution in the amount of such excess.

"Securities" includes, without limitation, shares in the capital of Formosa Petrochemical or options, warrants or other rights to subscribe for or purchase shares in the capital of Formosa Petrochemical or evidences of its indebtedness.

(viii) ***Issue of convertible or exchangeable securities other than to shareholders or on exercise of warrants:***

If Formosa Petrochemical shall issue any securities convertible into or exchangeable for Reference Shares (other than the Notes, or in any of the circumstances described in Condition 5(C)(vi) and Condition 5(C)(x)) and the consideration per Reference Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) shall be less than the Current Market Price per Reference Share on the date in the ROC on which Formosa Petrochemical fixes the said consideration (or, if the issue of such securities is subject to approval by a general meeting of shareholders, on the date on which the board of directors of Formosa Petrochemical fixes the consideration to be recommended at such meeting), then the Exchange Price in effect immediately prior to the date of issue of such convertible or exchangeable securities shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv).

N = the number of Reference Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC on the day immediately prior to the date of such issue.

n = the number of Reference Shares to be issued upon conversion or exchange of such convertible or exchangeable securities at the initial conversion or exchange price or rate.

v = the number of Reference Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Reference Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in the ROC corresponding to the calendar day at the place of issue on which such convertible or exchangeable securities are issued.

(ix) ***Other issues of Reference Shares:***

If Formosa Petrochemical shall issue any Reference Shares (other than Reference Shares issued upon conversion or exchange of any convertible or exchangeable securities (including the Notes) issued by Formosa Petrochemical or upon exercise of any rights or warrants granted, offered or issued by Formosa Petrochemical or in any of the circumstances described in Conditions 5(C)(i) and 5(C)(ii), but including Reference Shares issued pursuant to any employee dividend or profit-sharing arrangements) for a consideration per Reference Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) which is less than the Current Market Price per Reference Share on the date in the ROC on which Formosa Petrochemical fixes the said consideration (or, if the issue of such Reference Shares is subject to approval by a general meeting of shareholders, on the date on which the board of directors of Formosa Petrochemical fixes the consideration to be recommended at such meeting), then the Exchange Price in effect immediately prior to the issue of such additional Reference Shares shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Reference Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC on the day immediately prior to the date of issue of such additional Reference Shares.

n = the number of additional Reference Shares issued as aforesaid.

v = the number of Reference Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Reference Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in the ROC of the issue of such additional Reference Shares or, in the case of an issue to employees under any employee dividend or profit sharing arrangements, where such an issue is announced at the same time as a stock dividend, such adjustment shall become effective as of the record date for determination of the identity of the shareholders entitled to receive any such dividend.

(x) ***Issue of equity related securities:***

If Formosa Petrochemical shall grant, issue or offer options, warrants or rights (excluding those rights and warrants referred to in Conditions 5(C)(iv), 5(C)(v), 5(C)(vi) and 5(C)(vii)) to subscribe for or purchase Reference Shares or securities convertible into or exchangeable for Reference Shares and the consideration per Reference Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) shall be less than the Current Market Price per Reference Share on the date in the ROC on which Formosa Petrochemical fixes the said consideration (or, if the offer, grant or issue of such rights, options or warrants is subject to approval by a general meeting of shareholders, on the date on which the board of directors of Formosa Petrochemical fixes

the consideration to be recommended at such meeting), then the Exchange Price in effect immediately prior to the date of the offer, grant or issue of such rights, options or warrants shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Reference Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC on the day immediately prior to the date of such issue.

n = the number of Reference Shares to be issued on exercise of such rights or warrants and (if applicable) conversion or exchange of such convertible or exchangeable securities at the said consideration.

v = the number of Reference Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Reference Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in the ROC corresponding to the calendar day at the place of issue on which such rights or warrants are issued.

(xi) *Tender or exchange offer:*

In case a tender or exchange offer made by Formosa Petrochemical or any subsidiary of Formosa Petrochemical for all or any portion of the Reference Shares shall expire and such tender or exchange offer shall involve the payment by Formosa Petrochemical or such subsidiary of consideration per Reference Share having a fair market value (as determined in good faith by two leading independent investment banks of international repute selected by Nan Ya Plastics and approved by the Trustee and acting as experts) at the last time (the "Expiration Date") tenders or exchanges could have been made pursuant to such tender or exchange offer (as it shall have been amended) that exceeds the Current Market Price per Reference Share, as of the Expiration Date, the Exchange Price shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N \times CMP}{fmv + [(N - n \times CMP]}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Reference Shares outstanding (including any tendered or exchanged Reference Shares) on the Expiration Date.

CMP = Current Market Price per Reference Share as of the Expiration Date.

fmv = the fair market value (as determined in good faith by two leading independent investment banks of international repute selected by Nan Ya Plastics and approved by the Trustee and acting as experts) of the aggregate consideration payable to the holders of Reference Shares based on the acceptance (up to a maximum specified in the terms of the tender or exchange offer) of all Reference Shares validly tendered or exchanged and not withdrawn as of the Expiration Date (the Reference Shares deemed so accepted up to any such maximum, being referred to as the "Purchased Reference Shares").

n = the number of Purchased Reference Shares.

Effective date of adjustment: Such adjustment shall become retroactively effective immediately prior to the opening of business on the day following the Expiration Date.

(xii) ***Analogous events and modifications:***

If (a) the rights of conversion or exchange, purchase or subscription attaching to any options, rights or warrants to subscribe for or purchase Reference Shares or any securities convertible into or exchangeable for, or which carry rights to subscribe for or purchase Reference Shares are modified (other than pursuant to and as provided in the terms and conditions of such options, rights, warrants or securities) or (b) Nan Ya Plastics determines or written notice has been given to the Trustee that any other event or circumstance has occurred which has or would have an effect on the position of the holders of the Notes as a class compared with the position of the holders of all the securities (and options and rights relating thereto) of Formosa Petrochemical, taken as a class which is analogous to any of the events referred to in Conditions 5(C)(i) to 5(C)(xi), then, in any such case, Nan Ya Plastics shall notify the Trustee thereof or if the Trustee has been notified under (b), the Trustee shall notify Nan Ya Plastics thereof and Nan Ya Plastics shall consult with two leading independent investment banks of international repute selected by Formosa Petrochemical and approved by the Trustee as to what adjustment, if any, should be made to the Exchange Price (and the timing of any such adjustment) to preserve the value of the Exchange Right, and any such adjustment shall be made.

(xiii) ***Simultaneous issues of different classes of shares:***

In the event of simultaneous issues of two or more classes of share capital comprising Reference Shares or rights or warrants in respect of, or securities convertible into or exchangeable for, two or more classes of share capital comprising Reference Shares, then, for the purposes of this Condition, the formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

shall be restated as:

$$NEP = OEP \times \frac{N + v1 + v2 + v3}{N + n1 + n2 + n3}$$

where v1 and n1 shall have the same meanings as "v" and "n" but by reference to one class of Reference Shares, v2 and n2 shall have the same meanings as "v" and "n" but by reference to a second class of Reference Shares, v3 and n3 shall have the same meanings as "v" and "n" but by reference to a third class of Reference Shares and so on.

(xiv) ***Current Market Price per Reference Share:***

"Current Market Price", in relation to the Formosa Petrochemical Common Shares, for any day means (a) the average Closing Prices of the Reference Shares for the 30 consecutive Trading Days commencing 45 Trading Days before such day and (b) when used with respect to any issuance or distribution, the average Closing Prices for the 30 consecutive Trading Days commencing not more than 45 Trading Days (with the commencement date selected by Nan Ya Plastics) before the first day on which the Formosa Petrochemical Common Shares without the right to receive such issuance or distribution trade in a regular way on the Taiwan Stock Exchange, other applicable securities exchange or any applicable securities market; provided, however, if no Closing Price is available for one or more Trading Days, such day or days shall be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of consecutive Trading Days.

"Closing Price", in relation to the Formosa Petrochemical Common Shares, for any Trading Day means the last reported transaction price or, if no transaction takes place on such day, the last available reported transaction price of the Formosa Petrochemical Common Shares on the Taiwan Stock Exchange in effect on the Trading Day immediately preceding such day or, if the Formosa Petrochemical Common Shares are not at that time listed or admitted to trading on the Taiwan Stock Exchange, the average of the closing bid and offered prices of Formosa Petrochemical Common Shares for such day as furnished by a leading independent securities firm licensed to trade on the Taiwan Stock Exchange selected by Nan Ya Plastics for that purpose. In respect of any security traded on another exchange or market, this definition shall apply with reference to that exchange or market.

(xv) ***Consideration receivable by Formosa Petrochemical:***

For the purposes of any calculation of the consideration receivable by Formosa Petrochemical pursuant to Conditions 5(C)(iv), 5(C)(v), 5(C)(vi), 5(C)(viii), 5(C)(ix) and 5(C)(x), the following provisions shall be applicable:

(a) in the case of the issue of Reference Shares for cash, the consideration shall be the amount of such cash, provided that in no such case shall any deduction be made for any commissions or any expenses paid or incurred by Formosa Petrochemical for any underwriting of the issue or otherwise in connection therewith;

(b) in the case of the issue of Reference Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by Formosa Petrochemical (and in making such determination Formosa Petrochemical shall consult two leading independent investment banks of international repute, selected by Formosa Petrochemical and approved by the Trustee and shall take fully into account the advice received from such banks) or, if pursuant to applicable law of the ROC such determination is to be made by application to a court of competent jurisdiction, as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof;

(c) in the case of the issue (whether initially or upon the exercise of rights or warrants) of securities convertible into or exchangeable for Reference Shares, the aggregate consideration receivable by Formosa Petrochemical shall be deemed to be the consideration received by Formosa Petrochemical for such securities and (if applicable) rights or warrants plus the additional consideration (if any) to be received by Formosa Petrochemical upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in (a) and (b) above) and the consideration per Reference Share receivable by Formosa Petrochemical shall be such aggregate consideration divided by the number of Reference Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price;

(d) in the case of the issue of rights or warrants to subscribe for or purchase Reference Shares, the aggregate consideration receivable by Formosa Petrochemical shall be deemed to be the consideration received by Formosa Petrochemical for any such rights or warrants plus the additional consideration to be received by Formosa Petrochemical upon (and assuming) the exercise of such rights or warrants at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in (a) and (b) above) and the consideration per Reference Share receivable by Formosa Petrochemical shall be such aggregate consideration divided by the number of Reference Shares to be issued upon (and assuming) the exercise of such rights or warrants at the initial subscription or purchase price;

(e) if any of the consideration referred to in any of the preceding paragraphs of this Condition 5(C)(xiv) is receivable in a currency other than NT dollars, such consideration shall (in any case where there is a fixed rate of exchange between the NT dollar and the relevant currency for the purposes of the issue of the Reference Shares, the conversion or exchange of such securities or the exercise of such rights or warrants) be translated into NT dollars for the purposes of this Condition 5(C)(xiv) at such fixed rate of exchange and shall (in all other cases) be translated into NT dollars at the mean of the exchange rate quotations (being quotations for the cross rate through US dollars if no direct rate is quoted) by a leading bank in the ROC for buying and selling spot units of the relevant currency by telegraphic transfer against NT dollars on the date as of which the said consideration is required to be calculated as aforesaid; and

(f) in the case of the issue of Reference Shares (including, without limitation, to employees under any employee dividend or profit sharing arrangements) credited as fully paid out of retained earnings or capitalisation of reserves at their par value, the aggregate consideration receivable by Formosa Petrochemical shall be deemed to be zero (and accordingly the number of Reference Shares which such aggregate consideration receivable by Formosa Petrochemical could purchase at the relevant Current Market Price per Reference Share shall also be deemed to be zero).

(xvi) *Cumulative adjustments:*

If, at the time of computing an adjustment (the “later adjustment”) of the Exchange Price pursuant to any of Conditions 5(C)(ii), 5(C)(iv), 5(C)(v), 5(C)(viii), 5(C)(ix) and 5(C)(x), the Exchange Price already incorporates an adjustment made (or taken or to be taken into account pursuant to the proviso to Condition 5(C)(xvii)) to reflect an issue of Reference Shares or of securities convertible into or exchangeable for Reference Shares or of rights or warrants to subscribe for or purchase Reference Shares or securities, to the extent that the number of such Reference Shares or securities taken into account for the purposes of calculating such adjustment exceeds the number of such Reference Shares in issue at the time relevant for ascertaining the number of outstanding Reference Shares for the purposes of computing the later adjustment, such excess Reference Shares shall be deemed to be outstanding for the purposes of making such computation.

(xvii) ***Minor adjustments:***

No adjustment will be made where such adjustment would be less than 1% of the Exchange Price then in effect; provided, however, that any adjustment that otherwise would be required to be made will be carried forward and taken into account in determining any subsequent adjustment.

(xviii) ***Reference to "fixed":***

Any references in this Condition 5(C) to the date on which a consideration is "fixed" shall, where the consideration is originally expressed by reference to a formula which cannot be expressed as an actual cash amount until a later date, be construed as a reference to the first day on which such actual cash amount can be ascertained.

(xix) ***Calculations:***

All calculations relating to adjustment of the Exchange Price shall be performed by Nan Ya Plastics, subject to approval by an independent, internationally recognized investment bank or accounting firm selected by Nan Ya Plastics and approved by the Trustee, or such other person as shall be nominated by Nan Ya Plastics and subject to the approval of the Trustee.

(xx) ***Downward adjustment:***

No adjustment involving an increase in the Exchange Price will be made, except in the case of a consolidation of the Reference Shares, as referred to in Condition 5(c)(i) above.

(xxi) ***Notification:***

Any adjustment will be notified promptly by Nan Ya Plastics to the Noteholders, the Trustee, the Agents, in accordance with Condition 14 and, so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, to the SGX-ST. Any such notice relating to an adjustment of the Exchange Price should set forth the event giving rise to the adjustment, the Exchange Price prior to the adjustment, the effective date of such adjustment and the Exchange Price after the adjustment.

(xxii) ***Trustee has no obligation to monitor:***

The Trustee shall not be obliged to monitor whether any event has occurred that might fall within (i) to (xiii) above and shall assume that no such event has occurred until it has actual knowledge by way of notice in writing from Nan Ya Plastics to the contrary.

(D) Exchange Price Reset

In the event that the average of the Closing Prices of the Reference Shares on the Taiwan Stock Exchange, for the period of 5 consecutive Trading Days ("Average Market Price") prior to December 26, 2004 and each anniversary thereafter (each a "Reset Date"),

converted into U.S. dollars at each such Trading Day at the Prevailing Exchange Rate, is less than the Exchange Price then in effect converted into U.S. dollars at the Fixed Exchange Rate, the Exchange Price shall be adjusted downwards in accordance with the following formula:

Adjusted Exchange Price = 110% x Average Market Price x (Fixed Exchange Rate/ Prevailing Exchange Rate)

provided that (i) any such reset shall only reset the Exchange Price downwards only and (ii) any adjustment to the Exchange Price shall be limited so that the adjusted Exchange Price shall not be less than 80% of the Initial Exchange Price (as adjusted to reflect any antidilution adjustments which may have occurred prior to the relevant Reset Date.

"Prevailing Exchange Rate" has the same meaning as "Prevailing Rate".

Any such adjustment shall become effective as of the relevant Reset Date and shall be notified to the holders within five days of the relevant Reset Date.

(E) Voting and other rights

Pending exercise of the Exchange Rights, Nan Ya Plastics will be entitled to exercise the voting and other rights attaching to the Reference Shares or the Exchange Property Securities, as applicable, in accordance with the terms of the Indenture. The Noteholders shall have no voting or other rights attaching to the Reference Shares or Exchange Property Securities prior to their registration as shareholders of Formosa Petrochemical or any Exchange Property issuer.

In exercising such voting rights, Nan Ya Plastics may have regard to its own interests to the exclusion of the interests of Noteholders.

(F) Undertakings

Nan Ya Plastics has undertaken in the Indenture that, so long as any Note remains outstanding:

(i) it will use its best efforts to ensure that Formosa Petrochemical maintains a listing for all the Formosa Petrochemical Common Shares on the Taiwan Stock Exchange;

(ii) it will pay the expenses arising in the ROC on the transfer and delivery of any Reference Shares or any Exchange Property Securities on exchange of Notes;

(iii) to the extent permitted by applicable laws, it will use its best efforts to ensure that any Reference Shares or Exchange Property Securities deliverable on exchange of Notes may be transferred and sold to any person, corporation, partnership or association, regardless of nationality (except for persons of the PRC); and

(iv) it will not create or purport or attempt to create, assume or permit to subsist, any mortgage, charge, pledge, hypothecation, lien, interest under a trust or other encumbrance over the Custody Property.

Nan Ya Plastics has also given certain other undertakings in the Indenture for the protection of the Exchange Rights.

6. PAYMENTS

(A) Manner of payment

Payment in respect of a Note shall be made (i) by transfer to the registered account of the holder of the Note or (ii) if such holder does not have a registered account, by a US dollar check mailed to its registered address. The registered account and address of a holder of the Notes means its account and address appearing on the register of holders of the Notes at the close of business on the second Business Day (as defined below) before the due date for payment.

References in these Conditions, the Indenture and the Agency Agreement to payment in respect of a Note shall, where the context so permits, be deemed to include not only a reference to the principal of, but also to any premium, interest and other amounts payable on, such Note.

For the purposes of this Condition 6 and Condition 7:

"Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in The City of New York, in Taiwan, in Hong Kong and, in the case of the surrender of a Definitive Certificate, in the place where the Definitive Certificate is surrendered.

(B) Commissions and expenses

All payments are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the holders of the Notes in respect of such payments.

(C) Date of payment

Where payment is to be made by transfer to a registered account, payment instructions for value on the due date (or, if that date is not a Business Day, for value the next Business Day) shall be initiated. Where payment is to be made by check, the check shall be mailed on the Business Day preceding the due date for payment. Notwithstanding the above, payment of principal of a Note represented by a Definitive Certificate shall not be made earlier than the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

(D) Default interest and payment delay

If Nan Ya Plastics fails to pay any sum in respect of the Notes when the same becomes due and payable under these Conditions, interest shall accrue on the overdue sum at the rate of 4.0% per annum from the due date. Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day year consisting of 12 months of 30 days each.

A holder of the Notes shall not be entitled to any interest or other payment for any delay in receiving the amount due if (i) the due date is not a Business Day, (ii) the Note is represented by a Definitive Certificate and the holder is late in surrendering its Definitive Certificate (if required to do so) or (iii) a check mailed in accordance with this Condition 6 arrives after the due date for payment.

7. REDEMPTION, REPURCHASE AND CANCELLATION

(A) Redemption at maturity

Unless previously redeemed, repurchased and cancelled, or exchanged as herein provided, Nan Ya Plastics shall redeem each Note at 103.6 per cent. of its principal amount, on June 30, 2011 (the "Maturity Date") or if such day is not a Business Day, on the immediately preceding Business Day. The Notes may be redeemed prior to that date only as provided in Conditions 7(B), (C) and (D) below, but without prejudice to Condition 9.

(B) Redemption at the option of Nan Ya Plastics

At any time after June 30, 2006 and prior to the Maturity Date, Nan Ya Plastics may, having given not less than 30 or more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable and delivered in accordance with Condition 7(H) and Condition 14), redeem the Notes in whole, or from time to time in part, at their Early Redemption Amount (as defined below) if the Closing Price (as defined in Condition 5(C)) of the Reference Shares, translated into US dollars at the Prevailing Rate (as defined in Condition 5(B)), for any 20 Trading Days out of the 30 consecutive Trading Days immediately preceding the date of such notice of redemption, is at least 120% of the Exchange Price then in effect, translated into US dollars at the Fixed Exchange Rate. If an event giving rise to a change in the Exchange Price occurs during such 30 consecutive Trading Days, appropriate adjustments for the relevant days shall be made for the purpose of calculating the Closing Price for such days.

Nan Ya Plastics may, at any time, having given not less than 30 or more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable and delivered in accordance with Condition 7(G) and Condition 14), redeem the Notes in whole, but not in part, at their Early Redemption Amount (as defined below) in US dollars if at least 90% in principal amount of the Notes has already been redeemed, repurchased and cancelled or exchanged.

"Early Redemption Amount" means, in relation to a Note to be redeemed on any redemption date, or to be repaid upon acceleration, an amount of principal that would result in an annual yield on the Note purchased on June 30, 2004, the date of the original issuance of the Note, at its principal amount, of 0.5 per cent. per annum through to the redemption date, or the date of acceleration, as the case may be, calculated on a semi-annual bond equivalent basis using a 360-day year consisting of twelve 30-day months.

(C) Redemption for taxation reasons

At any time, Nan Ya Plastics may, having given not less than 30 or more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable and delivered in accordance with Condition 7(G) and Condition 14), redeem the Notes in whole, but not in part (subject to the provisions of the last paragraph of this Condition 7(Q), at their Early Redemption Amount, provided that Nan Ya Plastics satisfies the Trustee that, immediately prior to the giving of such notice:

(i) Nan Ya Plastics has become obliged to pay Additional Amounts (as defined in Condition 8) as a result of any change in, or amendment to, the laws or regulations of the ROC or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective after the date of the original issuance of the Notes and would require Nan Ya Plastics to gross up for payment of principal or to gross up for payment of interest or premium, if any, at a rate greater than 20%; and

(ii) such obligation cannot be avoided by Nan Ya Plastics taking reasonable measures available to it.

Notwithstanding the foregoing, no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which Nan Ya Plastics would be obliged to pay such Additional Amounts.

Prior to the delivery of any notice of redemption pursuant to this Condition 7(C), Nan Ya Plastics shall deliver to the Trustee (1) a certificate signed by two of its authorized officers stating that the obligation referred to in (i) above cannot be avoided by taking reasonable measures available to it, and the Trustee shall be entitled to accept such certificate as sufficient and conclusive evidence of the satisfaction of the condition precedent set out in clause (ii) above and (2) an opinion addressed to the Trustee by an independent law firm of recognized standing admitted to practice in the ROC, or written advice of a qualified tax advisor of recognized standing in the ROC, to the effect that Nan Ya Plastics has or will become obliged to pay such Additional Amounts as a result of such change or amendment, and the Trustee shall be entitled to accept such certificate and opinion or advice as sufficient and conclusive evidence of the conditions precedent referred to in this Condition 7(C), in which event it shall be conclusive and binding on the holders of the Notes. The Notes in respect of which a notice of redemption has been given under Condition 7(B) or 7(D) shall not be affected by any notice given subsequently under this Condition 7(C).

If Nan Ya Plastics gives a notice of redemption of the Notes under Condition 7(C), each holder of the Notes shall have the right (the "Non-Redemption Option") to elect that all or a portion (being U.S.$1,000 in principal amount or an integral multiple thereof) of its Notes not be redeemed. Upon the exercise of the Non-Redemption Option with respect to such Notes, no Additional Amounts referred to in Condition 8 shall be payable on the payments due after the relevant date in respect of such Notes and, subject to Condition 8, such payments shall be made subject to the deduction or withholding required under the laws or regulations of the ROC. For the avoidance of doubt, any increased amounts that had been payable in respect of the Notes under Condition 8 as a result of the laws or regulations of the ROC in effect on the original date of their issuance shall continue to be payable to such holders of the Notes.

(D) Redemption at the option of the holders

Each holder of the Notes shall have the right (the "Holders' Redemption Right") to require Nan Ya Plastics to redeem in whole, or in part only (being U.S.$1,000 in principal amount or an integral multiple thereof), the Notes held by such holder, on June 30, 2006 (the "First Put Date") at their Early Redemption Amount and on June 30, 2009 (the "Second Put Date") at their Early Redemption Amount.

Not less than 30 or more than 60 days prior to each of the First Put Date and the Second Put Date, Nan Ya Plastics shall notify the holders of the Holders' Redemption Right, which notice shall be delivered in accordance with Condition 7(H) and Condition 14.

Following the occurrence of a Relevant Event (as defined below), the holder of each Note will have the right at such holder's option (the "Relevant Event Redemption Right"), to require Nan Ya Plastics to redeem all or some only of the Notes on the Relevant Event Redemption Date (as defined below) at their Early Redemption Amount on the 5th Business Day (as defined in Condition 6(A)) after the date of the respective Relevant Event Notice. To exercise such right, the holder of the relevant Note must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent ("Relevant Event Redemption Notice") together with the Notes to be redeemed by not later than 60 days following a Relevant Event, or, if later, 60 days following the date upon which notice thereof is given to Noteholders by Nan Ya Plastics in accordance with Condition 14. The "Relevant Event Redemption Date" shall be the 14th day after the expiry of such period of 60 days as referred to above.

A Relevant Event Redemption Notice, once delivered, shall be irrevocable and Nan Ya Plastics shall redeem the Notes the subject of Relevant Event Redemption Notices delivered as aforesaid on the Relevant Event Redemption Date.

The Trustee shall not be required to take any steps to ascertain whether a Relevant Event or any event which could lead to the occurrence of a Relevant Event has occurred.

Nan Ya Plastics shall give notice, each a "Relevant Event Notice", to Noteholders in accordance with Condition 7(G) and Condition 14 as soon as practicable, and in any event no later than 10 days following the first day on which it becomes aware of the occurrence of a Relevant Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Notes pursuant to this Condition 7(D).

A "Relevant Event" occurs:

(i) when the Reference Shares cease to be listed or admitted to trading on the Taiwan Stock Exchange (a "Delisting"); or

(ii) when there is a Change of Control (as defined below) with respect to Formosa Petrochemical.

"Change of Control" occurs when:

(a) any person or person (as defined below) acting together acquires control of Formosa Petrochemical if such person or persons does not or do not have, and would not be deemed to have, control (as defined below) of Formosa Petrochemical on the date of issue of the Notes;

(b) Formosa Petrochemical consolidates with or merges into or sells or transfers all or substantially all of Formosa Petrochemical's assets to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over Formosa Petrochemical or the successor entity; or

(c) one or more persons (as defined below) acquires control (as defined below) of Formosa Petrochemical.

"control" means the right to appoint and/or remove all or the majority of the members of Formosa Petrochemical's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise.

a "person" includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include Formosa Petrochemical's directors or any other governing board and does not include Formosa Petrochemical's wholly-owned direct or indirect subsidiaries.

(E) Repurchase and cancellation

Nan Ya Plastics may at any time and from time to time repurchase the Notes in the open market or otherwise at any price. Nan Ya Plastics shall promptly surrender any Notes so repurchased to the Principal Paying Agent for cancellation.

(F) Cancellation

All Notes that are redeemed, repurchased or exchanged and surrendered to any Agent shall forthwith be cancelled. In the case of Notes represented by Definitive Certificates, certificates in respect of all Notes cancelled shall be forwarded to or to the order of the Principal Paying Agent. Notes cancelled may not be reissued or resold.

(G) Redemption procedures

In the event that Nan Ya Plastics is required to deliver a notice to the holders of the Notes under this Condition 7, Nan Ya Plastics shall provide such information to the Trustee as the Trustee shall require to permit the Trustee to give notice to holders of the Notes in accordance with Condition 14, which notice shall state, to the extent applicable:

(i) the relevant redemption date;

(ii) in the case of a Delisting, the date of such Delisting and, briefly, the events that resulted in such Delisting;

(iii) the date by which the Exercise Notice (as defined below) must be given by the holder;

(iv) the applicable redemption price of a Note on the redemption date and the method by which such redemption price will be paid;

(v) the names and addresses of all Paying Agents;

(vi) the procedures that holders must follow and the requirements they must satisfy in order to exercise their Holders' Redemption Right, Relevant Event Redemption Right, Non-Redemption Option, and/or Exchange Right, as the case may be;

(vii) that an Exercise Notice, once validly given, may not be withdrawn;

(viii) the principal amount of the Notes outstanding as of the latest practicable date prior to the delivery of the notice;

(ix) any identifying numbers of the Notes and/or Definitive Certificate to be redeemed;

(x) the Closing Price of the Reference Shares on the most recent practicable Trading Day for which such Closing Price can be provided;

(xi) the place or places of payment; and

(xii) that payment will be made upon presentation and surrender of the Notes to be redeemed. Such notice shall also specify the date on which the right to exchange the Notes or the portions thereof to be redeemed will expire. Nan Ya Plastics shall provide to the Trustee such notice as well as an officers' certificate certifying the applicable redemption price (including the Early Redemption Amount) on the Redemption Date no later than ten (10) days prior to the delivery of the notice to the Holders.

So long as the Notes are listed on the SGX-ST and the rules of that exchange so require, Nan Ya Plastics shall submit a copy of the redemption notice to the SGX-ST as soon as practicable.

To exercise its Holders' Redemption Right, Relevant Event Redemption Right or Non-Redemption Option, as the case may be, a holder must deliver a written irrevocable notice of the exercise of such right (an "Exercise Notice") in the form obtainable during normal business hours from the specified office of any of the Agents, to any Paying Agent on any Business Day that is not fewer than fifteen (15) Business Days prior to the relevant redemption date. No Exercise Notice so deposited may be withdrawn without the prior written consent of Nan Ya Plastics, and if such consent is given, Nan Ya Plastics shall notify the Principal Agent in writing no later than 5 days prior to the relevant proposed redemption date.

Payment of the redemption price (including the Early Redemption Amount) upon exercise of the Holders' Redemption Right or Relevant Event Redemption Right attaching to any Note represented by a Definitive Certificate for which an Exercise Notice has been delivered is conditioned upon the delivery of such Definitive Certificate (together with any necessary endorsements) to any Paying Agent on any Business Day, together with the delivery of such Exercise Notice, and shall be made promptly following the later of the relevant redemption date and the time of delivery of such Definitive Certificate. If the Paying Agent holds on a redemption date monies sufficient to pay the redemption price for a Note for which an Exercise Notice has been delivered, then, whether or not the Definitive Certificate representing such Note is delivered to the Paying Agent, on and after such redemption date (i) such Note shall cease to be outstanding; (ii) such Note shall be deemed paid; and (iii) all other rights of the holder shall terminate, other than the right to receive the redemption price (including the Early Redemption Amount).

(H) Partial redemption

In the event of the proposed redemption of some but not all of the Notes pursuant to Condition 7(B), the Notes to be so redeemed shall be determined individually by the drawing of lots by the Trustee or such persons, agents, delegates or nominees which the Trustee may approve or such other method in such place as the Trustee shall approve and in such manner as the Trustee shall deem to be fair and reasonable in the circumstances, taking into account prevailing market practices, subject to compliance with any applicable laws and stock exchange requirement. The identifying numbers of the Notes drawn for redemption shall be published in accordance with Condition 14 by Nan Ya Plastics not less than 30 days prior to the date fixed for redemption.

8. TAXATION

Interest and premium (if any) payable on the Notes to non-residents of the ROC is currently subject to a withholding tax in the ROC equal to 20% of the gross amount of such interest and premium (if any). A securities transaction tax of 0.3% levied on proceeds from the sale of common shares will be payable by the seller of the common shares.

All payments in respect of the Notes by Nan Ya Plastics shall be made free and clear of and without any deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed, levied, collected, withheld or assessed by or on behalf of the government of the ROC or any authority thereof or therein having power to tax, provided that, in respect of any such deduction or withholding from any such payment, Nan Ya Plastics shall pay such additional amounts ("Additional Amounts") as will result in the receipt by the holders of the Notes of the amounts that would have been receivable in the absence of any such deduction or withholding, except that no Additional Amounts shall be payable in respect of any Note:

(i) to, or on behalf of, a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its being connected with the ROC otherwise than merely by holding such Note or by the receipt of payments in respect of the Note;

(ii) to or on behalf of a holder of the Note or its beneficial owner to the extent that such holder or beneficial owner would not be liable for or subject to such deduction or withholding by making a declaration of non-residence or other claims for exemption or deduction to the relevant tax authorities if such holder or beneficial owner is eligible to make such declaration or claim and, such holder or beneficial owner fails to do so; or

(iii) if the Definitive Certificate, if issued, in respect of the Note is presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant certificate for payment on the last day of such 30-day period.

References in these Conditions to payments in respect of the Notes shall be deemed also to refer to any Additional Amounts that may be payable in respect thereof under this Condition 8.

For the purposes of these Conditions:

"Relevant Date" in relation to any Notes means (a) the due date for payment in respect thereof, or (b) if the full amount of the monies payable on such due date has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which notice is duly given to the holders of the Notes that such monies have been so received.

9. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of the Notes of not less than 25 per cent. in principal amount of the Notes then outstanding shall (in each case subject to being indemnified and/or secured by the holders of the Notes to its satisfaction), give notice in writing to Nan Ya Plastics that the Notes are immediately due and payable, if an Event of Default (as defined below) shall have occurred and be continuing. The Trustee shall publish such notice by (i) mailing it to the holders of the Notes at their respective addresses in the register of holders of the Notes maintained by the Registrar; (ii) publishing it in a leading English language newspaper having general circulation in Europe (which is expected to be the *Financial Times, London Edition*); and (iii) so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, publishing it in a leading newspaper having general circulation in Singapore (which is expected to be *The Straits Times*). Upon any such notice being given to Nan Ya Plastics, the Notes shall immediately become due and payable at their Early Redemption Amount plus any overdue interest payable in accordance with Condition 6(D). Notwithstanding the foregoing, if any of the events specified in clauses (viii), (ix) and (x) shall have occurred, the Notes shall forthwith become immediately due and payable at their Early Redemption Amount, plus any overdue interest payable in accordance with Condition 6(D), without regard to the giving of any such notice. An "Event of Default" occurs if:

(i) Nan Ya Plastics fails to pay the principal of, premium or interest, if any, on, any of the Notes within seven days after the same shall become due and payable;

(ii) Nan Ya Plastics fails to deliver Reference Shares or Exchange Property as and when such Reference Shares or Exchange Property are required to be delivered upon the exchange of a Note (subject to the limited circumstances under which cash may be delivered in lieu of Reference Shares or Exchange Property as specified in Condition 5(B)(iv));

(iii) Nan Ya Plastics defaults in performance or observance of or compliance with any of its other obligations set out in the Notes or the Indenture, which default is incapable of remedy or, if in the opinion of the Trustee such default is capable of remedy, such default is not remedied within 30 days after written notice of such default shall have been given to Nan Ya Plastics by the Trustee;

(iv) there shall have been entered against Nan Ya Plastics or any of its Principal Associates a final judgement, decree or order by a court of competent jurisdiction for the payment of money in excess of U.S.$30,000,000 with respect to Nan Ya Plastics or any of its Principal Associates (or its equivalent in any other currency or currencies) and 30 days shall have passed since the entry of the order without it being bonded, satisfied, discharged or stayed;

(v) (a) any other present or future indebtedness of Nan Ya Plastics or any of its Principal Associates for or in respect of monies borrowed or raised becomes due and payable prior to its stated maturity by reason of an event of default, howsoever described, or any such indebtedness is not paid when due or, as the case may be, within any applicable grace period originally provided for or (b) Nan Ya Plastics or any of its Principal Associates fails to pay when due any amount payable by Nan Ya Plastics or such Principal Associate, as the case may be, under any present or future guarantee or indemnity or arrangement or obligation having a like or similar effect, howsoever described, for any monies borrowed; provided that the aggregate amount of the relevant indebtedness or amount payable in respect of which one or more events mentioned above in this paragraph (v) have occurred equals or exceeds U.S.$30,000,000 or its equivalent in any other currency (determined as provided below);

(vi) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed, or a distress, execution or seizure before judgement is levied, enforced or sued out upon, against or in respect of the whole or any substantial part of the undertaking, property, assets or revenues of Nan Ya Plastics or any of its Principal Associates and the same is not stayed, discharged, released or satisfied (as the case may be) within 60 days (or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned) of such taking of possession, appointment, levying, enforcement or suing out (as the case may be);

(vii) any person entitled to the benefit thereof shall institute legal proceedings to enforce any mortgage, charge, pledge, lien or other encumbrance upon all or a material portion of the assets, property or revenues of Nan Ya Plastics and or any of its Principal Associates, taken as a whole, unless Nan Ya Plastics or such Principal Associate, as the case may be, are contesting such proceedings in good faith by appropriate legal proceedings and have established reserves adequate in Nan Ya Plastics' judgment with respect thereto;

(viii) a decree or order by a court having jurisdiction shall have been entered adjudging Nan Ya Plastics or any of its Principal Associates bankrupt or insolvent, or approving a petition seeking Nan Ya Plastics' reorganization or that of any of its Principal Associates under any applicable bankruptcy, insolvency or reorganization law, or for the appointment of an administrator or a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of, or all or substantially all of the business or assets of, or for the winding-up or liquidation of the affairs of, Nan Ya Plastics or any of its Principal Associates;

(ix) an order is made or an effective resolution shall be passed for the winding-up, dissolution or liquidation of Nan Ya Plastics or that of any of its Principal Associates, or Nan Ya Plastics or any of its Principal Associates becomes capable of being dissolved under ROC laws (except for the purpose of and followed by a solvent reconstruction, merger, consolidation, amalgamation or other similar arrangement the terms of which are approved by the Trustee or the holders of not less than 75% in principal amount of the Notes outstanding), or Nan Ya Plastics or any of its Principal Associates shall institute proceedings to be adjudicated as a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under any applicable bankruptcy, insolvency or reorganization law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or substantially all of its business or assets, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or Nan Ya Plastics or any of its Principal Associates is unable to pay its debts as they mature, or Nan Ya Plastics or any of its Principal Associates stops or threatens to cease to carry on its business or a substantial part of its business, or corporate action shall be taken by Nan Ya Plastics or any of its Principal Associates in furtherance of any of the aforesaid purposes;

(x) proceedings shall have been initiated against Nan Ya Plastics or any of its Principal Associates under any applicable bankruptcy, insolvency, or reorganization law and such proceedings shall not have been discharged or stayed within a period of 60 days (or such longer period as the Trustee may consider appropriate on the advice of counsel);

(xi) Nan Ya Plastics shall merge, amalgamate or consolidate with any other corporation or entity or shall sell or dispose of substantially all its business or assets whether as a single transaction or a number of transactions, related or not, to any person without obtaining the prior approval of the holders of not less than 75% in principal amount of the Notes outstanding and of such person to assume the obligations of Nan Ya Plastics under the Notes and the Indenture; provided that such agreement by such other person shall not be required if such assumption shall be effective by operation of law;

(xii) a moratorium is agreed or declared in respect of any indebtedness of Nan Ya Plastics or any of its Principal Associates or any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or a substantial part of the assets or shares of Nan Ya Plastics or any of its Principal Associates;

(xiii) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order to (i) enable Nan Ya Plastics lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes and the Indenture, (ii) ensure that those obligations are legally binding and enforceable and (iii) make the Notes and the Indenture admissible in evidence in the courts of the ROC is not taken, fulfilled or done, and such case is incapable of remedy or, if in the opinion of the Trustee is capable of remedy, is not in the opinion of the Trustee remedied within such period (being not less than 30 days) as the Trustee may consider reasonable;

(xiv) it is or will become unlawful for Nan Ya Plastics to perform or comply with one or more of its material obligations under any of the Notes, the Indenture or the Agency Agreement; or

(xv) any event occurs which under the laws of the ROC, has an analogous effect to any of the events referred to in the foregoing paragraphs.

For the purposes of clause (v) above, any indebtedness which is in a currency other than US dollars shall be translated into US dollars at the spot rate for the sale of US dollars against the purchase of the relevant currency quoted by any leading bank in the relevant market selected by the Trustee on any day when the Trustee requests such a quotation for such purpose. If no direct spot rate is available, a rate shall be calculated by reference to the cross-rates through US dollars of the relevant currency.

"Principal Associates" means Formosa Petrochemical, Formosa Plastics Corporation and Formosa Chemical & Fibre Corporation.

Subject to the provisions of the following five paragraphs, the Exchange Right attached to any Notes shall survive the provision of the default notice and the acceleration and the payment of the Notes.

Notwithstanding receipt of any payment after the acceleration of the Notes, a Noteholder may still exercise its Exchange Right by depositing a further Exchange Notice (the "Default Exchange Notice") with an Exchange Agent or Paying Agent during the period from and including the date of a default notice with respect to an event specified in Condition 9(ii) herein (at which time Nan Ya Plastics will notify the Noteholders of the number of Reference Shares or Exchange Property Securities (as the case may be) per Note to be delivered upon exchange, assuming all the then outstanding Notes are exchanged) to and including the 30th business day after such payment. The date on which the Default Exchange Notice is deposited by the Noteholder with an Exchange Agent or Paying Agent is known as the "Default Exchange Date".

If any exchanging Noteholder deposits a Default Exchange Notice pursuant to this Condition 9 on the business day prior to, or during, a Closed Period, the Noteholder's Exchange Right shall continue until the business day following the last day of the Closed Period, which shall be deemed the Default Exchange Date, for the purposes of such Noteholder's exercise of its Exchange Right pursuant to this Condition 9.

If the Exchange Right attached to any Note is exercised pursuant to this Condition 9, Nan Ya Plastics will deliver Reference Shares or Exchange Property Securities (as the case may be) (which number will be disclosed to such Noteholder as soon as practicable after the Default Exchange Notice is given) in accordance with the Conditions, failing which Nan Ya Plastics will make payment in accordance with the following paragraph.

If the Exchange Right attached to any Note is exercised pursuant to this Condition 9, Nan Ya Plastics shall, if it fails to deliver the Reference Shares or Exchange Property Securities (as the case may be) within 5 days from the date of the Default Exchange Notice, pay to such exchanging Noteholder an amount (the "Default Cure Amount"), equal to the product of (x) (i) the number of Reference Shares or Exchange Property Securities (as the case may be) that are required to be delivered by Nan Ya Plastics to satisfy the Exchange Right in relation to such exchanging Noteholder minus (ii) the number of Reference Shares or Exchange Property Securities (as the case may be) that are actually delivered by Nan Ya Plastics pursuant to such Noteholder's Default Exchange Notice and (y) the Reference Price (as defined below) on the original Exchange Date; provided that if such Noteholder has received any payment under the Notes pursuant to this Condition 9, the amount of such payment shall be deducted from the Default Cure Amount.

The "Reference Price" means the closing price of the Reference Shares on the Taiwan Stock Exchange or the closing price of the Exchange Property Securities on the applicable securities exchange on which the Exchange Property Securities are listed, on the original Exchange Date or, if no reported sales take place on such date, the average of the reported closing bid and offered prices, in either case as reported by the Taiwan Stock Exchange or other applicable securities exchange on which the Exchange Property Securities are listed for such day as furnished by a reputable and independent investment bank selected from time to time by the Trustee at the expense of Nan Ya Plastics for such purpose.

10. PRESCRIPTION

Claims against any payment in respect of the Notes shall be prescribed unless made within six years from the relevant date of payment in respect thereof.

Under the laws of the ROC, claims in respect of principal and premium or interest would become unenforceable after 15 years and 5 years, respectively, from the relevant date for payment in respect thereof.

11. ENFORCEMENT

At any time after the Notes have become due and payable, the Trustee may, at its discretion and without further notice, take such proceedings against Nan Ya Plastics as it may think fit to enforce payment in respect of the Notes, including any premium and interest, and to enforce the provisions of the Indenture; provided, however, that the Trustee shall not be bound to take any such actions unless (a) it shall have been so requested in writing by the holders of at least 25% in principal amount of the Notes then outstanding or shall have been so directed by a duly convened meeting of Noteholders, and (b) it shall have been indemnified and/or secured to its satisfaction. No holder of the Notes shall be entitled to proceed directly against Nan Ya Plastics, unless (a) the Trustee, having become bound to take proceedings against Nan Ya Plastics (as described in the Indenture), fails to do so and such failure shall have continued for a period of 60 days and (b) no direction inconsistent with the Trustee taking such proceedings has been given to the Trustee during such 60-day period by the holders of not less than a majority in principal amount of the Notes then outstanding.

12. MEETINGS OF HOLDERS OF THE NOTES, MODIFICATION AND WAIVER

(A) Meetings

The Indenture will contain provisions for convening meetings of holders of the Notes to consider any matter affecting their interests, including the approval of amendments or modifications of the terms and conditions of the Notes or the provisions of the Indenture upon either the written consent of the holders of not less than a majority in principal amount of the Notes then outstanding or the approval at a meeting of holders duly called by persons entitled to vote not less than a majority in principal amount of the Notes then outstanding, with a quorum of two or more persons, holding or representing over 50% in principal amount of the Notes then outstanding; provided that no such modification of the terms and conditions of the Notes or the provisions of the Indenture may, without the consent of each holder of the Notes affected thereby:

(i) modify the Maturity Date;

(ii) reduce the principal, the Early Redemption Amount, the redemption price of, the rate of interest, if any, on, any Note or increase the Exchange Price (as adjusted in accordance with the provisions of the Indenture);

(iii) change the place or currency of payment of principal of, or interest, if any, on, any Note or the method of calculating any such payment;

(iv) impair the right to institute suit for the enforcement of any payment on any Note;

(v) alter Nan Ya Plastics' obligations relating to mergers and disposals, and the payment of Additional Amounts, as described in Conditions 3(B) and 8, respectively;

(vi) except to the extent permitted by Condition 12(B) below, modify, cancel or adversely affect the Exchange Right, Holders' Redemption Right, Relevant Event Redemption Right or Non-Redemption Option;

(vii) reduce the above-stated percentage of outstanding Notes the consent of whose holders of the Notes is necessary to modify or amend the Indenture;

(viii) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose holders of the Notes is necessary for waiver of compliance with provisions of the Indenture or for waiver of Defaults under the Indenture;

(ix) modify the provisions concerning the voting and quorum required at any meeting of holders of the Notes; or

(x) release Nan Ya Plastics from any obligation under the Indenture other than in accordance with the provisions of the Indenture, or amend or modify any provision relating to such release.

The Trustee shall publish any notice of convocation for a meeting of holders of the Notes by (i) mailing it to the holders of the Notes at their respective addresses in the register of holders of the Notes maintained by the Registrar; (ii) publishing it in a leading English language newspaper having general circulation in Europe (which is expected to be the *Financial Times, London Edition*); and (iii) so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, publishing it in a leading newspaper having general circulation in Singapore (which is expected to be *The Straits Times*).

The Indenture will provide that, in determining whether the holders of the Notes representing the requisite principal amount of Notes then outstanding are present at a meeting of holders of the Notes for quorum purposes or have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Notes owned by Nan Ya Plastics or any other obligor upon the Notes or any affiliate of Nan Ya Plastics or such other obligor shall be disregarded and deemed not to be outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such determination as to the presence of a quorum or upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes as to which the Trustee has actually received written notice shall be so disregarded.

(B) Modification of Exchange Right

Notwithstanding Condition 12(A) above, the Trustee may agree to, without the consent of the holders of the Notes, any modification to the Exchange Right that is in the Trustee's opinion (i) necessary or desirable to effect or facilitate exchange as contemplated in these Conditions and (ii) not materially prejudicial to the interests of the holders of the Notes. The Trustee's agreement may be subject to any condition which the Trustee requires, including but not limited to the delivery of an opinion of a financial or legal or other expert of recognized standing in the applicable jurisdiction, and shall be binding on the holders of the Notes. Any such modification shall be notified by Nan Ya Plastics to the holders of the Notes as soon as practicable thereafter in accordance with Condition 14 and, for so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, to the SGX-ST.

(C) Other modifications and waivers

The Trustee may also agree to, without the consent of the holders of the Notes, (i) any modification of, or the waiver or authorization of any breach or proposed breach of, the Notes, the Indenture or the Agency Agreement that is not, in the Trustee's opinion, materially prejudicial to the interests of the holders of the Notes or (ii) any modification of the Notes or the Indenture that, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. In connection with such modification, waiver or authorization, the Trustee may require a certificate from Nan Ya Plastics certifying, and a legal opinion from a legal advisor of recognized international standing advising the Trustee, that the modification, waiver or authorization is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provision of law. Any such modification, waiver or authorization shall be binding on the holders of the Note. Any such modification, waiver or authorization shall be notified by Nan Ya Plastics to the holders of the Notes as soon as practicable thereafter in accordance with Condition 14, and for so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, to the SGX-ST.

(D) Exercise of Trustee's functions

Where the Trustee is required in connection with the exercise of its powers, trusts, authorities, duties and discretions to have regard to the interests of the holders of the Notes, it shall have regard to the interests of the holders of the Notes as a class and, in particular but without prejudice to the generality of the foregoing, the Trustee shall not have regard to, or be in any way liable for, the consequences of such exercise for any individual holder resulting from it being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise, the Trustee shall not be entitled to require, and no holder of Notes shall be entitled to claim, from Nan Ya Plastics, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon such individual holder of the Notes.

13. REPLACEMENT OF CERTIFICATES

Any replacement of mutilated, defaced, destroyed, stolen or lost Definitive Certificates shall take place at the specified offices of the Registrar and Paying Agents in accordance with the provisions of the Indenture, which provisions include the following:

(i) replacement certificates shall only be issued upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as Nan Ya Plastics and the Registrar may reasonably require;

(ii) mutilated or defaced certificates must be surrendered before replacements will be issued; and

(iii) in the event any Notes represented by a mutilated, destroyed, lost or stolen Definitive Certificate has become or is about to become due and payable, Nan Ya Plastics in its discretion may, instead of issuing a new Definitive Certificate representing such Notes, make payment as consideration for the cancellation of the Notes represented thereby in accordance with the Conditions.

14. NOTICES

All notices to holders of the Notes shall be validly given if (i) made in writing in English and mailed to them at their respective addresses in the register of holders of the Notes maintained by the Registrar; (ii) published in a leading English language newspaper having general circulation in

Europe (which is expected to be the *Financial Times, London Edition*); and (iii) so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, published in a leading newspaper having general circulation in Singapore (which is expected to be *The Straits Times*).

So long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, International or the alternative clearing system (as defined in the Global Certificate), notices to holders of the Notes may be given by delivery of the relevant notice to Euroclear or Clearstream, International or the alternative clearing system, for communication by it to entitled accountholders in substitution for notification as required by the Conditions except that for so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, notice shall also be published in a leading newspaper having general circulation in Singapore (which is expected to be The Straits Times).

Any such notice shall be deemed to have been given on the later of the date of such publication and the seventh day after being so mailed.

15. INDEMNIFICATION

The Indenture contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified.

16. AGENTS

Nan Ya Plastics reserves the right, subject to the provisions of the Agency Agreement, at any time to vary or terminate the appointment of Agents; provided that it shall at all times maintain an Agent having a specified office in London and, so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, a Paying, Transfer and Exchange Agent in Singapore. Notice of any such termination or appointment, of any changes in the specified offices of the Agents, or of any change in the identity or specified office of any Exchange Agent, Paying Agent or Transfer Agent shall be given promptly by Nan Ya Plastics to the holders of the Notes in accordance with Condition 14.

17. FURTHER ISSUES

Nan Ya Plastics may from time to time, without notice to or the consent of the registered holders of the Notes, issue further debt securities which will form a single series with the Notes. These further debt securities will have the same terms as to status, redemption or otherwise as the Notes and will rank equally with the Notes of the existing series in all respects.

18. GOVERNING LAW AND JURISDICTION

(A) Governing law

The Indenture, the Agency Agreement and the Notes are governed by and shall be construed in accordance with the laws of the State of New York.

(B) Jurisdiction

The courts of the State of New York sitting in the Borough of Manhattan, The City of New York, and the federal courts of the United States sitting in the Borough of Manhattan, The City of New York, are to have jurisdiction to settle any disputes that may arise out of or in connection with the Notes and accordingly any legal action or proceedings arising out of or in connection with the Notes (“Proceedings”) may be brought in such court. Nan Ya Plastics has in the Indenture irrevocably submitted to the jurisdiction of such courts.

(C) Agent for service of process

Nan Ya Plastics has irrevocably appointed Law Debenture Corporate Services, Inc., as its agent in the State of New York to receive service of process in any Proceedings in the State of New York based on any of the Notes.

TERMS AND CONDITIONS OF THE FORMOSA CHEMICALS & FIBRE EXCHANGEABLE NOTES

The following is a description of the Terms and Conditions (the "Conditions") of the Formosa Chemicals & Fibre Exchangeable Notes (except for the sentences in italics), which includes summaries of, and is subject to, the more detailed provisions of the Indenture referred to below.

The issue of Zero Coupon Exchangeable Notes Due 2011 (the "Notes", which shall include any Optional Notes issued pursuant to the option to increase the principal amount of the Notes described in the Indenture (as defined below)) of Formosa Chemicals & Fibre Corporation ("Formosa Chemicals & Fibre") was authorized by a resolution of the board of directors of Formosa Chemicals & Fibre adopted on April 30, 2004. The Notes are initially limited to U.S.$200,000,000 aggregate principal amount (or U.S.$250,000,000 if the option granted to the Representative is exercised in full). Formosa Chemicals & Fibre may from time to time, without notice to or consent of the holders of the Notes, issue further notes, which will form a single series with the Notes. Any such additional notes will be identical in all respects to the Notes, except that any notes issued in the future will have different issuance prices and issuance dates. The Notes will be issued on or about June 30, 2004 (the "Issue Date") pursuant to an indenture (the "Indenture") dated the Issue Date between Formosa Chemicals & Fibre and The Hongkong and Shanghai Banking Corporation Limited, as trustee (the "Trustee", which term shall include all persons for the time being appointed as trustee or trustees under the Indenture) for the holders of the Notes. Formosa Chemicals & Fibre will also enter into an agency agreement (the "Agency Agreement") dated the Issue Date among, inter alia, the Trustee and The Hongkong and Shanghai Banking Corporation Limited as the registrar and principal paying, exchange, and transfer agent appointed thereunder, and any other paying, exchange and transfer agent appointed thereunder (collectively, the "Agents") in relation to the Notes. The registrar, paying agent, exchange agent and transfer agent are referred to below as the "Registrar", the "Paying Agents" (which expression shall include the Principal Paying Agent), the "Exchange Agents" and the "Transfer Agents", respectively. Copies of the Indenture and the Agency Agreement are available for inspection during normal business hours at the principal office of the Trustee and at the specified offices of each of the Agents. The holders of the Notes are entitled to the benefit of the Indenture and are bound by, and are deemed to have notice of, all of the provisions of the Indenture and the Agency Agreement.

1. STATUS

The Notes constitute senior, direct, unconditional, unsubordinated and, subject to the provisions of Condition 3, unsecured obligations of Formosa Chemicals & Fibre and shall at all times rank pari passu and without any preference or priority among themselves and, subject to the provisions of Condition 3, with all other present and future senior, direct, unconditional, unsubordinated and unsecured obligations of Formosa Chemicals & Fibre (other than any obligation preferred by mandatory provisions of law).

2. FORM, DENOMINATION AND TITLE

(A) Form and denomination

The Notes shall be issued in registered form in the denomination of U.S.$1,000 each. The Notes shall initially be represented by a global certificate (the "Global Certificate"), and only under the limited circumstances described in the Global Certificate and the Indenture shall definitive bond certificates (each a "Definitive Certificate") be issued to holders of the Notes in respect of their individual holdings. Each Note and each Definitive Certificate, if issued, shall be serially numbered and shall have an identifying number which shall be recorded on the relevant certificate and in the register of holders of the Notes, which Formosa Chemicals & Fibre shall procure to be kept by the Registrar.

The Notes will be represented by a Global Certificate which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, International.

Except in the limited circumstances described in the Global Certificate, owners of interests in the Notes represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of the Notes. The Notes are not issuable in bearer form.

(B) Title

The Notes shall be registered instruments, and title to the Notes shall pass by transfer and registration of title in the register of holders of the Notes. The holder of any Note shall, except as otherwise required by law, be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Definitive Certificate issued in respect of it), and no person shall be liable for so treating the holder. In these Conditions, "Noteholder", "holder of the Notes" and "holder" in relation to a Note shall mean the person in whose name a Note is registered in the register of holders of the Notes.

3. CERTAIN COVENANTS

(A) Negative pledge

So long as any of the Notes remains outstanding (as defined in the Indenture), Formosa Chemicals & Fibre will not, and will not permit any of its subsidiaries, to create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("Security") upon the whole or any part of the property, assets or revenues of Formosa Chemicals & Fibre or such subsidiary, as the case may be, present or future, to secure for the benefit of the holders of any International Investment Securities (as defined below) any payment of any sum due in respect of or under any guarantee of or payment indemnity or other like obligation relating to any such International Investment Securities, unless, in any such case, at the same time or prior thereto, either (i) the same Security is granted to the holders of the Notes or (ii) there is outstanding any guarantee, indemnity or other like obligation or such other security that is not materially less beneficial to the holders of the Notes or as shall be approved by holders of the Notes holding not less than 75% of the principal amount of the outstanding Notes.

For the purposes of these Conditions:

"International Investment Securities" mean bonds, debentures, notes or other similar investment securities of Formosa Chemicals & Fibre or any of its subsidiaries evidencing indebtedness with a maturity of not less than one year that (a) either (i) are by their terms payable, or confer a right to receive payment, in any currency other than NT dollars or (ii) are denominated or payable in NT dollars and more than 50% of the aggregate principal amount thereof is initially distributed outside the ROC by Formosa Chemicals & Fibre or with its authorization; and (b) are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange, quotation system or over-the-counter or other similar securities market outside the ROC.

(B) Mergers and disposals

So long as any of the Notes remains outstanding (as defined in the Indenture), Formosa Chemicals & Fibre shall not merge, amalgamate or consolidate with or into any other corporation or entity or sell or transfer all, or substantially all, of its assets, whether as a single transaction or a number of transactions, related or not, to any corporation, entity or person or to one or more members of any group under the common control of any corporation, entity or person unless:

(i) Formosa Chemicals & Fibre has notified the holders of the Notes of such event in accordance with Condition 14; and

(ii) Formosa Chemicals & Fibre and such corporation, entity or person have executed an indenture supplemental to the Indenture, in form and substance satisfactory to the Trustee, and the supplemental indenture includes the express assumption by such corporation, entity or person of Formosa Chemicals & Fibre' obligations under the Notes, the Indenture and the Agency Agreement, including the covenants contained in this Condition 3(B) relating to subsequent mergers, amalgamations, consolidations, sales or transfers.

Formosa Chemicals & Fibre shall, so long as the Notes are listed on Singapore Exchange Securities Trading Limited (the "SGX-ST") and the rules of that exchange so require, submit a copy of the supplemental indenture to the SGX-ST as soon as practicable and shall make such supplemental indenture available for inspection during normal business hours at the specified offices of the Trustee.

4. TRANSFERS OF NOTES; ISSUE OF CERTIFICATES

(A) Transfers

A Note may be transferred as follows: (i) in the case of a Note represented by a Definitive Certificate, by depositing such certificate at the specified offices of any Transfer Agent, with the form of transfer on the back of such certificate duly completed and signed, or (ii) in the case of a Note represented by the Global Certificate, by delivery at such office of a form of transfer duly completed and executed, and any other evidence that such Transfer Agent may require.

The forms of transfer are available at the specified offices of any Transfer Agent during normal business hours. Transfers of interests in the Notes evidenced by the Global Certificate shall be effected in accordance with the rules of the relevant clearing systems. Transfers of interests in Notes represented by Definitive Certificates shall be made by delivery thereof to the office of the Transfer Agent.

(B) Delivery of new Definitive Certificates

Each new Definitive Certificate to be issued upon transfer of the Notes shall, within five Business Days of receipt by the Transfer Agent of the duly signed and completed form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Notes to the address specified in the form of transfer.

Where some but not all the Notes in respect of which a Definitive Certificate is issued are to be transferred, exchanged or redeemed, a new Definitive Certificate in respect of the Notes not so transferred, exchanged or redeemed shall, within five Business Days of deposit or surrender of the original certificate with or to the relevant Agent, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred, exchanged or redeemed to the address of such holder appearing on the register of holders of the Notes.

For the purposes of this Condition 4:

"Business Day" means a day (other than a Saturday or Sunday) on which banks are open for business in the city in which the specified office of the Agent with whom a Definitive Certificate is deposited in connection with a transfer is located.

(C) Formalities free of charge

Registration of transfer of the Notes shall be effected without charge by or on behalf of Formosa Chemicals & Fibre or any of the Agents, subject to payment (and the giving of such indemnity as Formosa Chemicals & Fibre or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to it.

(D) Restricted transfer period

No holder of the Notes may require the transfer of a Note to be registered (i) during the period of 15 days ending on (and including) the due date for any payment of principal or any Early Redemption Amount (as defined herein) in respect of the Note pursuant to Condition 6, (ii) after the Note has been selected for redemption pursuant to Condition 7(B), (iii) following exercise by the holder of its option to require Formosa Chemicals & Fibre to redeem the Note pursuant to Condition 7(D) or (iv) following exercise by the holder of its option to exchange the Note pursuant to Condition 5(A) or of its Non-Redemption Option pursuant to Condition 7(C).

(E) Provisions on transfer

All transfers of the Notes and entries on the register of holders of the Notes shall be made subject to the detailed provisions concerning transfer of the Notes set forth in the Agency Agreement. Such provisions may not be changed without the prior written approval of the Trustee and the Registrar. A copy of the current provisions shall be available for inspection during normal business hours at the specified office of the Transfer Agent and shall be mailed (or sent via facsimile) by the Registrar to any holder of the Notes upon written request.

5. EXCHANGE

Within five ROC Business Days (as defined below) from each Exchange Date (as defined in Condition 5(B)(i)), Formosa Chemicals & Fibre will deliver or procure the delivery of the Reference Shares (as defined below) or the Exchange Property (as defined in Condition 5(A)(v)), as applicable, to the exchanging holder or its designee.

(A) Exchange Right

(i) *Exchange Period.* Each holder of the Notes has the right hereunder to exchange any or all of the Notes held by such holder into Reference Shares or Exchange Property, as applicable (the "Exchange Right"). The Exchange Right attaching to any Note may be exercised, at the option of the holder of the Note, at any time (i) on or after December 26, 2004 and prior to the close of business (at the place where such Note is deposited for exchange) on the day which is 10 days prior to the Maturity Date (as defined herein) (or if such day shall not be a Business Day (as defined below) at such place, on the immediately preceding Business Day at such place) (but in no event thereafter) or (ii) if such Note shall have been called for redemption on a redemption date on or prior to the Maturity Date (as defined herein) (or if such day shall not be a Business Day at the place where such Note is deposited for exchange, on the immediately preceding Business Day at such place), then up to the close of business (at the place aforesaid) on the seventh Business Day prior to the date fixed for redemption thereof (or if such day shall not be a

Business Day at such place, on the immediately preceding Business Day at such place) (the "Exchange Period"); provided, however, that the Exchange Right during any Closed Period (as defined below) shall be suspended and the Exchange Period shall not include any such Closed Period. Holders of the Notes shall be given not less than 10 and not more than 60 days' notice in accordance with Condition 14 of the commencement of any Closed Period.

For the purposes of these Conditions:

"Closed Period" means (i) the 60-day period prior to the date of any general shareholders' meetings of Formosa Petrochemical (as defined below) or of an issuer of Exchange Property Securities (as defined below) organized in the ROC; (ii) the 30-day period prior to the date of any special shareholders' meetings of Formosa Petrochemical or any such issuer of Exchange Property Securities organized in the ROC; (iii) the five days prior to the record date for determination of shareholders entitled to receive dividends or rights distributions or other benefits and bonuses determined by Formosa Petrochemical or such issuer of Exchange Property Securities (as the case may be); and (iv) such other periods during which Formosa Petrochemical or any such issuer of Exchange Property Securities may be required to close its stock transfer books under ROC laws and regulations applicable from time to time.

"Formosa Petrochemical" means Formosa Petrochemical Corporation.

"Formosa Petrochemical Common Shares" shall mean (a) fully-paid and non-assessable shares of the capital stock of Formosa Petrochemical, which are designated as common capital stock of Formosa Petrochemical, par value NT$10 per share, together with shares of any class or classes resulting from any subdivision, consolidation or reclassification of those shares, and (b) fully-paid and non-assessable shares of any class or classes of the capital stock of Formosa Petrochemical authorized after the date of the Indenture, which in either case, as between them, have no preference in respect of dividends or amounts payable in the event of any voluntary or involuntary liquidation or winding-up of Formosa Petrochemical.

"Exchange Property Securities" means any securities (including, without limitation, any options, warrants, rights or evidences of indebtedness) of the one or more series constituting the Exchange Property from time to time.

"Offer" means an offer to acquire Exchange Property Securities of any series, whether expressed as a legal offer, an invitation to tender or in any other way, in circumstances where such offer is available to all holders of the applicable Exchange Property Securities or all such holders other than any holder who is, or is connected with, or is deemed to be acting in concert with, the person making such offer (or is excluded from the offer by reason of being connected with one or more specific jurisdictions).

"Reference Shares" means Formosa Petrochemical Common Shares, currently owned or to be owned by Formosa Chemicals & Fibre.

"Scheme" means a scheme of arrangement, merger, amalgamation, reorganization, reconstruction, demerger, compromise, liquidation, dissolution, or similar matter (whether or not involving liquidation or dissolution).

"Trading Day" means a day when the Taiwan Stock Exchange is open for business.

For the purposes of this Condition 5:

"Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in Hong Kong and the city in which the specified office of the Exchange Agent with whom an Exchange Notice is deposited in connection with the exchange is located.

"ROC Business Day" means a day on which commercial banks are open for business in Taipei, Taiwan, the Republic of China.

Under current ROC law, regulation and policy, PRC persons are not permitted to exchange the Notes or to register as a shareholder of Formosa Petrochemical or any other entity incorporated in the ROC. Under current ROC law, "PRC person" means an individual holding a passport issued by the PRC; a resident of any area of China under the effective control or jurisdiction of the PRC (but not including a special administrative region of the PRC such as Hong Kong or Macau, if so excluded by applicable laws of the ROC); and save as aforesaid, any agency or instrumentality of the PRC; and any corporation, partnership or other entity organized under the laws of any such area or controlled or beneficially owned by any such person, resident, agency or instrumentality.

Under current ROC law, a non-ROC exchanging holder of the Notes, when exercising its exchange right to exchange the Notes, is required to appoint a Tax Guarantor (whose qualifications are set by the ROC Ministry of Finance), in the ROC to file tax returns and make tax payments on its behalf. In addition, a non-ROC exchanging holder is required to appoint a local agent in the ROC with such qualifications as are set by the ROC Securities and Futures Commission. Such local agent shall open a securities trading account with a local brokerage firm and an NT dollar bank account, remit funds, exercise shareholders' rights and perform such other matters as may be designated by such exchanging holder on behalf of and as agent for such person. In addition, such non-ROC exchanging holder must also appoint a custodian bank to hold the securities for safekeeping, make confirmation and settlement of trades, and report all relevant information. Without first obtaining the approval of the Taiwan Stock Exchange and opening such accounts, the exchanging holder of the Notes would not be able to hold or sell or otherwise transfer the shares received on the Taiwan Stock Exchange or otherwise.

(ii) *Number of Reference Shares Deliverable on Exchange.* The number of Reference Shares deliverable upon exchange of any Note shall be determined by dividing the principal amount of the Note (translated into NT dollars at a fixed exchange rate of NT$33.733 = U.S.$1.00, the "Fixed Exchange Rate") by the Exchange Price (as defined in Condition 5(A)(iii)) in effect on the Exchange Date (as defined in Condition 5(B)(i)). If more than one Note shall be deposited for exchange at any one time by the same holder of the Notes, the number of Reference Shares to be delivered upon exchange thereof shall be calculated on the basis of the aggregate principal amount of the Notes so deposited. Fractions of Reference Shares shall not be delivered on exchange, and cash adjustments shall not be made in respect thereof by Formosa Chemicals & Fibre. Notwithstanding the foregoing, in the event of a consolidation or reclassification of Reference Shares by operation of law or otherwise that occurs after the date of the original issuance of the Notes, Formosa Chemicals & Fibre shall upon exchange of the Notes pay in US dollars a sum equal to such portion of the principal amount of the Notes deposited for exchange as corresponds to any fraction of a Reference Share not delivered as aforesaid if such sum exceeds U.S.$10. For the purpose of calculating the amount of such payment, Formosa Chemicals & Fibre shall use the Fixed Exchange Rate.

(iii) *Initial Exchange Price.* The price at which Reference Shares shall be delivered upon exchange (the "Exchange Price") shall initially be NT$58.3 per Reference Share (the "Initial Exchange Price"), but shall be subject to adjustment in the manner provided in Condition 5(C).

(iv) *Revival on Default.* Notwithstanding the provisions of Condition 5(A)(i), if an Event of Default (as defined in Condition 9) occurs, the Exchange Right attaching to a Note shall continue to be exercisable up to and including the close of business at the place where the relevant Exchange Notice (as defined in Condition 5(B)(i)) is deposited for exchange on the date upon which the full amount of the monies payable in respect of such Note has been duly received by the Trustee or the Principal Paying Agent and notice of such receipt has been duly given to the holders of the Notes.

(v) *Delivery of the Exchange Property Following a Change of Control of Formosa Petrochemical.* Following the effective date of a Change of Control (as defined in Condition 7(D)) of Formosa Petrochemical, the Exchange Right attaching to each Note shall entitle the holder of such Note only to the Exchange Property (the "Exchange Property"). The Exchange Property shall consist of either (i) Reference Shares, if Formosa Petrochemical is the surviving entity, or (ii) such securities or assets (including cash) as are receivable by Formosa Chemicals & Fibre as the holder of the Reference Shares in connection with such Change of Control, if Formosa Petrochemical is not the surviving entity. On the exercise of Exchange Rights following a Change of Control, Noteholders shall be entitled to the delivery or transfer to, or to the order of, each relevant Noteholder of a pro rata share of the Exchange Property per U.S.$1,000 principal amount of Notes outstanding as of the Deposit Date and at the Exchange Price in effect at the time of the Change of Control.

(a) To the extent that (1) any Exchange Property Securities are subject to subdivision, consolidation or reclassification, (2) any warrants, options or rights are issued with respect to Exchange Property Securities, or (3) any Exchange Property Securities are subject to cash dividends or bonus or dividend issues of securities, Capital Distributions or Schemes, such assets shall be included in the Exchange Property as set forth in the Indenture.

(b) Formosa Chemicals & Fibre shall monitor all corporate actions by the issuers of securities constituting Exchange Property, including, but not limited to, the declaration and distribution of dividends, interest, rights issues, bonus issues, capital distributions, reorganizations, subdivisions, consolidations, reclassifications, and Offers and Schemes. Formosa Chemicals & Fibre shall give notice to the Trustee and the Calculation Agent (as defined below) containing details of any change in composition of the Exchange Property as soon as reasonably practicable following such change. Notice of any such change will be provided to the Noteholders as soon as practicable.

(c) Formosa Chemicals & Fibre hereby agrees that, following a Change of Control of Formosa Petrochemical and for so long as any of the Notes remain outstanding, there will at all times be a calculation agent (the "Calculation Agent"), which shall be an investment bank of international repute, appointed to check Formosa Chemicals & Fibre' calculation of, among other things, the pro rata share of the Exchange Property with respect to each U.S.$1,000 in principal amount of the Notes to be delivered to an exchanging Noteholder. The Calculation Agent is not obliged to check any such calculation unless, and until, Formosa Chemicals & Fibre provides to the Calculation Agent such calculation. The Calculation Agent may appoint, at the expense of Formosa Chemicals & Fibre, an independent financial advisor for the purpose of verifying any calculation made under Condition 5(A)(v).

(vi) *Share Custody.* Formosa Chemicals & Fibre will deposit 115,722,120 Reference Shares ("Initial Custody Shares") with the Trustee on December 26, 2004. Formosa Chemicals & Fibre will also deposit additional Reference Shares and Exchange Property (any such additional Reference Shares or Exchange Property, together with the Initial Custody Shares, the "Custody Property") with the Trustee as necessary to maintain the number of Reference Shares and other Exchange Property on deposit with the Trustee that would be deliverable upon exchange of the outstanding Notes. Additionally, Formosa Chemicals & Fibre will not transfer or deliver any Custody Property to any third party except for the purpose of delivering the Custody Property to exchanging Noteholders.

Under ROC law, this is not an escrow arrangement nor does it create a charge in favor of the Noteholders. In addition, the Reference Shares remain an asset of Formosa Chemicals & Fibre subject to third party claims.

(B) Exchange procedures

(i) *Exercise Procedures; Exchange Notice; Deposit Date; Exchange Date.* To exercise the Exchange Right attaching to any Note, a holder of the Note shall deposit the following at its own expense during normal business hours on any Business Day on which the Note is presented for exchange during the Exchange Period at the specified office of an Exchange Agent outside the ROC:

(a) a notice of exchange (an "Exchange Notice") in duplicate, duly completed and signed, in the then current form obtainable from the specified office of any Exchange Agent, together with the relevant Definitive Certificate, if issued, in respect of the relevant Note;

(b) any certificates and other documents as may be required under the law of the ROC or the jurisdiction in which such Exchange Agent shall be located; and

(c) any amount required to be paid by the holder of the Note referred to in Condition 5(B)(ii) below.

Any of the above items deposited outside the hours specified above or on a day that is not a Business Day shall for all purposes be deemed to have been deposited with that Agent on the immediately succeeding Business Day. The Exchange Notice shall contain, among other things, (i) the appointment of a local agent; (ii) an irrevocable instruction to exchange the Notes into Reference Shares or Exchange Property, as applicable; and (iii) other information required by ROC laws and regulations. Once deposited, the Exchange Notice may not be withdrawn without Formosa Chemicals & Fibre' consent in writing. The price at which such Note shall be exchanged shall be the Exchange Price in effect on the Exchange Date (as defined below).

The Exchange Notice shall include a certification that, at the time of such exchange, the exchanging holder is not in the United States, is not a U.S. person (as defined in Regulation S under the Securities Act) and is not exchanging the Notes on behalf of a U.S. person.

Formosa Chemicals & Fibre will covenant in the Indenture that Formosa Chemicals & Fibre will send to the Trustee an Officer's Certificate, which certificate the Trustee may exclusively rely on, certifying to the best knowledge of such officer, there has been no change in the laws or regulations of the ROC affecting the exchange of the Notes, including any changes in ROC laws or regulations in connection with any certificates or other documents required for the exchange of the Notes.

For the purposes of these Conditions:

"Deposit Date" means the first date on which (i) the Definitive Certificate, if issued, in respect of the Note to be exchanged, (ii) a duly signed and completed Exchange Notice (in duplicate), (iii) any certificates or other documents, as may be required, relating thereto, and (iv) the payments referred to in Condition 5(B)(ii) below, as may be required, have all been deposited with an Exchange Agent.

"Exchange Date" means the ROC Business Day next following the Deposit Date that is not within a Closed Period.

(ii) *Taxes and Expenses.* As conditions precedent to the exercise of the Exchange Right attaching to any Note, together with the delivery of the Exchange Notice, the Definitive Certificate, if issued, and any certificates or other documents as may be required, the holder of the Note must pay all stamp, issue, registration and similar taxes and duties, if any, arising on exchange in the country in which the Note is deposited for exchange or payable in any jurisdiction upon delivery of Reference Shares or Exchange Property, as applicable, or any other property or cash upon exchange to or to the order of the exchanging holder of the Note or any other person. Except as aforesaid, Formosa Chemicals & Fibre shall pay the expenses arising in the ROC on the delivery of Reference Shares or Exchange Property, as applicable, upon exchange of the Note and all charges and expenses of the Exchange Agents in connection therewith.

(iii) *Transfer of Beneficial Ownership in Reference Shares or Exchange Property Securities.* With effect from the opening of business in the ROC on the Exchange Date, Formosa Chemicals & Fibre will use its best efforts to cause Formosa Petrochemical, or any issuer of Exchange Property Securities, as applicable, to deem the exchanging holder of a Note as indicated in the Exchange Notice to be the beneficial owner of the number of Reference Shares, or the relevant Exchange Property, as applicable, to be delivered upon such exchange, disregarding any retroactive adjustment of the Exchange Price referred to below prior to the time such retroactive adjustment shall have become effective. At such time, subject to Condition 5(B)(v), the rights of such exchanging holder with respect to the Note deposited for exchange shall cease, except rights arising under Condition 5(B)(vi).

(iv) *Cash Payment Option.* Within three ROC Business Days after the Exchange Date, to the extent permitted under applicable laws Formosa Chemicals & Fibre may elect to deliver the Cash Equivalent (as defined in Condition 5(B)(v)) in lieu of the Reference Shares and Exchange Property, as applicable, to satisfy the exchange of any Note (the "Cash Payment Option"). To exercise its Cash Payment Option, Formosa Chemicals & Fibre will as soon as practicable after receipt of an Exchange Notice and in any event within three ROC Business Days after the Exchange Date, deliver a cash payment notice (the "Cash Payment Notice") to the exchanging Noteholder stating that cash payment in lieu of delivery of Reference Shares and Exchange Property, as applicable, shall be made pursuant to this Condition 5(B)(iv) and the number of Reference Shares or Exchange Property Securities for which cash payment will be made. In the event that Formosa Chemicals & Fibre, subsequent to an exercise of the Cash Payment Option, fails to pay the Cash Equivalent (as defined below) within 30 days after the date of the Cash Payment Notice, Formosa Chemicals & Fibre' exercise of the Cash Payment Option will be null and void and the respective Noteholder will be entitled to receive delivery of the Reference Shares and any Exchange Property, as applicable.

(v) *Delivery of Reference Shares, Exchange Property or Cash Equivalent.* Except with respect to the exchange of any Note or any portion thereof for which Formosa Chemicals & Fibre has exercised its Cash Payment Option, Formosa Chemicals & Fibre will ensure that, on the Exchange Delivery Date, Formosa Petrochemical or the issuer of Exchange Property Securities, as applicable, registers the exchanging holder of a Note or such exchanging holder's designee in the shareholders' register of Formosa Petrochemical or such other issuer as the owner of the number of Reference Shares to be delivered pursuant to Condition 5(B)(iii), or Exchange Property Securities to be delivered pursuant to Condition 5(B)(vi), upon exchange of such Notes. Subject to any applicable limitations then imposed by ROC laws and regulations, Formosa Chemicals & Fibre shall deliver in accordance with the Indenture and the request made in the relevant Exchange Notice as soon as practicable, and in any event within five ROC Business Days (subject to applicable law) following the Exchange Date, for the benefit of the exchanging holder, the following:

(a) the relevant Reference Shares or Exchange Property Securities, through book-entry transfer to an account registered in the name of the exchanging holder or its designee at Taiwan Securities Central Depository Co., Ltd.;

(b) any other property or cash (including, any cash payable pursuant to Condition 5(A)(ii)) (other than the Cash Equivalent) required to be delivered upon exchange; and

(c) such documents as may be required by law to effect the delivery thereof; and

as soon as practicable, and in any event no later than 30 days after the date of the Cash Payment Notice, any Cash Equivalent (as defined below).

The "Exchange Delivery Date" shall be the date on which such transfer is completed, although no later than the fifth ROC Business Day after the relevant Exchange Date.

For the purposes of these Conditions:

"Cash Equivalent" means, if and to the extent that Formosa Chemicals & Fibre has exercised the Cash Payment Option to satisfy the exchange of any Note, pursuant to Condition 5B(iv), an amount in US dollars equal to the product of (x) the average closing prices of the Reference Shares or the Exchange Property Securities on the Taiwan Stock Exchange or other applicable exchange for 20 consecutive Trading Days starting from the applicable date of the Cash Payment Notice (or such fewer number of Trading Days as available within 30 days after the applicable date of the Cash Payment Notice) converted to US dollars at the Prevailing Rate of each such Trading Day and (y) the number of Reference Shares or Exchange Property Securities specified in the Cash Payment Notice.

"Prevailing Rate" for any Trading Day means U.S. dollar/NT dollar noon buying rate published by the Federal Reserve Bank of New York on such Trading Day or, if no buying rate is quoted on such Trading Day, the last available buying rate quoted on the immediately preceding Trading Day.

Formosa Petrochemical has certain disclosure obligations and reporting obligations under ROC law and regulations if:

(i) *the person to be registered as a shareholder is a "related party" of Formosa Petrochemical under the Statement of Financial Accounting Standard No. 6 of the ROC and such person beneficially owns Reference Shares exchanged from the Notes, or*

(ii) *the person to be registered as a holder of Reference Shares owns Reference Shares received on exchange of his Notes, and the Reference Shares exchanged exceed 10% of the total number of Reference Shares expected to be exchanged based on the exchange price at the time of issue of the Notes.*

These obligations may also apply to issuers of Exchange Property Securities. Due to these obligations, the Indenture provides that, if Formosa Chemicals & Fibre so instruct, the Trustee may ask exchanging holders of the Notes to disclose the name of the person to be registered as the shareholder and to provide proof of identity and genuineness of any signature and other documents before it exchanges the Notes. The exchange of the Notes may be delayed until the Trustee receives the required information and evidence of compliance with relevant laws and regulations by the exchanging holder of the Notes. The information that an exchanging holder of the Notes is required to provide includes the name and nationality of the person to be registered as shareholder and the total number of Reference Shares, or Exchange Property Securities, as applicable, such person has or will receive as a result of the exchange of the Notes it holds.

In the event the exchange of a Note shall result in a payment to the exchanging holder as provided above, Formosa Chemicals & Fibre shall deliver a notice setting forth the above details to the address of the exchanging holder appearing on the register of holders of the Notes.

(vi) *Retroactive Adjustment of Exchange Price.* If (a) the Exchange Date in relation to any Note shall be on or after a date on which a decrease to the Exchange Price takes retroactive effect pursuant to any of the provisions referred to in Condition 5(C) and the Indenture and (b) the relevant Exchange Date falls on a date when the relevant adjustment has not been reflected in the Exchange Price, Formosa Chemicals & Fibre shall, (i) in the event that it is entitled to receive property from Formosa Petrochemical in connection with the event that caused the Antidilution Adjustment, within 5 ROC Business Days of the receipt of such property or (ii) in the event that it is not entitled to receive any such property in connection with the event that caused the Antidilution Adjustment, within 20 days of such adjustment of the Exchange Price, deliver to the local agent appointed by the exchanging holder of the Note such number of Reference Shares as is equal to the excess of (1) the number of Reference Shares that would have been required to be delivered on exchange of such Note if the relevant retroactive adjustment had been made as of the said Exchange Date over (2) the number of Reference Shares previously delivered pursuant to such exchange, or such number of Exchange Property Securities as would otherwise be appropriate; and in such event and in respect of such number of Reference Shares or Exchange Property Securities, references in Conditions 5(B)(iii) and 5(B)(iv) to the Exchange Date shall be deemed to refer to the date upon which such retroactive adjustment becomes effective disregarding the fact that it becomes effective retroactively. Fractions of shares shall not be delivered, and no cash adjustment shall be made in respect thereof.

(vii) *Entitlements on Exchange.* With effect from, and including, the Exchange Delivery Date, the exchanging Noteholder shall, as between it and Formosa Chemicals & Fibre, be entitled to exercise all rights in respect of the Reference Shares, or Exchange Property Securities, as applicable, and receive all income or other assets arising out of the Reference Shares, or Exchange Property Securities, as applicable (except where such rights, income or other assets accrue by reference to a record date which precedes the Exchange Delivery Date). The rights of an exchanging Noteholder in respect of the Reference Shares, or Exchange Property Securities, as applicable, as between it and any other person shall be as provided by applicable law or regulation. In particular, the rights of the exchanging Noteholder with respect to Reference Shares, or Exchange Property Securities, as applicable, as between it and Formosa Petrochemical or the issuer of the Exchange Property Securities, as applicable (assuming that the issuer is an ROC corporation), will be determined by the date on which the name of the Noteholder (or its designee) is registered as owner of the Reference Shares, or Exchange Property Securities, as applicable, in the applicable shareholders' register.

As permitted by ROC law and regulations, if the Exchange Date falls within five ROC Business Days before the beginning of, and during, a Closed Period, a Noteholder (or its designee) will not be registered as owner of the Reference Shares or Exchange Property Securities in the shareholders' register of Formosa Petrochemical or the issuer of the Exchange Property Securities, as applicable (assuming that the issuer is an ROC corporation), until the Closed Period lapses. As a result, the right of an exchanging Noteholder to attend a shareholders meeting to vote with respect to the Reference Shares or Exchange Property Securities it receives upon the exchange of the Notes will not be recognized by Formosa Petrochemical or the issuer of the Exchange Property Securities, as applicable (assuming that the issuer is an ROC corporation), until such Noteholder (or its designee) is registered as owner of the Reference Shares or Exchange Property Securities in the shareholders' register.

Subject to the following paragraph and assuming no Change of Control of Formosa Petrochemical (where Formosa Petrochemical is not the surviving entity), Formosa Chemicals & Fibre will ensure that the Reference Shares delivered on exchange of Notes (if applicable) will in all respects rank pari passu with the Reference Shares in issue on the relevant Exchange Delivery Date (except for any right the record date for which precedes the date on which the Exchanging Noteholder (or its designee) is registered as the owner of the Reference Shares in the shareholders' register of Formosa Petrochemical, and except for any other right excluded by mandatory provisions of applicable law).

The Reference Shares or the Exchange Property Securities, as applicable, to be delivered on exercise of Exchange Rights shall not include any dividends or other income thereon declared or paid by reference to a record date prior to the Exchange Date. The Reference Shares or the Exchange Property Securities, as applicable, delivered pursuant to exercise of Exchange Rights shall qualify for dividends or other distributions declared or paid by reference to any record date in respect of such dividends or distributions falling after the Exchange Date.

(viii) *Dividend Shares.* If an Exchange Date in relation to any exchanged Note shall fall within five ROC Business Days before the beginning of, or during, a Closed Period, Formosa Chemicals & Fibre will not be able to transfer and deliver to the exchanging Noteholder any dividend shares, if any, in relation to Reference Shares or Exchange Property Securities, as applicable (assuming that the issuer is an ROC corporation), delivered upon the exchange of the Notes during such period, because, according to the law and regulations of the ROC, ROC corporations are restricted from registering the exchanging Noteholder as an owner of securities. Such transfer and delivery of dividend shares will be made by Formosa Chemicals & Fibre after the expiry of the Closed Period and within five ROC Business Days after the receipt of such dividend shares by Formosa Chemicals & Fibre.

(ix) *Exchange Agents.* Formosa Chemicals & Fibre reserves the right, subject to the provisions of the Agency Agreement and with the prior written consent of the Trustee, to vary or terminate the appointment of any Exchange Agent and to appoint other Exchange Agents at any time; provided that Formosa Chemicals & Fibre shall at all times maintain an Exchange Agent having specified a office in London and, so long as the Notes are listed on the SGX-ST and the rules of the exchange so require, in Singapore. Notice of any such termination or appointment and of any changes in the specified offices of the Exchange Agents shall be given promptly by Formosa Chemicals & Fibre to the holders of the Notes in accordance with Condition 14 and, so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, to the SGX-ST.

(x) *Depositary Receipts. Formosa Chemicals & Fibre may, at its option, but is not required to, make arrangements satisfactory to the Trustee for the Notes to be exchanged for depositary receipts or other scrip evidencing the common shares of Formosa Petrochemical. Any such arrangements shall be in addition to the provisions of these Conditions relating to exchange of Notes into common shares of Formosa Petrochemical.*

Formosa Petrochemical has not, at the date of this Offering Circular, established or authorized the establishment of any depositary receipt facility. Accordingly, the option to exchange Notes for depositary receipts is not and may not be available in the foreseeable future. If in the future a depositary receipt facility is established or authorized by Formosa Petrochemical, Formosa Chemicals & Fibre may, at its option, but is not required to, to the extent permitted by applicable laws and regulations, make arrangements satisfactory to the Trustee for common shares of Formosa Petrochemical delivered on exchange of Notes to be accepted for deposit (at the option of the exchanging holder of the Notes) into such depositary receipt facility, subject always to the terms of such depositary receipt facility, which terms may include certification or other requirements as conditions to the acceptance for deposit of the common shares of Formosa Petrochemical. In such an event, Formosa Chemicals & Fibre will give notice of any such arrangements to holders of the Notes in accordance with Condition 14. There can be no assurance that Formosa Petrochemical will in the future establish or authorize any depositary receipt facility or that any arrangements for the deposit of the common shares of Formosa Petrochemical into such depositary receipt facility would be available to all holders of the Notes.

(xi) *Adjustment of Global Certificate on the Exchange of Notes.* Where Exchange Rights are exercised in respect of only some of the Notes represented by a Global Certificate, the principal amount of such Notes shall be noted on the relevant schedule to such Global Certificate and, on the Exchange Date the principal amount of such Global Certificate shall be reduced accordingly.

(C) Adjustments to Exchange Price

The Exchange Price shall be subject to adjustment as follows, each such adjustment an "Antidilution Adjustment":

(i) *Free distribution, bonus issue, division, consolidation and reclassification of Reference Shares:*

If Formosa Petrochemical shall (a) make a free distribution of Reference Shares, (b) make a bonus issue of Reference Shares, (c) divide the outstanding Reference Shares, (d) consolidate the outstanding Reference Shares into a smaller number of Reference Shares, or (e) re-classify any of the Reference Shares into other securities of Formosa Petrochemical, then the Exchange Price shall be appropriately adjusted so that the holder of any Note, the Exchange Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5(C)(i), shall be entitled to receive on exercise of the Exchange Right the number of Reference Shares and/or other securities of Formosa Petrochemical which he would have held or have been entitled to receive after the happening of any of the events described above had such Note been exchanged immediately prior to the happening of such event (or, if Formosa Petrochemical has fixed a prior record date for the determination of shareholders entitled to receive any such free distribution or bonus issue of Reference Shares or other securities issued upon any such division, consolidation or reclassification, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Exchange Price made with effect from the date of the happening of such event (or such record date) or any time thereafter.

Effective date of adjustment: An adjustment made pursuant to this Condition 5(C)(i) shall become effective immediately on the relevant event referred to in this Condition 5(C)(i) becoming effective or, if a record date is fixed therefor, immediately after such record date; provided that in the case of a free distribution or bonus issue of Reference Shares which must, under applicable laws of the ROC, be submitted for approval to a general meeting of shareholders or be approved by a meeting of the board of directors of Formosa Petrochemical before being legally paid or made, and which is so approved after the record date fixed for the determination of shareholders entitled to receive such distribution or issue, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date.

(ii) *Declaration of dividend in Reference Shares:*

If Formosa Petrochemical shall declare a dividend in Reference Shares then the Exchange Price shall be appropriately adjusted so that the holder of any Note, the Exchange Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5(C)(ii), shall be entitled to receive on exercise of the Exchange Right the number of Reference Shares and/or other securities of Formosa Petrochemical which he would have held or would have been entitled to receive after the date when such dividend is declared had such Note been exchanged immediately prior to the happening of such event (or, if Formosa Petrochemical has fixed a prior record date for the determination of shareholders entitled to receive such dividend, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Exchange Price made with effect from the date of the happening of such event (or such record date) or any time thereafter. No account is to be taken of, or credit given for, the par value of Reference Shares issued in a dividend in Reference Shares in calculating the appropriate Exchange Price adjustment, so that the full dilutive effect is provided for.

Effective date of adjustment: An adjustment made pursuant to this Condition 5(C)(ii) shall become effective immediately on the relevant event referred to in this Condition 5(C)(ii) becoming effective or, if a record date is fixed therefor, immediately after such record date; provided that in the case of a dividend in Reference Shares which must, under applicable laws of the ROC, be submitted for approval to a general meeting of shareholders of Formosa Petrochemical before being legally paid or made, and which is so approved after the record date fixed for the determination of shareholders entitled to receive such dividend, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date.

(iii) ***Concurrent adjustment events:***

If Formosa Petrochemical shall declare a dividend in, or make a free distribution or bonus issue of, Reference Shares, which dividend, issue or distribution is to be paid or made to shareholders as of a record date which is also:

(a) the record date for the issue of any rights or warrants which requires an adjustment of the Exchange Price pursuant to Condition 5(C)(iv), 5(C)(v) or 5(C)(vi);

(b) the day immediately before the date of issue of any securities convertible into or exchangeable for Reference Shares which requires an adjustment of the Exchange Price pursuant to Condition 5(C)(viii);

(c) the day immediately before the date of issue of any Reference Shares which requires an adjustment of the Exchange Price pursuant to Condition 5(C)(ix) or (if applicable) the record date for the determination of stock dividend entitlement as referred to in Condition 5(C)(ix);

(d) the day immediately before the date of issue of any rights, options or warrants which requires an adjustment of the Exchange Price pursuant to Condition 5(C)(x); or

(e) determined by Formosa Chemicals & Fibre and notified by Formosa Chemicals & Fibre to the Trustee in writing to be the relevant date for an event or circumstance which requires an adjustment to the Exchange Price pursuant to Condition 5(C)(xii),

then (except where such dividend, bonus issue or free distribution gives rise to a retroactive adjustment of the Exchange Price under Condition 5(C)(i) or 5(C)(ii)) no adjustment of the Exchange Price in respect of such dividend, bonus issue or free distribution shall be made under this Condition 5(C)(iii), but in lieu thereof an adjustment shall be made under Condition 5(C)(iv), 5(C)(v), 5(C)(vi), 5(C)(viii), 5(C)(ix) or 5(C)(x) (as the case may require) by including in the denominator of the fraction described therein the aggregate number of Reference Shares to be issued pursuant to such dividend, bonus issue or free distribution.

(iv) ***Rights issues to shareholders:***

If Formosa Petrochemical shall grant, issue or offer to the holders of Reference Shares rights entitling them to subscribe for or purchase Reference Shares (including those Reference Shares which are required to be offered to employees and persons other than shareholders in connection with such grant, issue or offer):

(a) at a consideration per Reference Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) which is fixed on or prior to the record date mentioned below and is less than the Current Market Price (as defined in Condition 5(C)(xiv)) per Reference Share at such record date; or

(b) at a consideration per Reference Share receivable by Formosa Petrochemical which is fixed after the record date mentioned below and is less than the Current Market Price per Reference Share on the date Formosa Petrochemical fixes the said consideration,

then the Exchange Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such rights or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

where:

NEP = the Exchange Price after such adjustment.

OEP = the Exchange Price before such adjustment.

N = the number of Reference Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC (in a case within (a) above) on such record date or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration.

n = the number of Reference Shares initially to be issued upon exercise of such rights at the said consideration being (aa) the number of Reference Shares which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Reference Shares for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa).

v = the number of Reference Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Reference Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective immediately after the latest date for the submission of applications for such Reference Shares by shareholders entitled to the same pursuant to such rights or (if later) immediately after Formosa Petrochemical fixes the said consideration but retroactively to immediately after the record date mentioned above.

Rights not taken up by shareholders: If, in connection with a grant, issue or offer to the holders of Reference Shares of rights entitling them to subscribe for or purchase Reference Shares, any Reference Shares which are not subscribed for or purchased by the persons entitled thereto are underwritten by other persons prior to the latest date for the submission of applications for such Reference Shares, an adjustment shall be made to the Exchange Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after Formosa Petrochemical fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Reference Shares of rights entitling them to subscribe for or purchase Reference Shares, any such Reference Shares which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred such rights) who have submitted applications for such Reference Shares as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Exchange Price by reason of such offer and/or subscription.

(v) *Warrants issued to shareholders:*

If Formosa Petrochemical shall grant, issue or offer to the holders of Reference Shares warrants entitling them to subscribe for or purchase Reference Shares:

(a) at a consideration per Reference Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) which is fixed on or prior to the record date for the determination of shareholders entitled to receive such warrants and is less than the Current Market Price per Reference Share at such record date; or

(b) at a consideration per Reference Share receivable by Formosa Petrochemical which is fixed after the record date mentioned above and is less than the Current Market Price per Reference Share on the date Formosa Petrochemical fixes the said consideration,

then the Exchange Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such warrants or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Reference Shares outstanding (having regard to Condition 5(C)(xvi) at the close of business in the ROC (in a case within (a) above) on such record date or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration.

n = the number of Reference Shares to be issued upon exercise of such warrants at the said consideration which, where no applications by shareholders entitled to such warrants are required, shall be based on the number of warrants issued. Where applications by shareholders entitled to such warrants are required, the number of such Reference Shares shall be calculated based upon (aa) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of warrants for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa).

v = the number of Reference Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Reference Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective (i) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (ii) where applications by shareholders entitled to the same are required as aforesaid, immediately after the latest date for the submission of such applications or (if later) immediately after Formosa Petrochemical fixes the said consideration but in all cases retroactively to immediately after the record date mentioned above.

Warrants not subscribed for by shareholders: If, in connection with a grant, issue or offer to the holders of Reference Shares of warrants entitling them to subscribe for or purchase Reference Shares in the circumstances described in (a) and (b) of this Condition 5(C)(v), any warrants which are not subscribed for or purchased by the shareholders entitled thereto are underwritten by others prior to the latest date for the submission of applications for such warrants, an adjustment shall be made to the Exchange Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after Formosa Petrochemical fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Reference Shares of warrants entitling them to subscribe for or purchase Reference Shares, any warrants which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred the right to purchase such warrants) who have submitted applications for such warrants as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Exchange Price by reason of such offer and/or subscription.

(vi) *Issues of rights or warrants for equity-related securities to shareholders:*

If Formosa Petrochemical shall grant, issue or offer to the holders of Reference Shares rights or warrants entitling them to subscribe for or purchase any securities convertible into or exchangeable for Reference Shares:

(a) at a consideration per Reference Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) which is fixed on or prior to the record date mentioned below and is less than the Current Market Price per Reference Share at such record date; or

(b) at a consideration per Reference Share receivable by Formosa Petrochemical (determined as aforesaid) which is fixed after the record date mentioned below and is less than the Current Market Price per Reference Share on the date Formosa Petrochemical fixes the said consideration,

then the Exchange Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Reference Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC (in a case within (a) above) on such record date or (in a case within (b) above) on the date Formosa Petrochemical fixes the said consideration.

n = the number of Reference Shares initially to be issued upon exercise of such rights or warrants and conversion or exchange of such convertible or exchangeable securities at the said consideration being, in the case of rights, (aa) the number of Reference Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities which the underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Reference Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa) and which, in the case of warrants, where no applications by shareholders entitled to such warrants are required, shall be based on the number of warrants issued. Where applications by shareholders entitled to such warrants are required, the number of such Reference Shares shall be calculated based upon (x) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the case may be, (y) the number of warrants for which applications are received from shareholders as referred to below save to the extent already adjusted for under (x).

v = the number of Reference Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Reference Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective (a) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (b) where applications by shareholders entitled to the warrants are required as aforesaid and in the case of applications for convertible or exchangeable securities by shareholders entitled to the same pursuant to such rights, immediately after the latest date for the submission of such

applications or (if later) immediately after Formosa Petrochemical fixes the said consideration; but in all cases retroactively to immediately after the record date mentioned above.

Rights or warrants not taken up by shareholders: If, in connection with a grant, issue or offer to the holders of Reference Shares of rights or warrants entitling them to subscribe for or purchase securities convertible into or exchangeable for Reference Shares in the circumstances described in this Condition 5(C)(vi), any convertible or exchangeable securities or warrants which are not subscribed for or purchased by the shareholders entitled thereto are underwritten by others prior to the latest date for the submission of applications for such convertible or exchangeable securities or warrants, an adjustment shall be made to the Exchange Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after Formosa Petrochemical fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Reference Shares or of rights or warrants entitling them to subscribe for or purchase securities convertible into or exchangeable for Reference Shares, any convertible or exchangeable securities or warrants which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred such rights or the right to purchase such warrants) who have submitted applications for such convertible or exchangeable securities or warrants as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Exchange Price by reason of such offer and/or subscription.

(vii) ***Capital Distribution:***

If Formosa Petrochemical shall pay or make any Capital Distribution (as defined below) to its shareholders, then the Exchange Price shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{CMP - fmv}{CMP}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv).

CMP = the Current Market Price per Reference Share on the last Trading Day preceding the date on which the Capital Distribution is publicly announced.

fmv = the aggregate fair market value on the date of such announcement, as determined in good faith by two leading independent investment banks of international repute selected by Formosa Chemicals & Fibre and approved by the Trustee and acting as experts, of the portion of the Capital Distribution attributable to one Reference Share.

Effective date of adjustment: Such adjustment shall become effective immediately after the record date for the determination of shareholders entitled to receive such Capital Distribution. Provided that (a) in the case of such a Capital Distribution which must, under applicable law of the ROC, be submitted for approval to a general meeting of

shareholders or be approved by a meeting of the board of directors of Formosa Petrochemical before such Capital Distribution may legally be made and is so approved after the record date fixed for the determination of shareholders entitled to receive such Capital Distribution, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date and (b) if the fair market value of such Capital Distribution cannot be determined until the record date fixed for the determination of shareholders entitled to receive such Capital Distribution, such adjustment shall, immediately upon such fair market value being determined, become effective retroactively to immediately after such record date.

If Formosa Petrochemical shall pay or make any Capital Distribution in cash only then, in such case, the Exchange Price shall be adjusted (with such adjustment to be effective on the record date for the determination of shareholders entitled to receive such Capital Distribution in cash) in accordance with the following formula:

$$NEP = OEP \times \frac{M - C}{M}$$

where:

NEP and OEP shall have the meanings ascribed thereto in Condition 5(C)(iv).

M = the Current Market Price per Reference Share on such record date.

C = the amount of Capital Distribution in cash so distributed applicable to one Reference Share.

For the purposes of this Condition 5(C)(vii):

"Capital Distribution" means any dividend or distribution, whether of cash, assets or other property, and whenever paid or made and however described (and for these purposes a distribution of assets includes, without limitation, an issue of shares or other Securities (as defined below) credited as fully or partly paid up) provided that:

(a) where a cash Capital Distribution is announced which is to be, or may at the election of a holder or holders of Reference Shares be, satisfied by the issue or delivery of Reference Shares or other property or assets, then for the purposes of the above formula the Capital Distribution in question shall be treated as a Capital Distribution of (1) the cash Capital Distribution so announced or (2) the fair market value on the date of announcement of such Capital Distribution, of such Reference Shares or other property or assets to be issued or delivered in satisfaction of such Capital Distribution (or which would be issued if all holders of Reference Shares elected therefor, regardless of whether any such election is made) if the fair market value of such Reference Shares or other property or assets is greater than the cash Capital Distribution so announced;

(b) any issue of Reference Shares falling within Condition 5(C)(ii) shall be disregarded; and

(c) a purchase or redemption of share capital by or on behalf of Formosa Petrochemical (whether by tender or exchange offer or otherwise) shall not constitute a Capital Distribution unless in the case of purchase of Reference Shares by or on behalf of Formosa Petrochemical, the weighted average price (before expenses) on any one day in respect of such purchase exceeds the closing price of the Reference Shares published by the Taiwan Stock

Exchange either (1) on that date, or (2) where an announcement has been made of the intention to purchase Reference Shares at some future date at a specified price, on the Trading Day immediately preceding the date of such announcement and, if in the case of either (1) or (2), the relevant day is not a Trading Day, the immediately preceding Trading Day, in which case such purchase shall be deemed to constitute a Capital Distribution in the amount of such excess.

"Securities" includes, without limitation, shares in the capital of Formosa Petrochemical or options, warrants or other rights to subscribe for or purchase shares in the capital of Formosa Petrochemical or evidences of its indebtedness.

(viii) ***Issue of convertible or exchangeable securities other than to shareholders or on exercise of warrants:***

If Formosa Petrochemical shall issue any securities convertible into or exchangeable for Reference Shares (other than the Notes, or in any of the circumstances described in Condition 5(C)(vi) and Condition 5(C)(x)) and the consideration per Reference Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) shall be less than the Current Market Price per Reference Share on the date in the ROC on which Formosa Petrochemical fixes the said consideration (or, if the issue of such securities is subject to approval by a general meeting of shareholders, on the date on which the board of directors of Formosa Petrochemical fixes the consideration to be recommended at such meeting), then the Exchange Price in effect immediately prior to the date of issue of such convertible or exchangeable securities shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv).

N = the number of Reference Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC on the day immediately prior to the date of such issue.

n = the number of Reference Shares to be issued upon conversion or exchange of such convertible or exchangeable securities at the initial conversion or exchange price or rate.

v = the number of Reference Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Reference Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in the ROC corresponding to the calendar day at the place of issue on which such convertible or exchangeable securities are issued.

(ix) ***Other issues of Reference Shares:***

If Formosa Petrochemical shall issue any Reference Shares (other than Reference Shares issued upon conversion or exchange of any convertible or exchangeable securities (including the Notes) issued by Formosa Petrochemical or upon exercise of any rights or warrants granted, offered or issued by Formosa Petrochemical or in any of the circumstances described in Conditions 5(C)(i) and 5(C)(ii), but including Reference Shares issued pursuant to any employee dividend or profit-sharing arrangements) for a consideration per Reference Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) which is less than the Current Market Price per Reference Share on the date in the ROC on which Formosa Petrochemical fixes the said consideration (or, if the issue of such Reference Shares is subject to approval by a general meeting of shareholders, on the date on which the board of directors of Formosa Petrochemical fixes the consideration to be recommended at such meeting), then the Exchange Price in effect immediately prior to the issue of such additional Reference Shares shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Reference Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC on the day immediately prior to the date of issue of such additional Reference Shares.

n = the number of additional Reference Shares issued as aforesaid.

v = the number of Reference Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Reference Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in the ROC of the issue of such additional Reference Shares or, in the case of an issue to employees under any employee dividend or profit sharing arrangements, where such an issue is announced at the same time as a stock dividend, such adjustment shall become effective as of the record date for determination of the identity of the shareholders entitled to receive any such dividend.

(x) ***Issue of equity related securities:***

If Formosa Petrochemical shall grant, issue or offer options, warrants or rights (excluding those rights and warrants referred to in Conditions 5(C)(iv), 5(C)(v), 5(C)(vi) and 5(C)(vii)) to subscribe for or purchase Reference Shares or securities convertible into or exchangeable for Reference Shares and the consideration per Reference Share receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) shall be less than the Current Market Price per Reference Share on the date in the ROC on which Formosa Petrochemical fixes the said consideration (or, if the offer, grant or issue of such rights, options or warrants is subject to approval by a general meeting of shareholders, on the date on which the board of directors of Formosa Petrochemical fixes

the consideration to be recommended at such meeting), then the Exchange Price in effect immediately prior to the date of the offer, grant or issue of such rights, options or warrants shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + v}{N + n}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Reference Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC on the day immediately prior to the date of such issue.

n = the number of Reference Shares to be issued on exercise of such rights or warrants and (if applicable) conversion or exchange of such convertible or exchangeable securities at the said consideration.

v = the number of Reference Shares which the aggregate consideration receivable by Formosa Petrochemical (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Reference Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in the ROC corresponding to the calendar day at the place of issue on which such rights or warrants are issued.

(xi) *Tender or exchange offer:*

In case a tender or exchange offer made by Formosa Petrochemical or any subsidiary of Formosa Petrochemical for all or any portion of the Reference Shares shall expire and such tender or exchange offer shall involve the payment by Formosa Petrochemical or such subsidiary of consideration per Reference Share having a fair market value (as determined in good faith by two leading independent investment banks of international repute selected by Formosa Chemicals & Fibre and approved by the Trustee and acting as experts) at the last time (the "Expiration Date") tenders or exchanges could have been made pursuant to such tender or exchange offer (as it shall have been amended) that exceeds the Current Market Price per Reference Share, as of the Expiration Date, the Exchange Price shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \frac{N + CMP}{fmv + [(N - n) \times CMP]}$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Reference Shares outstanding (including any tendered or exchanged Reference Shares) on the Expiration Date.

CMP = Current Market Price per Reference Share as of the Expiration Date.

fmv = the fair market value (as determined in good faith by two leading independent investment banks of international repute selected by Formosa Chemicals & Fibre and approved by the Trustee and acting as experts) of the aggregate consideration payable to the holders of Reference Shares based on the acceptance (up to a maximum specified in the terms of the tender or exchange offer) of all Reference Shares validly tendered or exchanged and not withdrawn as of the Expiration Date (the Reference Shares deemed so accepted up to any such maximum, being referred to as the "Purchased Reference Shares").

n = the number of Purchased Reference Shares.

Effective date of adjustment: Such adjustment shall become retroactively effective immediately prior to the opening of business on the day following the Expiration Date.

(xii) *Analogous events and modifications:*

If (a) the rights of conversion or exchange, purchase or subscription attaching to any options, rights or warrants to subscribe for or purchase Reference Shares or any securities convertible into or exchangeable for, or which carry rights to subscribe for or purchase Reference Shares are modified (other than pursuant to and as provided in the terms and conditions of such options, rights, warrants or securities) or (b) Formosa Chemicals & Fibre determines or written notice has been given to the Trustee that any other event or circumstance has occurred which has or would have an effect on the position of the holders of the Notes as a class compared with the position of the holders of all the securities (and options and rights relating thereto) of Formosa Petrochemical, taken as a class which is analogous to any of the events referred to in Conditions 5(C)(i) to 5(C)(xi), then, in any such case, Formosa Chemicals & Fibre shall notify the Trustee thereof or if the Trustee has been notified under (b), the Trustee shall notify Formosa Chemicals & Fibre thereof and Formosa Chemicals & Fibre shall consult with two leading independent investment banks of international repute selected by Formosa Petrochemical and approved by the Trustee as to what adjustment, if any, should be made to the Exchange Price (and the timing of any such adjustment) to preserve the value of the Exchange Right, and any such adjustment shall be made.

(xiii) *Simultaneous issues of different classes of shares:*

In the event of simultaneous issues of two or more classes of share capital comprising Reference Shares or rights or warrants in respect of, or securities convertible into or exchangeable for, two or more classes of share capital comprising Reference Shares, then, for the purposes of this Condition, the formula:

$$\text{NEP} = \text{OEP} \times \frac{N + v}{N + n}$$

shall be restated as:

$$\text{NEP} = \text{OEP} \times \frac{N + v1 + v2 + v3}{N + n1 + n2 + n3}$$

where v1 and n1 shall have the same meanings as "v" and "n" but by reference to one class of Reference Shares, v2 and n2 shall have the same meanings as "v" and "n" but by reference to a second class of Reference Shares, v3 and n3 shall have the same meanings as "v" and "n" but by reference to a third class of Reference Shares and so on.

(xiv) ***Current Market Price per Reference Share:***

"Current Market Price", in relation to the Formosa Petrochemical Common Shares, for any day means (a) the average Closing Prices of the Reference Shares for the 30 consecutive Trading Days commencing 45 Trading Days before such day and (b) when used with respect to any issuance or distribution, the average Closing Prices for the 30 consecutive Trading Days commencing not more than 45 Trading Days (with the commencement date selected by Formosa Chemicals & Fibre) before the first day on which the Formosa Petrochemical Common Shares without the right to receive such issuance or distribution trade in a regular way on the Taiwan Stock Exchange, other applicable securities exchange or any applicable securities market; provided, however, if no Closing Price is available for one or more Trading Days, such day or days shall be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of consecutive Trading Days.

"Closing Price", in relation to the Formosa Petrochemical Common Shares, for any Trading Day means the last reported transaction price or, if no transaction takes place on such day, the last available reported transaction price of the Formosa Petrochemical Common Shares on the Taiwan Stock Exchange in effect on the Trading Day immediately preceding such day or, if the Formosa Petrochemical Common Shares are not at that time listed or admitted to trading on the Taiwan Stock Exchange, the average of the closing bid and offered prices of Formosa Petrochemical Common Shares for such day as furnished by a leading independent securities firm licensed to trade on the Taiwan Stock Exchange selected by Formosa Chemicals & Fibre for that purpose. In respect of any security traded on another exchange or market, this definition shall apply with reference to that exchange or market.

(xv) ***Consideration receivable by Formosa Petrochemical:***

For the purposes of any calculation of the consideration receivable by Formosa Petrochemical pursuant to Conditions 5(C)(iv), 5(C)(v), 5(C)(vi), 5(C)(viii), 5(C)(ix) and 5(C)(x), the following provisions shall be applicable:

(a) in the case of the issue of Reference Shares for cash, the consideration shall be the amount of such cash, provided that in no such case shall any deduction be made for any commissions or any expenses paid or incurred by Formosa Petrochemical for any underwriting of the issue or otherwise in connection therewith;

(b) in the case of the issue of Reference Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by Formosa Petrochemical (and in making such determination Formosa Petrochemical shall consult two leading independent investment banks of international repute, selected by Formosa Petrochemical and approved by the Trustee and shall take fully into account the advice received from such banks) or, if pursuant to applicable law of the ROC such determination is to be made by application to a court of competent jurisdiction, as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof;

(c) in the case of the issue (whether initially or upon the exercise of rights or warrants) of securities convertible into or exchangeable for Reference Shares, the aggregate consideration receivable by Formosa Petrochemical shall be deemed to be the consideration received by Formosa Petrochemical for such securities and (if applicable) rights or warrants plus the additional consideration (if any) to be received by Formosa Petrochemical upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in (a) and (b) above) and the consideration per Reference Share receivable by Formosa Petrochemical shall be such aggregate consideration divided by the number of Reference Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price;

(d) in the case of the issue of rights or warrants to subscribe for or purchase Reference Shares, the aggregate consideration receivable by Formosa Petrochemical shall be deemed to be the consideration received by Formosa Petrochemical for any such rights or warrants plus the additional consideration to be received by Formosa Petrochemical upon (and assuming) the exercise of such rights or warrants at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in (a) and (b) above) and the consideration per Reference Share receivable by Formosa Petrochemical shall be such aggregate consideration divided by the number of Reference Shares to be issued upon (and assuming) the exercise of such rights or warrants at the initial subscription or purchase price;

(e) if any of the consideration referred to in any of the preceding paragraphs of this Condition 5(C)(xiv) is receivable in a currency other than NT dollars, such consideration shall (in any case where there is a fixed rate of exchange between the NT dollar and the relevant currency for the purposes of the issue of the Reference Shares, the conversion or exchange of such securities or the exercise of such rights or warrants) be translated into NT dollars for the purposes of this Condition 5(C)(xiv) at such fixed rate of exchange and shall (in all other cases) be translated into NT dollars at the mean of the exchange rate quotations (being quotations for the cross rate through US dollars if no direct rate is quoted) by a leading bank in the ROC for buying and selling spot units of the relevant currency by telegraphic transfer against NT dollars on the date as of which the said consideration is required to be calculated as aforesaid; and

(f) in the case of the issue of Reference Shares (including, without limitation, to employees under any employee dividend or profit sharing arrangements) credited as fully paid out of retained earnings or capitalisation of reserves at their par value, the aggregate consideration receivable by Formosa Petrochemical shall be deemed to be zero (and accordingly the number of Reference Shares which such aggregate consideration receivable by Formosa Petrochemical could purchase at the relevant Current Market Price per Reference Share shall also be deemed to be zero).

(xvi) *Cumulative adjustments:*

If, at the time of computing an adjustment (the “later adjustment”) of the Exchange Price pursuant to any of Conditions 5(C)(ii), 5(C)(iv), 5(C)(v), 5(C)(viii), 5(C)(ix) and 5(C)(x), the Exchange Price already incorporates an adjustment made (or taken or to be taken into account pursuant to the proviso to Condition 5(C)(xvii)) to reflect an issue of Reference Shares or of securities convertible into or exchangeable for Reference Shares or of rights or warrants to subscribe for or purchase Reference Shares or securities, to the extent that the number of such Reference Shares or securities taken into account for the purposes of calculating such adjustment exceeds the number of such Reference

Shares in issue at the time relevant for ascertaining the number of outstanding Reference Shares for the purposes of computing the later adjustment, such excess Reference Shares shall be deemed to be outstanding for the purposes of making such computation.

(xvii) ***Minor adjustments:***

No adjustment will be made where such adjustment would be less than 1% of the Exchange Price then in effect; provided, however, that any adjustment that otherwise would be required to be made will be carried forward and taken into account in determining any subsequent adjustment.

(xviii) ***Reference to "fixed":***

Any references in this Condition 5(C) to the date on which a consideration is "fixed" shall, where the consideration is originally expressed by reference to a formula which cannot be expressed as an actual cash amount until a later date, be construed as a reference to the first day on which such actual cash amount can be ascertained.

(xix) ***Calculations:***

All calculations relating to adjustment of the Exchange Price shall be performed by Formosa Chemicals & Fibre, subject to approval by an independent, internationally recognized investment bank or accounting firm selected by Formosa Chemicals & Fibre and approved by the Trustee, or such other person as shall be nominated by Formosa Chemicals & Fibre and subject to the approval of the Trustee.

(xx) ***Downward adjustment:***

No adjustment involving an increase in the Exchange Price will be made, except in the case of a consolidation of the Reference Shares, as referred to in Condition 5(c)(i) above.

(xxi) ***Notification:***

Any adjustment will be notified promptly by Formosa Chemicals & Fibre to the Noteholders, the Trustee, the Agents, in accordance with Condition 14 and, so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, to the SGX-ST. Any such notice relating to an adjustment of the Exchange Price should set forth the event giving rise to the adjustment, the Exchange Price prior to the adjustment, the effective date of such adjustment and the Exchange Price after the adjustment.

(xxii) ***Trustee has no obligation to monitor:***

The Trustee shall not be obliged to monitor whether any event has occurred that might fall within (i) to (xiii) above and shall assume that no such event has occurred until it has actual knowledge by way of notice in writing from Formosa Chemicals & Fibre to the contrary.

(D) Exchange Price Reset

In the event that the average of the Closing Prices of the Reference Shares on the Taiwan Stock Exchange, for the period of 5 consecutive Trading Days ("Average Market Price") prior to December 26, 2004 and each anniversary thereafter (each a "Reset Date"),

converted into U.S. dollars at each such Trading Day at the Prevailing Exchange Rate, is less than the Exchange Price then in effect converted into U.S. dollars at the Fixed Exchange Rate, the Exchange Price shall be adjusted downwards in accordance with the following formula:

Adjusted Exchange Price = 110% x Average Market Price x (Fixed Exchange Rate/ Prevailing Exchange Rate)

provided that (i) any such reset shall only reset the Exchange Price downwards only and (ii) any adjustment to the Exchange Price shall be limited so that the adjusted Exchange Price shall not be less than 80% of the Initial Exchange Price (as adjusted to reflect any antidilution adjustments which may have occurred prior to the relevant Reset Date.

"Prevailing Exchange Rate" has the same meaning as "Prevailing Rate".

Any such adjustment shall become effective as of the relevant Reset Date and shall be notified to the holders within five days of the relevant Reset Date.

(E) Voting and other rights

Pending exercise of the Exchange Rights, Formosa Chemicals & Fibre will be entitled to exercise the voting and other rights attaching to the Reference Shares or the Exchange Property Securities, as applicable, in accordance with the terms of the Indenture. The Noteholders shall have no voting or other rights attaching to the Reference Shares or Exchange Property Securities prior to their registration as shareholders of Formosa Petrochemical or any Exchange Property issuer.

In exercising such voting rights, Formosa Chemicals & Fibre may have regard to its own interests to the exclusion of the interests of Noteholders.

(F) Undertakings

Formosa Chemicals & Fibre has undertaken in the Indenture that, so long as any Note remains outstanding:

(i) it will use its best efforts to ensure that Formosa Petrochemical maintains a listing for all the Formosa Petrochemical Common Shares on the Taiwan Stock Exchange;

(ii) it will pay the expenses arising in the ROC on the transfer and delivery of any Reference Shares or any Exchange Property Securities on exchange of Notes;

(iii) to the extent permitted by applicable laws, it will use its best efforts to ensure that any Reference Shares or Exchange Property Securities deliverable on exchange of Notes may be transferred and sold to any person, corporation, partnership or association, regardless of nationality (except for persons of the PRC); and

(iv) it will not create or purport or attempt to create, assume or permit to subsist, any mortgage, charge, pledge, hypothecation, lien, interest under a trust or other encumbrance over the Custody Property.

Formosa Chemicals & Fibre has also given certain other undertakings in the Indenture for the protection of the Exchange Rights.

6. PAYMENTS

(A) Manner of payment

Payment in respect of a Note shall be made (i) by transfer to the registered account of the holder of the Note or (ii) if such holder does not have a registered account, by a US dollar check mailed to its registered address. The registered account and address of a holder of the Notes means its account and address appearing on the register of holders of the Notes at the close of business on the second Business Day (as defined below) before the due date for payment.

References in these Conditions, the Indenture and the Agency Agreement to payment in respect of a Note shall, where the context so permits, be deemed to include not only a reference to the principal of, but also to any premium, interest and other amounts payable on, such Note.

For the purposes of this Condition 6 and Condition 7:

"Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in The City of New York, in Taiwan, in Hong Kong and, in the case of the surrender of a Definitive Certificate, in the place where the Definitive Certificate is surrendered.

(B) Commissions and expenses

All payments are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the holders of the Notes in respect of such payments.

(C) Date of payment

Where payment is to be made by transfer to a registered account, payment instructions for value on the due date (or, if that date is not a Business Day, for value the next Business Day) shall be initiated. Where payment is to be made by check, the check shall be mailed on the Business Day preceding the due date for payment. Notwithstanding the above, payment of principal of a Note represented by a Definitive Certificate shall not be made earlier than the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

(D) Default interest and payment delay

If Formosa Chemicals & Fibre fails to pay any sum in respect of the Notes when the same becomes due and payable under these Conditions, interest shall accrue on the overdue sum at the rate of 4.0% per annum from the due date. Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day year consisting of 12 months of 30 days each.

A holder of the Notes shall not be entitled to any interest or other payment for any delay in receiving the amount due if (i) the due date is not a Business Day, (ii) the Note is represented by a Definitive Certificate and the holder is late in surrendering its Definitive Certificate (if required to do so) or (iii) a check mailed in accordance with this Condition 6 arrives after the due date for payment.

7. REDEMPTION, REPURCHASE AND CANCELLATION

(A) Redemption at maturity

Unless previously redeemed, repurchased and cancelled, or exchanged as herein provided, Formosa Chemicals & Fibre shall redeem each Note at 103.6 per cent. of its principal amount, on June 30, 2011 (the "Maturity Date") or if such day is not a Business Day, on the immediately preceding Business Day. The Notes may be redeemed prior to that date only as provided in Conditions 7(B), (C) and (D) below, but without prejudice to Condition 9.

(B) Redemption at the option of Formosa Chemicals & Fibre

At any time after June 30, 2006 and prior to the Maturity Date, Formosa Chemicals & Fibre may, having given not less than 30 or more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable and delivered in accordance with Condition 7(H) and Condition 14), redeem the Notes in whole, or from time to time in part, at their Early Redemption Amount (as defined below) if the Closing Price (as defined in Condition 5(C)) of the Reference Shares, translated into US dollars at the Prevailing Rate (as defined in Condition 5(B)), for any 20 Trading Days out of the 30 consecutive Trading Days immediately preceding the date of such notice of redemption, is at least 120% of the Exchange Price then in effect, translated into US dollars at the Fixed Exchange Rate. If an event giving rise to a change in the Exchange Price occurs during such 30 consecutive Trading Days, appropriate adjustments for the relevant days shall be made for the purpose of calculating the Closing Price for such days.

Formosa Chemicals & Fibre may, at any time, having given not less than 30 or more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable and delivered in accordance with Condition 7(G) and Condition 14), redeem the Notes in whole, but not in part, at their Early Redemption Amount (as defined below) in US dollars if at least 90% in principal amount of the Notes has already been redeemed, repurchased and cancelled or exchanged.

"Early Redemption Amount" means, in relation to a Note to be redeemed on any redemption date, or to be repaid upon acceleration, an amount of principal that would result in an annual yield on the Note purchased on June 30, 2004, the date of the original issuance of the Note, at its principal amount, of 0.5 per cent. per annum through to the redemption date, or the date of acceleration, as the case may be, calculated on a semi-annual bond equivalent basis using a 360-day year consisting of twelve 30-day months.

(C) Redemption for taxation reasons

At any time, Formosa Chemicals & Fibre may, having given not less than 30 or more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable and delivered in accordance with Condition 7(G) and Condition 14), redeem the Notes in whole, but not in part (subject to the provisions of the last paragraph of this Condition 7(Q), at their Early Redemption Amount, provided that Formosa Chemicals & Fibre satisfies the Trustee that, immediately prior to the giving of such notice:

(i) Formosa Chemicals & Fibre has become obliged to pay Additional Amounts (as defined in Condition 8) as a result of any change in, or amendment to, the laws or regulations of the ROC or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective after the date of the original issuance of the Notes and would require Formosa Chemicals & Fibre to gross up for payment of principal or to gross up for payment of interest or premium, if any, at a rate greater than 20%; and

(ii) such obligation cannot be avoided by Formosa Chemicals & Fibre taking reasonable measures available to it.

Notwithstanding the foregoing, no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which Formosa Chemicals & Fibre would be obliged to pay such Additional Amounts.

Prior to the delivery of any notice of redemption pursuant to this Condition 7(C), Formosa Chemicals & Fibre shall deliver to the Trustee (1) a certificate signed by two of its authorized officers stating that the obligation referred to in (i) above cannot be avoided by taking reasonable measures available to it, and the Trustee shall be entitled to accept such certificate as sufficient and conclusive evidence of the satisfaction of the condition precedent set out in clause (ii) above and (2) an opinion addressed to the Trustee by an independent law firm of recognized standing admitted to practice in the ROC, or written advice of a qualified tax advisor of recognized standing in the ROC, to the effect that Formosa Chemicals & Fibre has or will become obliged to pay such Additional Amounts as a result of such change or amendment, and the Trustee shall be entitled to accept such certificate and opinion or advice as sufficient and conclusive evidence of the conditions precedent referred to in this Condition 7(C), in which event it shall be conclusive and binding on the holders of the Notes. The Notes in respect of which a notice of redemption has been given under Condition 7(B) or 7(D) shall not be affected by any notice given subsequently under this Condition 7(C).

If Formosa Chemicals & Fibre gives a notice of redemption of the Notes under Condition 7(C), each holder of the Notes shall have the right (the "Non-Redemption Option") to elect that all or a portion (being U.S.$1,000 in principal amount or an integral multiple thereof) of its Notes not be redeemed. Upon the exercise of the Non-Redemption Option with respect to such Notes, no Additional Amounts referred to in Condition 8 shall be payable on the payments due after the relevant date in respect of such Notes and, subject to Condition 8, such payments shall be made subject to the deduction or withholding required under the laws or regulations of the ROC. For the avoidance of doubt, any increased amounts that had been payable in respect of the Notes under Condition 8 as a result of the laws or regulations of the ROC in effect on the original date of their issuance shall continue to be payable to such holders of the Notes.

(D) Redemption at the option of the holders

Each holder of the Notes shall have the right (the "Holders' Redemption Right") to require Formosa Chemicals & Fibre to redeem in whole, or in part only (being U.S.$1,000 in principal amount or an integral multiple thereof), the Notes held by such holder, on June 30, 2006 (the "First Put Date") at their Early Redemption Amount and on June 30, 2009 (the "Second Put Date") at their Early Redemption Amount.

Not less than 30 or more than 60 days prior to each of the First Put Date and the Second Put Date, Formosa Chemicals & Fibre shall notify the holders of the Holders' Redemption Right, which notice shall be delivered in accordance with Condition 7(H) and Condition 14.

Following the occurrence of a Relevant Event (as defined below), the holder of each Note will have the right at such holder's option (the "Relevant Event Redemption Right"), to require Formosa Chemicals & Fibre to redeem all or some only of the Notes on the Relevant Event Redemption Date (as defined below) at their Early Redemption Amount on the 5th Business Day (as defined in Condition 6(A)) after the date of the respective Relevant Event Notice. To exercise such right, the holder of the relevant Note must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent ("Relevant Event Redemption Notice") together with the Notes to be redeemed by not later than 60 days following a Relevant Event, or, if later, 60 days following the date upon which notice thereof is given to Noteholders by Formosa Chemicals & Fibre in accordance with Condition 14. The "Relevant Event Redemption Date" shall be the 14th day after the expiry of such period of 60 days as referred to above.

A Relevant Event Redemption Notice, once delivered, shall be irrevocable and Formosa Chemicals & Fibre shall redeem the Notes the subject of Relevant Event Redemption Notices delivered as aforesaid on the Relevant Event Redemption Date.

The Trustee shall not be required to take any steps to ascertain whether a Relevant Event or any event which could lead to the occurrence of a Relevant Event has occurred.

Formosa Chemicals & Fibre shall give notice, each a "Relevant Event Notice", to Noteholders in accordance with Condition 7(G) and Condition 14 as soon as practicable, and in any event no later than 10 days following the first day on which it becomes aware of the occurrence of a Relevant Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Notes pursuant to this Condition 7(D).

A "Relevant Event" occurs:

(i) when the Reference Shares cease to be listed or admitted to trading on the Taiwan Stock Exchange (a "Delisting"); or

(ii) when there is a Change of Control (as defined below) with respect to Formosa Petrochemical.

"Change of Control" occurs when:

(a) any person or person (as defined below) acting together acquires control of Formosa Petrochemical if such person or persons does not or do not have, and would not be deemed to have, control (as defined below) of Formosa Petrochemical on the date of issue of the Notes;

(b) Formosa Petrochemical consolidates with or merges into or sells or transfers all or substantially all of Formosa Petrochemical's assets to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over Formosa Petrochemical or the successor entity; or

(c) one or more persons (as defined below) acquires control (as defined below) of Formosa Petrochemical.

"control" means the right to appoint and/or remove all or the majority of the members of Formosa Petrochemical's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise.

a "person" includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include Formosa Petrochemical's directors or any other governing board and does not include Formosa Petrochemical's wholly-owned direct or indirect subsidiaries.

(E) Repurchase and cancellation

Formosa Chemicals & Fibre may at any time and from time to time repurchase the Notes in the open market or otherwise at any price. Formosa Chemicals & Fibre shall promptly surrender any Notes so repurchased to the Principal Paying Agent for cancellation.

(F) Cancellation

All Notes that are redeemed, repurchased or exchanged and surrendered to any Agent shall forthwith be cancelled. In the case of Notes represented by Definitive Certificates, certificates in respect of all Notes cancelled shall be forwarded to or to the order of the Principal Paying Agent. Notes cancelled may not be reissued or resold.

(G) Redemption procedures

In the event that Formosa Chemicals & Fibre is required to deliver a notice to the holders of the Notes under this Condition 7, Formosa Chemicals & Fibre shall provide such information to the Trustee as the Trustee shall require to permit the Trustee to give notice to holders of the Notes in accordance with Condition 14, which notice shall state, to the extent applicable:

(i) the relevant redemption date;

(ii) in the case of a Delisting, the date of such Delisting and, briefly, the events that resulted in such Delisting;

(iii) the date by which the Exercise Notice (as defined below) must be given by the holder;

(iv) the applicable redemption price of a Note on the redemption date and the method by which such redemption price will be paid;

(v) the names and addresses of all Paying Agents;

(vi) the procedures that holders must follow and the requirements they must satisfy in order to exercise their Holders' Redemption Right, Relevant Event Redemption Right, Non-Redemption Option, and/or Exchange Right, as the case may be;

(vii) that an Exercise Notice, once validly given, may not be withdrawn;

(viii) the principal amount of the Notes outstanding as of the latest practicable date prior to the delivery of the notice;

(ix) any identifying numbers of the Notes and/or Definitive Certificate to be redeemed;

(x) the Closing Price of the Reference Shares on the most recent practicable Trading Day for which such Closing Price can be provided;

(xi) the place or places of payment; and

(xii) that payment will be made upon presentation and surrender of the Notes to be redeemed. Such notice shall also specify the date on which the right to exchange the Notes or the portions thereof to be redeemed will expire. Formosa Chemicals & Fibre shall provide to the Trustee such notice as well as an officers' certificate certifying the applicable redemption price (including the Early Redemption Amount) on the Redemption Date no later than ten (10) days prior to the delivery of the notice to the Holders.

So long as the Notes are listed on the SGX-ST and the rules of that exchange so require, Formosa Chemicals & Fibre shall submit a copy of the redemption notice to the SGX-ST as soon as practicable.

To exercise its Holders' Redemption Right, Relevant Event Redemption Right or Non-Redemption Option, as the case may be, a holder must deliver a written irrevocable notice of the exercise of such right (an "Exercise Notice") in the form obtainable during normal business hours from the specified office of any of the Agents, to any Paying Agent on any Business Day that is not fewer than fifteen (15) Business Days prior to the relevant redemption date. No exercise Notice so deposited may be withdrawn without the prior written consent of Formosa Chemicals & Fibre, and if such consent is given, Formosa Chemicals & Fibre shall notify the Principal Agent in writing no later than 5 days prior to the relevant proposed redemption date.

Payment of the redemption price (including the Early Redemption Amount) upon exercise of the Holders' Redemption Right or Relevant Event Redemption Right attaching to any Note represented by a Definitive Certificate for which an Exercise Notice has been delivered is conditioned upon the delivery of such Definitive Certificate (together with any necessary endorsements) to any Paying Agent on any Business Day, together with the delivery of such Exercise Notice, and shall be made promptly following the later of the relevant redemption date and the time of delivery of such Definitive Certificate. If the Paying Agent holds on a redemption date monies sufficient to pay the redemption price for a Note for which an Exercise Notice has been delivered, then, whether or not the Definitive Certificate representing such Note is delivered to the Paying Agent, on and after such redemption date (i) such Note shall cease to be outstanding; (ii) such Note shall be deemed paid; and (iii) all other rights of the holder shall terminate, other than the right to receive the redemption price (including the Early Redemption Amount).

(H) Partial redemption

In the event of the proposed redemption of some but not all of the Notes pursuant to Condition 7(B), the Notes to be so redeemed shall be determined individually by the drawing of lots by the Trustee or such persons, agents, delegates or nominees which the Trustee may approve or such other method in such place as the Trustee shall approve and in such manner as the Trustee shall deem to be fair and reasonable in the circumstances, taking into account prevailing market practices, subject to compliance with any applicable laws and stock exchange requirement. The identifying numbers of the Notes drawn for redemption shall be published in accordance with Condition 14 by Formosa Chemicals & Fibre not less than 30 days prior to the date fixed for redemption.

8. TAXATION

Interest and premium (if any) payable on the Notes to non-residents of the ROC is currently subject to a withholding tax in the ROC equal to 20% of the gross amount of such interest and premium (if any). A securities transaction tax of 0.3% levied on proceeds from the sale of common shares will be payable by the seller of the common shares.

All payments in respect of the Notes by Formosa Chemicals & Fibre shall be made free and clear of and without any deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed, levied, collected, withheld or assessed by or on behalf of the government of the ROC or any authority thereof or therein having power to tax, provided that, in respect of any such deduction or withholding from any such payment, Formosa Chemicals & Fibre shall pay such additional amounts ("Additional Amounts") as will result in the receipt by the holders of the Notes of the amounts that would have been receivable in the absence of any such deduction or withholding, except that no Additional Amounts shall be payable in respect of any Note:

(i) to, or on behalf of, a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its being connected with the ROC otherwise than merely by holding such Note or by the receipt of payments in respect of the Note;

(ii) to or on behalf of a holder of the Note or its beneficial owner to the extent that such holder or beneficial owner would not be liable for or subject to such deduction or withholding by making a declaration of non-residence or other claims for exemption or deduction to the relevant tax authorities if such holder or beneficial owner is eligible to make such declaration or claim and, such holder or beneficial owner fails to do so; or

(iii) if the Definitive Certificate, if issued, in respect of the Note is presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant certificate for payment on the last day of such 30-day period.

References in these Conditions to payments in respect of the Notes shall be deemed also to refer to any Additional Amounts that may be payable in respect thereof under this Condition 8.

For the purposes of these Conditions:

"Relevant Date" in relation to any Notes means (a) the due date for payment in respect thereof, or (b) if the full amount of the monies payable on such due date has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which notice is duly given to the holders of the Notes that such monies have been so received.

9. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of the Notes of not less than 25 per cent. in principal amount of the Notes then outstanding shall (in each case subject to being indemnified and/or secured by the holders of the Notes to its satisfaction), give notice in writing to Formosa Chemicals & Fibre that the Notes are immediately due and payable, if an Event of Default (as defined below) shall have occurred and be continuing. The Trustee shall publish such notice by (i) mailing it to the holders of the Notes at their respective addresses in the register of holders of the Notes maintained by the Registrar; (ii) publishing it in a leading English language newspaper having general circulation in Europe (which is expected to be the *Financial Times, London Edition*); and (iii) so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, publishing it in a leading newspaper having general circulation in Singapore (which is expected to be *The Straits Times*). Upon any such notice being given to Formosa Chemicals & Fibre, the Notes shall immediately become due and payable at their Early Redemption Amount plus any overdue interest payable in accordance with Condition 6(D). Notwithstanding the foregoing, if any of the events specified in clauses (viii), (ix) and (x) shall have occurred, the Notes shall forthwith become immediately due and payable at their Early Redemption Amount, plus any overdue interest payable in accordance with Condition 6(D), without regard to the giving of any such notice. An "Event of Default" occurs if:

(i) Formosa Chemicals & Fibre fails to pay the principal of, premium or interest, if any, on, any of the Notes within seven days after the same shall become due and payable;

(ii) Formosa Chemicals & Fibre fails to deliver Reference Shares or Exchange Property as and when such Reference Shares or Exchange Property are required to be delivered upon the exchange of a Note (subject to the limited circumstances under which cash may be delivered in lieu of Reference Shares or Exchange Property as specified in Condition 5(B)(iv));

(iii) Formosa Chemicals & Fibre defaults in performance or observance of or compliance with any of its other obligations set out in the Notes or the Indenture, which default is incapable of remedy or, if in the opinion of the Trustee such default is capable of remedy, such default is not remedied within 30 days after written notice of such default shall have been given to Formosa Chemicals & Fibre by the Trustee;

(iv) there shall have been entered against Formosa Chemicals & Fibre or any of its Principal Associates a final judgement, decree or order by a court of competent jurisdiction for the payment of money in excess of U.S.$30,000,000 with respect to Formosa Chemicals & Fibre or any of its Principal Associates (or its equivalent in any other currency or currencies) and 30 days shall have passed since the entry of the order without it being bonded, satisfied, discharged or stayed;

(v) (a) any other present or future indebtedness of Formosa Chemicals & Fibre or any of its Principal Associates for or in respect of monies borrowed or raised becomes due and payable prior to its stated maturity by reason of an event of default, howsoever described, or any such indebtedness is not paid when due or, as the case may be, within any applicable grace period originally provided for or (b) Formosa Chemicals & Fibre or any of its Principal Associates fails to pay when due any amount payable by Formosa Chemicals & Fibre or such Principal Associate, as the case may be, under any present or future guarantee or indemnity or arrangement or obligation having a like or similar effect, howsoever described, for any monies borrowed; provided that the aggregate amount of the relevant indebtedness or amount payable in respect of which one or more events mentioned above in this paragraph (v) have occurred equals or exceeds U.S.$30,000,000 or its equivalent in any other currency (determined as provided below);

(vi) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed, or a distress, execution or seizure before judgement is levied, enforced or sued out upon, against or in respect of the whole or any substantial part of the undertaking, property, assets or revenues of Formosa Chemicals & Fibre or any of its Principal Associates and the same is not stayed, discharged, released or satisfied (as the case may be) within 60 days (or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned) of such taking of possession, appointment, levying, enforcement or suing out (as the case may be);

(vii) any person entitled to the benefit thereof shall institute legal proceedings to enforce any mortgage, charge, pledge, lien or other encumbrance upon all or a material portion of the assets, property or revenues of Formosa Chemicals & Fibre and or any of its Principal Associates, taken as a whole, unless Formosa Chemicals & Fibre or such Principal Associate, as the case may be, are contesting such proceedings in good faith by appropriate legal proceedings and have established reserves adequate in Formosa Chemicals & Fibre' judgment with respect thereto;

(viii) a decree or order by a court having jurisdiction shall have been entered adjudging Formosa Chemicals & Fibre or any of its Principal Associates bankrupt or insolvent, or approving a petition seeking Formosa Chemicals & Fibre' reorganization or that of any of its Principal Associates under any applicable bankruptcy, insolvency or reorganization law, or for the appointment of an administrator or a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of, or all or substantially all of the business or assets of, or for the winding-up or liquidation of the affairs of, Formosa Chemicals & Fibre or any of its Principal Associates;

(ix) an order is made or an effective resolution shall be passed for the winding-up, dissolution or liquidation of Formosa Chemicals & Fibre or that of any of its Principal Associates, or Formosa Chemicals & Fibre or any of its Principal Associates becomes capable of being dissolved under ROC laws (except for the purpose of and followed by a solvent reconstruction, merger, consolidation, amalgamation or other similar arrangement the terms of which are approved by the Trustee or the holders of not less than 75% in principal amount of the Notes outstanding), or Formosa Chemicals & Fibre or any of its Principal Associates shall institute proceedings to be adjudicated as a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under any applicable bankruptcy, insolvency or reorganization law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or substantially all of its business or assets, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or Formosa Chemicals & Fibre or any of its Principal Associates is unable to pay its debts as they mature, or Formosa Chemicals & Fibre or any of its Principal Associates stops or threatens to cease to carry on its business or a substantial part of its business, or corporate action shall be taken by Formosa Chemicals & Fibre or any of its Principal Associates in furtherance of any of the aforesaid purposes;

(x) proceedings shall have been initiated against Formosa Chemicals & Fibre or any of its Principal Associates under any applicable bankruptcy, insolvency, or reorganization law and such proceedings shall not have been discharged or stayed within a period of 60 days (or such longer period as the Trustee may consider appropriate on the advice of counsel);

(xi) Formosa Chemicals & Fibre shall merge, amalgamate or consolidate with any other corporation or entity or shall sell or dispose of substantially all its business or assets whether as a single transaction or a number of transactions, related or not, to any person without obtaining the prior approval of the holders of not less than 75% in principal amount of the Notes outstanding and of such person to assume the obligations of Formosa Chemicals & Fibre under the Notes and the Indenture; provided that such agreement by such other person shall not be required if such assumption shall be effective by operation of law;

(xii) a moratorium is agreed or declared in respect of any indebtedness of Formosa Chemicals & Fibre or any of its Principal Associates or any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or a substantial part of the assets or shares of Formosa Chemicals & Fibre or any of its Principal Associates;

(xiii) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order to (i) enable Formosa Chemicals & Fibre lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes and the Indenture, (ii) ensure that those obligations are legally binding and enforceable and (iii) make the Notes and the Indenture admissible in evidence in the courts of the ROC is not taken, fulfilled or done, and such case is incapable of remedy or, if in the opinion of the Trustee is capable of remedy, is not in the opinion of the Trustee remedied within such period (being not less than 30 days) as the Trustee may consider reasonable;

(xiv) it is or will become unlawful for Formosa Chemicals & Fibre to perform or comply with one or more of its material obligations under any of the Notes, the Indenture or the Agency Agreement; or

(xv) any event occurs which under the laws of the ROC, has an analogous effect to any of the events referred to in the foregoing paragraphs.

For the purposes of clause (v) above, any indebtedness which is in a currency other than US dollars shall be translated into US dollars at the spot rate for the sale of US dollars against the purchase of the relevant currency quoted by any leading bank in the relevant market selected by the Trustee on any day when the Trustee requests such a quotation for such purpose. If no direct spot rate is available, a rate shall be calculated by reference to the cross-rates through US dollars of the relevant currency.

"Principal Associates" means Formosa Petrochemical, Formosa Plastics Corporation and Nan Ya Plastics Corporation.

Subject to the provisions of the following five paragraphs, the Exchange Right attached to any Notes shall survive the provision of the default notice and the acceleration and the payment of the Notes.

Notwithstanding receipt of any payment after the acceleration of the Notes, a Noteholder may still exercise its Exchange Right by depositing a further Exchange Notice (the "Default Exchange Notice") with an Exchange Agent or Paying Agent during the period from and including the date of a default notice with respect to an event specified in Condition 9(ii) herein (at which time Formosa Chemicals & Fibre will notify the Noteholders of the number of Reference Shares or Exchange Property Securities (as the case may be) per Note to be delivered upon exchange, assuming all the then outstanding Notes are exchanged) to and including the 30th business day after such payment. The date on which the Default Exchange Notice is deposited by the Noteholder with an Exchange Agent or Paying Agent is known as the "Default Exchange Date".

If any exchanging Noteholder deposits a Default Exchange Notice pursuant to this Condition 9 on the business day prior to, or during, a Closed Period, the Noteholder's Exchange Right shall continue until the business day following the last day of the Closed Period, which shall be deemed the Default Exchange Date, for the purposes of such Noteholder's exercise of its Exchange Right pursuant to this Condition 9.

If the Exchange Right attached to any Note is exercised pursuant to this Condition 9, Formosa Chemicals & Fibre will deliver Reference Shares or Exchange Property Securities (as the case may be) (which number will be disclosed to such Noteholder as soon as practicable after the Default Exchange Notice is given) in accordance with the Conditions, failing which Formosa Chemicals & Fibre will make payment in accordance with the following paragraph.

If the Exchange Right attached to any Note is exercised pursuant to this Condition 9, Formosa Chemicals & Fibre shall, if it fails to deliver the Reference Shares or Exchange Property Securities (as the case may be) within 5 days from the date of the Default Exchange Notice, pay to such exchanging Noteholder an amount (the "Default Cure Amount"), equal to the product of (x) (i) the number of Reference Shares or Exchange Property Securities (as the case may be) that are required to be delivered by Formosa Chemicals & Fibre to satisfy the Exchange Right in relation to such exchanging Noteholder minus (ii) the number of Reference Shares or Exchange Property Securities (as the case may be) that are actually delivered by Formosa Chemicals & Fibre pursuant to such Noteholder's Default Exchange Notice and (y) the Reference Price (as defined below) on the original Exchange Date; provided that if such Noteholder has received any payment under the Notes pursuant to this Condition 9, the amount of such payment shall be deducted from the Default Cure Amount.

The “Reference Price” means the closing price of the Reference Shares on the Taiwan Stock Exchange or the closing price of the Exchange Property Securities on the applicable securities exchange on which the Exchange Property Securities are listed, on the original Exchange Date or, if no reported sales take place on such date, the average of the reported closing bid and offered prices, in either case as reported by the Taiwan Stock Exchange or other applicable securities exchange on which the Exchange Property Securities are listed for such day as furnished by a reputable and independent investment bank selected from time to time by the Trustee at the expense of Formosa Chemicals & Fibre for such purpose.

10. PRESCRIPTION

Claims against any payment in respect of the Notes shall be prescribed unless made within six years from the relevant date of payment in respect thereof.

Under the laws of the ROC, claims in respect of principal and premium or interest would become unenforceable after 15 years and 5 years, respectively, from the relevant date for payment in respect thereof.

11. ENFORCEMENT

At any time after the Notes have become due and payable, the Trustee may, at its discretion and without further notice, take such proceedings against Formosa Chemicals & Fibre as it may think fit to enforce payment in respect of the Notes, including any premium and interest, and to enforce the provisions of the Indenture; provided, however, that the Trustee shall not be bound to take any such actions unless (a) it shall have been so requested in writing by the holders of at least 25% in principal amount of the Notes then outstanding or shall have been so directed by a duly convened meeting of Noteholders, and (b) it shall have been indemnified and/or secured to its satisfaction. No holder of the Notes shall be entitled to proceed directly against Formosa Chemicals & Fibre, unless (a) the Trustee, having become bound to take proceedings against Formosa Chemicals & Fibre (as described in the Indenture), fails to do so and such failure shall have continued for a period of 60 days and (b) no direction inconsistent with the Trustee taking such proceedings has been given to the Trustee during such 60-day period by the holders of not less than a majority in principal amount of the Notes then outstanding.

12. MEETINGS OF HOLDERS OF THE NOTES, MODIFICATION AND WAIVER

(A) Meetings

The Indenture will contain provisions for convening meetings of holders of the Notes to consider any matter affecting their interests, including the approval of amendments or modifications of the terms and conditions of the Notes or the provisions of the Indenture upon either the written consent of the holders of not less than a majority in principal amount of the Notes then outstanding or the approval at a meeting of holders duly called by persons entitled to vote not less than a majority in principal amount of the Notes then outstanding, with a quorum of two or more persons, holding or representing over 50% in principal amount of the Notes then outstanding; provided that no such modification of the terms and conditions of the Notes or the provisions of the Indenture may, without the consent of each holder of the Notes affected thereby:

(i) modify the Maturity Date;

(ii) reduce the principal, the Early Redemption Amount, the redemption price of, the rate of interest, if any, on, any Note or increase the Exchange Price (as adjusted in accordance with the provisions of the Indenture);

(iii) change the place or currency of payment of principal of, or interest, if any, on, any Note or the method of calculating any such payment;

(iv) impair the right to institute suit for the enforcement of any payment on any Note;

(v) alter Formosa Chemicals & Fibre' obligations relating to mergers and disposals, and the payment of Additional Amounts, as described in Conditions 3(B) and 8, respectively;

(vi) except to the extent permitted by Condition 12(B) below, modify, cancel or adversely affect the Exchange Right, Holders' Redemption Right, Relevant Event Redemption Right or Non-Redemption Option;

(vii) reduce the above-stated percentage of outstanding Notes the consent of whose holders of the Notes is necessary to modify or amend the Indenture;

(viii) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose holders of the Notes is necessary for waiver of compliance with provisions of the Indenture or for waiver of Defaults under the Indenture;

(ix) modify the provisions concerning the voting and quorum required at any meeting of holders of the Notes; or

(x) release Formosa Chemicals & Fibre from any obligation under the Indenture other than in accordance with the provisions of the Indenture, or amend or modify any provision relating to such release.

The Trustee shall publish any notice of convocation for a meeting of holders of the Notes by (i) mailing it to the holders of the Notes at their respective addresses in the register of holders of the Notes maintained by the Registrar; (ii) publishing it in a leading English language newspaper having general circulation in Europe (which is expected to be the *Financial Times, London Edition*); and (iii) so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, publishing it in a leading newspaper having general circulation in Singapore (which is expected to be *The Straits Times*).

The Indenture will provide that, in determining whether the holders of the Notes representing the requisite principal amount of Notes then outstanding are present at a meeting of holders of the Notes for quorum purposes or have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Notes owned by Formosa Chemicals & Fibre or any other obligor upon the Notes or any affiliate of Formosa Chemicals & Fibre or such other obligor shall be disregarded and deemed not to be outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such determination as to the presence of a quorum or upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes as to which the Trustee has actually received written notice shall be so disregarded.

(B) Modification of Exchange Right

Notwithstanding Condition 12(A) above, the Trustee may agree to, without the consent of the holders of the Notes, any modification to the Exchange Right that is in the Trustee's opinion (i) necessary or desirable to effect or facilitate exchange as contemplated in these Conditions and (ii) not materially prejudicial to the interests of the holders of the Notes. The Trustee's agreement may be subject to any condition which the Trustee requires, including but not limited to the delivery of an opinion of a financial or legal or other expert of recognized standing in the applicable jurisdiction, and shall be binding on the holders of the Notes. Any such modification shall be notified by Formosa Chemicals & Fibre to the holders of the Notes as soon as practicable thereafter in accordance with Condition 14 and, for so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, to the SGX-ST.

(C) Other modifications and waivers

The Trustee may also agree to, without the consent of the holders of the Notes, (i) any modification of, or the waiver or authorization of any breach or proposed breach of, the Notes, the Indenture or the Agency Agreement that is not, in the Trustee's opinion, materially prejudicial to the interests of the holders of the Notes or (ii) any modification of the Notes or the Indenture that, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. In connection with such modification, waiver or authorization, the Trustee may require a certificate from Formosa Chemicals & Fibre certifying, and a legal opinion from a legal advisor of recognized international standing advising the Trustee, that the modification, waiver or authorization is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provision of law. Any such modification, waiver or authorization shall be binding on the holders of the Note. Any such modification, waiver or authorization shall be notified by Formosa Chemicals & Fibre to the holders of the Notes as soon as practicable thereafter in accordance with Condition 14, and for so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, to the SGX-ST.

(D) Exercise of Trustee's functions

Where the Trustee is required in connection with the exercise of its powers, trusts, authorities, duties and discretions to have regard to the interests of the holders of the Notes, it shall have regard to the interests of the holders of the Notes as a class and, in particular but without prejudice to the generality of the foregoing, the Trustee shall not have regard to, or be in any way liable for, the consequences of such exercise for any individual holder resulting from it being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise, the Trustee shall not be entitled to require, and no holder of Notes shall be entitled to claim, from Formosa Chemicals & Fibre, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon such individual holder of the Notes.

13. REPLACEMENT OF CERTIFICATES

Any replacement of mutilated, defaced, destroyed, stolen or lost Definitive Certificates shall take place at the specified offices of the Registrar and Paying Agents in accordance with the provisions of the Indenture, which provisions include the following:

(i) replacement certificates shall only be issued upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as Formosa Chemicals & Fibre and the Registrar may reasonably require;

(ii) mutilated or defaced certificates must be surrendered before replacements will be issued; and

(iii) in the event any Notes represented by a mutilated, destroyed, lost or stolen Definitive Certificate has become or is about to become due and payable, Formosa Chemicals & Fibre in its discretion may, instead of issuing a new Definitive Certificate representing such Notes, make payment as consideration for the cancellation of the Notes represented thereby in accordance with the Conditions.

14. NOTICES

All notices to holders of the Notes shall be validly given if (i) made in writing in English and mailed to them at their respective addresses in the register of holders of the Notes maintained by the Registrar; (ii) published in a leading English language newspaper having general circulation in Europe (which is expected to be the *Financial Times, London Edition*); and (iii) so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, published in a leading newspaper having general circulation in Singapore (which is expected to be *The Straits Times*).

So long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, International or the alternative clearing system (as defined in the Global Certificate), notices to holders of the Notes may be given by delivery of the relevant notice to Euroclear or Clearstream, International or the alternative clearing system, for communication by it to entitled accountholders in substitution for notification as required by the Conditions except that for so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, notice shall also be published in a leading newspaper having general circulation in Singapore (which is expected to be The Straits Times).

Any such notice shall be deemed to have been given on the later of the date of such publication and the seventh day after being so mailed.

15. INDEMNIFICATION

The Indenture contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified.

16. AGENTS

Formosa Chemicals & Fibre reserves the right, subject to the provisions of the Agency Agreement, at any time to vary or terminate the appointment of Agents; provided that it shall at all times maintain an Agent having a specified office in London and, so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, a Paying, Transfer and Exchange Agent in Singapore. Notice of any such termination or appointment, of any changes in the specified offices of the Agents, or of any change in the identity or specified office of any Exchange Agent, Paying Agent or Transfer Agent shall be given promptly by Formosa Chemicals & Fibre to the holders of the Notes in accordance with Condition 14.

17. FURTHER ISSUES

Formosa Chemicals & Fibre may from time to time, without notice to or the consent of the registered holders of the Notes, issue further debt securities which will form a single series with the Notes. These further debt securities will have the same terms as to status, redemption or otherwise as the Notes and will rank equally with the Notes of the existing series in all respects.

18. GOVERNING LAW AND JURISDICTION

(A) Governing law

The Indenture, the Agency Agreement and the Notes are governed by and shall be construed in accordance with the laws of the State of New York.

(B) Jurisdiction

The courts of the State of New York sitting in the Borough of Manhattan, The City of New York, and the federal courts of the United States sitting in the Borough of Manhattan, The City of New York, are to have jurisdiction to settle any disputes that may arise out of or in connection with the Notes and accordingly any legal action or proceedings arising out of or in connection with the Notes ("Proceedings") may be brought in such court. Formosa Chemicals & Fibre has in the Indenture irrevocably submitted to the jurisdiction of such courts.

(C) Agent for service of process

Formosa Chemicals & Fibre has irrevocably appointed Law Debenture Corporate Services, Inc., as its agent in the State of New York to receive service of process in any Proceedings in the State of New York based on any of the Notes.

THE FORMOSA GROUP

Overview

The Formosa Group is a diversified group of companies in Taiwan, most of which were founded by Mr. Yeong-Ching Wang, that are engaged primarily in the petroleum refining, petrochemical, plastics, fiber, textiles and electronics-related industries. In addition to engaging in these core businesses, certain group members have in recent years expanded into investments in increasingly higher technology industries, such as semiconductors, dynamic random access memory chips ("DRAM") and other electronic components. The Formosa Group is one of the largest private business groups in Taiwan. In addition to its commercial businesses, the Formosa Group has also established one of the largest networks of hospitals in Taiwan, a medical university, a nursing college and an engineering college. Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre are the four core members of the Formosa Group.

The Formosa Group does not exist as an independent legal entity and does not contract or conduct business in its own name. Mr. Yeong-Ching Wang, who holds the honorary title of Chairman of the Formosa Group, is also the chairman of the board of directors of most of the companies in the Formosa Group, including Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre. Mr. Yeong-Tsai Wang, the brother of Mr. Yeong-Ching Wang, holds the honorary title of President of the Formosa Group and is a Vice Chairman or executive director of most of the companies in the Formosa Group, including Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre. Many of the companies in the Formosa Group have directors who also serve as directors of other companies in the Formosa Group. Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre also engage in significant transactions with each other as well as with other companies within the Formosa Group, including sales of products and purchases of raw materials. Each of Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre believes that such transactions are carried out on terms substantially equivalent to those that would have been agreed in comparable arm's length transactions with third-party companies not within the Formosa Group. In addition, Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre, along with other members of the Formosa Group, share in the expenses of the General Administrative Office of the Formosa Group, which has personnel for the performance of certain financing, stock transfer and other administrative functions and procurements on a pooled basis for companies within the Formosa Group.

Major Businesses of the Formosa Group

Petroleum Refining, Petrochemicals and Plastics

At present, Formosa Petrochemical operates Taiwan's only privately owned petroleum refinery and naphtha cracking plant. As at December 31, 2003, Formosa Petrochemical had a 28.6 per cent. share of the gasoline and gasoil throughput market in Taiwan, and more than a 55.0 per cent., 56.0 per cent. and 46.0 per cent. market share of the ethylene, propylene and butadiene market, respectively, in Taiwan. Formosa Petrochemical's petroleum refinery currently has a maximum throughput of 450,000 barrels per day and its two naphtha cracking plants have a combined annual output of 1.6 million MT.

In addition to ethylene and propylene, companies in the Formosa Group also produce dozens of petrochemical intermediate materials, including liquid caustic soda, VCM, EDC, MBS, HDPE, LDPE, EVA, LLDPE, PP, AN, MMA and many others, which enjoy leading positions in the Taiwanese market. As at December 31, 2003, the Formosa Group's total annual production of PVC resins exceeded 2.39 million metric tons, making it one of the leading producers of PVC resins in the world. In addition, Nan Ya Plastics is one of the world's leading secondary plastics processors.

Fibers and textiles

At present, the Formosa Group produces six types of fibers: polyester, acrylic, nylon, rayon, carbon and spandex.

Expanding downstream into textiles processing, dyeing and finishing, the Formosa Group has become one of the leading textiles manufacturers in Taiwan, producing different kinds of yarn, plain-weave fabric, knitted cloth, and dyed products.

Electronic materials

The Formosa Group is involved in the production of printed circuit boards, copper-clad laminates, epoxy resins, bisphenol-A, copper foil, glass fiber and filament and other materials for the electronics industry. Recently, companies in the Formosa Group have made further investment in the manufacturing of basic computer components such as STN-LCDs, DRAMs, wafers and Plasma Display Panels.

Transportation

The Formosa Group is also involved in the transportation business. In addition to Formosa Transport Corporation, Formosa Fairway Corporation and Formosa Petrochemical Transportation Corporation, which operate intercompany transportation on Taiwan island, in 1981 companies in the Formosa Group established the first chemical tanker fleet in Taiwan. To meet the needs for transportation of chemicals to and from the No. 6 Naphtha Cracker Complex and to deliver coal to power plants located at the No. 6. Naphtha Cracker Complex, companies in the Formosa Group also operate a fleet of 24 large self-propelled vessels.

Machinery

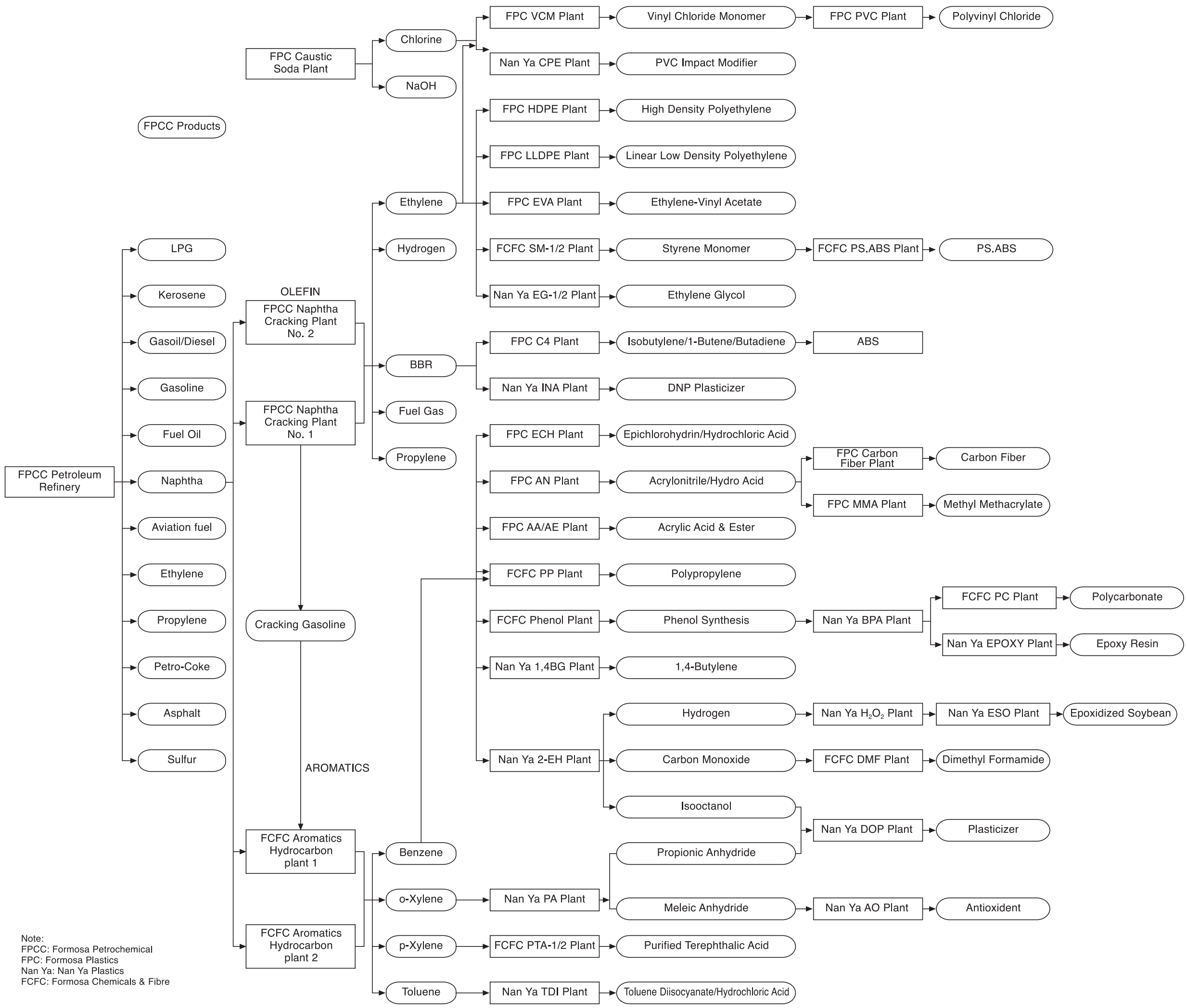
The Formosa Group manufactures and sells machinery products and related services which include factory and power plant co-generators, automatic warehousing systems, refining and petrochemical manufacturing equipment, heavy load transportation and installation, gear reducers, large precision gears, industrial rollers, linings, metal roller electroplating and electrobrightening.

The No. 6 Naphtha Cracker Complex

In order to meet the demand for petrochemical products in Taiwan, to secure a sufficient domestic supply of ethylene and other essential petrochemical raw materials and to further the Formosa Group's strategy of vertical integration and product diversification, the Formosa Group began the construction of an integrated petroleum refinery, naphtha cracker and petrochemical complex (the "No. 6 Naphtha Cracker Complex") in central Taiwan in 1992.

The No. 6 Naphtha Cracker Complex has been expanded three times since the completion of its first phase in 1998. The No. 6 Naphtha Cracker Complex now consists of a petroleum refinery complex, two naphtha crackers and 47 petrochemical factories, along with two heavy machinery plants and four co-generation power plants. Of these facilities, one petrochemical factory is owned and operated by investors not affiliated with the Formosa Group, with the remaining facilities being operated by companies within the Formosa Group. Planning for the construction of the fourth phase of the No. 6 Naphtha Cracker Complex is underway.

The following is a diagram of the Formosa Group's product flow chart in the No. 6 Naphtha Cracker Complex:



General Administrative Office of the Formosa Group

Members of the Formosa Group delegate certain administrative matters to the General Administrative Office (the "GAO") of the Formosa Group. The GAO handles numerous common services for the Formosa Group, allowing for a group of administrative staff that, the Issuers believe, is smaller, more experienced and more efficient than would otherwise be the case if these functions were performed separately by each company within the Formosa Group. The Issuers believe centralization of these functions also helps ensure that a consistent, group-wide approach to significant administrative and managerial matters is followed. Like the Formosa Group itself, the GAO is not a legal entity, has no assets or liabilities, does not contract in its own name and has no separate legal existence.

As at March 31, 2004, the staff of the GAO consisted of approximately 1,585 persons, each of whom was an employee of a company in the Formosa Group assigned to the GAO. As of March 31, 2004, Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre had approximately 224, 307, 549 and 477 employees, respectively, assigned to the GAO. The GAO is run as a service centre for companies within the Formosa Group, and therefore its costs and expenses are pooled and shared among all of the Formosa Group's members on the basis of the quantity and nature of the goods and services rendered to the particular company.

The GAO is organized into the President's Office, the Finance Department which is responsible for finance related matters, the Procurement Department which is responsible for procurement related matters and the Construction Department, which is responsible for construction related matters. The GAO also has two offices responsible for legal and corporate secretarial related matters and three small units responsible for export administration, publication of proposals for projects and building and related administration related matters.

The President's Office. The President's Office of the GAO assists and reports to the Chairman of the Formosa Group and coordinates the administrative and managerial functions of companies within the Formosa Group.

Finance Department. The GAO's Finance Department performs corporate finance and treasury functions for each company within the Formosa Group that is based in Taiwan, including diverse functions such as cash management, insurance and shareholder services. The Finance Department also coordinates intra-group and external financing for companies within the Formosa Group.

Procurement Department. The GAO's Procurement Department administers, on behalf of companies within the Formosa Group, purchases of certain raw materials, machinery and equipment, although all such purchases are paid for directly by the relevant purchasing company and not by the GAO. The Procurement Department is also responsible for any purchase, on behalf of companies within the Formosa Group, of supplies required by such companies generally, such as stationery, furniture and daily consumables, the costs of which are reimbursed by the relevant companies rateably in accordance with their actual consumption.

Construction Department. The GAO's Construction Department performs construction-related work for projects undertaken by companies within the Formosa Group, including planning, site selection, feasibility studies, design, engineering, procurement and construction of plants and buildings. To promote construction quality, matters relating to construction and construction services have been computerized, so that the rate of progress, compliance with budgets, construction, engineering and equipment usage can all be closely monitored.

The GAO is not a legal entity and does not have any legal authority to make any decisions on behalf of any company within the Formosa Group. Major decisions which have an impact on the Formosa Group will be discussed by an informal committee consisting of (i) the current President of

Formosa Petrochemical, (ii) the current President of Formosa Plastics, (iii) the current President of Nan Ya Plastics, (iv) the current President of Formosa Chemicals & Fibre, (v) the current Vice-President of the GAO and (vi) Susan Wang, who coordinates the Formosa Group's overseas operations. She is the daughter of the Chairman of the Formosa Group.

Principal Formosa Group Companies

Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre are the principal companies in the Formosa Group. The following table sets forth certain summary financial information with respect to Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre as at, and for the year ended, December 31, 2003:

	Capital	Total Assets	Operating Revenues	Net Income Before Tax	Net income as a percentage of revenues	Return of capital	Employees
	NT$ (millions)	NT$ (millions)	NT$ (millions)	NT$ (millions)	%	%	
Formosa Petrochemical. .	78,400.0	328,168.0	236,520.2	18,791.0	7.9	24.0	3,129
Formosa Plastics	48,068.7	191,054.7	95,156.5	16,573.7	17.4	34.5	4,713
Nan Ya Plastics	65,873.5	293,738.5	171,643.8	18,131.5	10.6	27.5	15,622
Formosa Chemicals & Fibre	45,150.0	187,009.3	106,421.4	20,647.7	16.6	45.7	6,544

Other Formosa Group Companies

Other than Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre and their respective consolidated subsidiaries, the Formosa Group also consists of other companies operating in Taiwan and overseas. The following table shows other principal companies of the Formosa Group as of March 31, 2004:

Industry	Company
PETROCHEMICALS AND PLASTICS	PFG Fiber Glass Corporation Wen Fung Industrial Corporation
SPINNING, WEAVING AND TEXTILES	Formosa Taffeta Co., Limited Tai Shih Textile Industry Corporation Tah Hsin Spinning Corporation Tairay Garments Manufacturing Corporation
TRANSPORTATION	Formosa Plastics Marine Corporation Formosa Plastics Transportation Corporation Formosa Fairway Corporation
OTHERS	Formosa Heavy Industries Corporation Mailiao Power Corporation Pei Jen Corporation Mailiao Harbour Administration Corporation Nanya Technology Corporation
OVERSEAS OPERATIONS	Formosa Plastics Corporation, USA. Nan Ya Plastics Corporation, USA P.T. Indonesia Nan Ya Indah Plastic Corp. Formosa Utility Venture, Ltd.

In addition to commercial enterprises, the Formosa Group includes Ming Chi Institute of Technology, founded in suburban Taipei in 1964 to train technicians for a modern Taiwanese industrial base; the Chang Gung Memorial Hospital in Taipei, founded in 1976 to provide advanced medical care to the people of Taiwan and, at present, the largest hospital system in Taiwan, with

6,000 beds and treating more than 18,000 patients a day; Chang Gung College of Medicine and Technology, founded in 1987 to train physicians in Taiwan; and Chang Gung Institute of Nursing, founded in 1988.

Cross Shareholdings

The shareholding relationship among certain principal Formosa Group entities, as of the latest date for which such information is available, is shown in the following table:

	As of latest practicable date(1), percentage of ordinary shares owned by:				
Investee Company	**Yeong-Ching Wang and Family(2)**	**Formosa Petro-chemical(3)**	**Formosa Plastics(4)**	**Nan Ya Plastics(5)**	**Formosa Chemicals & Fibre(6)**
Formosa Petrochemical	—	—	31.8	26.2	27.6
Formosa Plastics	7.1	—	—	4.0	4.4
Nan Ya Plastics	11.4	—	5.1	—	4.6
Formosa Chemicals & Fibre	15.2	—	3.1	2.1	—
Formosa Heavy Industries	—	—	32.9	32.9	32.9
Mailiao Power	—	24.9	24.9	24.9	24.9

Note:

(1) Shareholding percentages are set out as of the latest record date for which information is available for the respective investee companies. Record dates are as follows: Formosa Petrochemical — April 6, 2004; Formosa Plastics — March 16, 2004; Nan Ya Plastics — March 23, 2004; Formosa Chemicals & Fibre — March 30, 2004; Formosa Heavy Industries — May 1, 2004 and Mailiao Power — April 20, 2004.

(2) Includes only Yeong-Ching Wang, Yeong-Tsai Wang and their children and grandchildren. Since the latest record dates for which information is available of the respective investee company, Yeong-Ching Wang and Family has bought no additional Common Shares of Formosa Petrochemical; no additional ordinary shares of Formosa Plastics; no additional ordinary shares of Nan Ya Plastics; no additional ordinary shares of Formosa Chemicals & Fibre; no additional ordinary shares of Heavy Industries and no additional ordinary shares of Mailiao Power.

(3) Since the latest record dates for which information is available of the respective investee companies, Formosa Petrochemical has bought 90,816,000 additional ordinary shares of Formosa Plastics; 133,969,000 additional ordinary shares of Nan Ya Plastics; 14,923,000 additional ordinary shares of Formosa Chemicals & Fibre; no additional ordinary shares of Formosa Heavy Industries and no additional ordinary shares of Mailiao Power.

(4) Since the latest record dates for which information is available of the respective investee companies, Formosa Plastics has bought no additional Common Shares of Formosa Petrochemical; 15,978,000 additional ordinary shares of Nan Ya Plastics; no additional ordinary shares of Formosa Chemicals & Fibre; no additional ordinary shares of Formosa Heavy Industries and no additional ordinary shares of Mailiao Power.

(5) Since the latest record dates for which information is available of the respective investee companies, Nan Ya Plastics has bought no additional Common Shares of Formosa Petrochemical; no additional ordinary shares of Formosa Plastics; 4,868,000 additional ordinary shares of Formosa Chemicals & Fibre; no additional ordinary shares of Formosa Heavy Industries and no additional ordinary shares of Mailiao Power.

(6) Since the latest record dates for which information is available of the respective investee companies, Formosa Chemicals & Fibre has bought no additional Common Shares of Formosa Petrochemical; 105,270,000 additional ordinary shares of Formosa Plastics; no additional ordinary shares of Nan Ya Plastics; no additional ordinary shares of Formosa Heavy Industries and no additional ordinary shares of Mailiao Power.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF FORMOSA PETROCHEMICAL CORPORATION

The following discussion should be read in conjunction with "Summary — Summary Financial Information — Formosa Petrochemical" and each of Formosa Petrochemical's Audited Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 and Unaudited Financial Statements as at and for the three months ended March 31, 2003 and 2004 and the notes thereto, included elsewhere in this Offering Circular.

Overview

Formosa Petrochemical is involved primarily in the business of refining crude oil, selling refined petroleum products and producing and selling olefins (including ethylene, propylene, butadiene and BTX) from its naphtha cracking operations. It also sells electricity, steam and certain other products from its co-generation power plants, which generate electricity and steam for its oil refinery and naphtha cracking operations. Formosa Petrochemical is the only privately held oil refinery in Taiwan and the second largest gasoline and gasoil producer in Taiwan. Formosa Petrochemical is also the largest producer of olefins in Taiwan. Formosa Petrochemical's refined petroleum products are sold both domestically and overseas. Formosa Petrochemical sells all of its refined petroleum products to wholesale buyers. These products are then sold to the retail market through gasoline service stations, including those owned by Formosa Petrochemical's direct subsidiary, Formosa Oil (Asia Pacific) Corp. ("Formosa Oil"), its indirect subsidiary, Whale Home International Corp. ("Whale Home"), and its affiliate Formosa Taffeta Co., Limited ("Formosa Taffeta") as well as franchise gasoline service stations owned by unrelated third parties. Formosa Petrochemical's olefins products are mostly sold to companies within the Formosa Group, primarily Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre. Excess electricity from Formosa Petrochemical's co-generation power plants is sold to other companies within the No. 6 Naphtha Cracker Complex and to Taiwan Power Company.

Formosa Petrochemical's operating revenues were NT$236,520.2 million (U.S.$6,958.5 million) in 2003, compared to NT$169,389.6 million in 2002 and NT$128,599.7 million in 2001. Gross profit was NT$28,266.8 million (U.S.$831.6 million) in 2003, compared to NT$16,084.1 million in 2002 and NT$13,305.6 million in 2001. Operating revenues were NT$73,946.2 million (U.S.$2,240.8 million) in the three months ended March 31, 2004, compared to NT$54,643.3 million in the corresponding period in 2003. Gross profit was NT$11,653.5 million (U.S.$353.1 million) in the three months ended March 31, 2004, compared to NT$6,449.8 million in the corresponding period in 2003.

Due to the integrated nature of the Formosa Group, a substantial portion of Formosa Petrochemical's net sales are derived from, and net purchases are made to, other companies in the Formosa Group. Sales to Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre accounted for 15.1 per cent., 6.4 per cent., 14.7 per cent., respectively, of Formosa Petrochemical's net sales for the three months ended March 31, 2004. For the same period, purchases by Formosa Petrochemical from Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre were 0.9 per cent., 0.2 per cent. and 1.4 per cent., respectively, of Formosa Petrochemical's net purchases.

Operating revenues

Formosa Petrochemical's operating revenues consist primarily of net sales of refined petroleum products (including gasoline, gasoil and naphtha) and olefins (including ethylene, propylene, butadiene and BTX). Other sources of revenues include the sale of electricity, steam and certain other products produced at its co-generation plants and service revenues related to storage and transportation for its affiliates in the Formosa Group.

Refined petroleum products revenues

Revenues from the sale of refined petroleum products constituted 55.4 per cent., 63.6 per cent., 61.1 per cent., 63.5 per cent. and 60.2 per cent. of Formosa Petrochemical's net operating revenues in the years ended December 31, 2001, 2002 and 2003 and the three months ended March 31, 2003 and 2004, respectively. The following tables set forth the sales volumes and sales revenues of each of Formosa Petrochemical's refined petroleum products and the percentage of total operating revenues from refined petroleum products provided by each product for the periods indicated:

	Year ended December 31,									
	2001			2002			2003			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Gasoline	2,383,756 kL	36,023.1	50.6	3,910,041 kL	46,913.5	43.5	4,590,141 kL	58,547.1	1,722.5	40.5
Gasoil	1,632,900 kL	15,199.0	21.3	3,420,784 kL	26,532.2	24.6	4,656,412 kL	39,127.5	1,151.1	27.1
Naphtha	736,343 MT	5,946.6	8.4	1,193,425 MT	9,453.4	8.8	1,340,468 MT	13,060.3	384.2	9.0
Fuel oil(1)	760,351 kL	4,789.4	6.7	1,550,411 kL	10,160.7	9.4	2,073,816 kL	14,995.4	441.2	10.4
Jet fuel/ Kerosene	623,570 kL	3,800.7	5.3	1,258,574 kL	7,867.5	7.3	1,255,649 kL	9,582.2	281.9	6.6
LPG	491,956 MT	5,451.2	7.7	631,377 MT	6,856.8	6.4	746,210 MT	9,251.5	272.2	6.4
Total	—	71,210.0	100.0	—	107,784.1	100.0	—	144,564.0	4,253.1	100.0

	Three months ended March 31,						
	2003			2004			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Gasoline	961,749 kL	13,281.7	38.3	1,383,740 kL	16,736.1	507.2	37.6
Gasoil	993,385 kL	9,154.9	26.4	1,419,188 kL	12,951.7	392.5	29.1
Naphtha	269,298 MT	3,050.0	8.8	363,873 MT	5,307.9	160.8	11.9
Fuel oil(1)	473,898 kL	3,643.3	10.5	581,380 kL	4,121.6	124.9	9.3
Jet fuel/Kerosene	320,988 kL	2,579.8	7.4	329,838 kL	2,464.2	74.7	5.5
LPG	213,483 MT	2,993.4	8.6	235,245 MT	2,941.0	89.1	6.6
Total	—	34,703.1	100.0	—	44,522.5	1,349.2	100.0

Notes:

(1) These amounts include pyrolysis fuel oil volumes which are generally calculated in MT but have been converted to kL at a rate of 1.02 MT = 1 kL. Of the total amounts shown in the tables, pyrolysis fuel oil calculated on this basis accounted for 204,903 kL, 234,412 kL, 264,673 kL, 59,465 kL and 73,540 kL in the years ended December 31, 2001, 2002 and 2003 and the three months ended March 31, 2003 and 2004, respectively.

Increasing economies of scale/operating margins

Over the past few years, Formosa Petrochemical has been able to increase its sales of refined petroleum products and its capacity utilization rates. Although Formosa Petrochemical increased its capacity to 450,000 barrels per day from 300,000 barrels per day in December 31, 2001, its utilization rates over this period have also continued to increase. Utilization rates were 40.3 per cent., 50.4 per cent., 68.4 per cent., 59.1 per cent. and 79.3 per cent. for the years ended December 31, 2001, 2002 and 2003 and the three months ended March 31, 2003 and 2004, respectively.

Formosa Petrochemical sells most of the gasoline and gasoil it produces. However, it only sold 77.5 per cent., 68.7 per cent., 50.6 per cent., 52.7 per cent. and 42.4 per cent. of the naphtha it produced in the years ended December 31, 2001, 2002 and 2003 and the three months ended March 31, 2003 and 2004, respectively. The remaining naphtha was consumed internally.

Increased sales of refined petroleum products since 2001 is attributable to increased production as Formosa Petrochemical expanded its capacity and increased its utilization rate. The increased amounts of refined petroleum products were sold both domestically as Formosa Petrochemical's distribution channels expanded as well as through increased shipments of products to North East and South East Asia, notably the PRC, Korea, Japan and the Philippines. The ability to increase utilization rates has helped Formosa Petrochemical to increase its operating margins. Operating margins for the years ended December 31, 2001, 2002 and 2003 and the three months ended March 31, 2003 and 2004 were 6.8 per cent., 6.5 per cent., 9.1 per cent., 9.1 per cent. and 13.1 per cent., respectively.

Limited domestic competition

Taiwan's petroleum market is deregulated. The retail and refining operations were opened to the private sector in 1987 and 1996, respectively. Currently there are only two refiners operating in Taiwan — Formosa Petrochemical and CPC, which together, account for virtually 100 per cent. of production and sales of refined petroleum products in Taiwan. Taiwan opened its petroleum market to the import of refined petroleum products in 2002. However, difficulty in obtaining necessary government approvals, high minimum inventory requirements, high import duties and other taxes present high barriers to entry for foreign refiners and other petroleum product exporters. Although foreign refiners have attempted to gain Taiwanese market share in the past, currently there are no foreign competitors in the market.

Olefins products revenues

Revenues from the sale of olefins constituted 32.7 per cent., 25.5 per cent., 25.9 per cent., 22.8 per cent. and 29.5 per cent. of Formosa Petrochemical's net operating revenues in the years ended December 31, 2001, 2002 and 2003 and the three months ended March 31, 2003 and 2004, respectively. The following tables set forth the sales volumes and sales revenues of each of Formosa Petrochemical's olefins products and the percentage of total operating revenues from olefins products provided by each product for the periods indicated:

	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Ethylene	1,527,229	23,460.5	55.8	1,467,727	22,330.2	51.7	1,661,852	30,800.7	906.2	50.2
Propylene	781,618	10,080.6	24.0	835,247	11,848.0	27.5	1,066,807	17,987.7	529.2	29.3
BTX	714,156	5,967.3	14.2	668,186	5,522.2	12.8	745,137	7,515.8	221.1	12.3
Butadiene	182,671	2,513.7	6.0	196,844	3,458.3	8.0	225,822	5,042.6	148.4	8.2
Total	3,205,674	42,022.1	100.0	3,168,004	43,158.7	100.0	3,699,618	61,346.8	1,804.9	100.0

	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Ethylene	306,768	6,073.7	48.7	481,898	11,030.7	334.3	50.6
Propylene	212,325	3,972.8	31.8	309,369	6,491.9	196.7	29.8
BTX	122,989	1,410.3	11.3	232,622	2,781.0	84.3	12.8
Butadiene	45,077	1,023.7	8.2	66,677	1,477.0	44.8	6.8
Total	687,159	12,480.5	100.0	1,090,566	21,780.6	660.1	100.0

The petrochemical cycle

The petrochemical industry is capital intensive and operating margins have historically been cyclical. Margins are sensitive to supply and demand imbalances both domestically and internationally. Demand for petrochemical products is generally linked to the level of economic activity, and weak economic conditions tend to reduce demand. Supply is affected by significant capacity additions, and if such additions are not matched by corresponding growth in demand, average industry operating margins will face downward pressures. As a result, the petrochemical cycle is characterized by periods of tight supply, leading to high operating rates and margins, followed by periods of oversupply, primarily resulting from significant capacity additions, leading to reduced operating rates and margins. Formosa Petrochemical's olefin business is generally subject to the cyclical and volatile nature of the global petrochemical industry. It is not possible to predict accurately the supply and demand balances, market conditions and other factors that may affect industry operating rates and margins in the future. See "Risk Factors — Risks relating to the Businesses of the Issuers — The Issuers are exposed to volatility in crude oil prices, refined petroleum products prices and refining margins" and "Appendix D — The Petrochemical Industry".

Utilities revenues

Revenues from the sale of Formosa Petrochemical's principal utilities products constituted 8.3 per cent., 6.3 per cent., 6.4 per cent., 5.1 per cent. and 5.5 per cent. of Formosa Petrochemical's net operating revenues in the years ended December 31, 2001, 2002 and 2003 and the three months ended March 31, 2003 and 2004, respectively. The following tables set forth the sales volumes and sales revenues of Formosa Petrochemical's principal utilities products and the percentage of total operating revenues from the company's principal utilities products provided by each type of utility for the periods indicated:

	Year ended December 31,									
	2001			2002			2003			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Electricity	6,263,723 mWh	7,951.7	74.7	6,090,506 mWh	7,663.1	71.9	9,014,677 mWh	11,870.7	349.2	78.1
Steam	8,388,977 T	2,695.3	25.3	9,328,215 T	2,992.9	28.1	10,374,169 T	3,328.2	97.9	21.9
Total	—	10,647.1	100.0	—	10,656.0	100.0	—	15,198.9	447.1	100.0

	Three Months ended March 31,						
	2003			2004			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Electricity	1,757,876 mWh	2,073.5	74.1	2,596,540 mWh	3,201.9	97.0	79.1
Steam	2,252,386 T	723.5	25.9	2,636,002 T	845.3	25.6	20.9
Total	—	2,797.0	100.0	—	4,047.2	122.6	100.0

Note: Formosa Petrochemical also produces certain other minor utilities products such as industrial water, ultra-pure water, oxygen, nitrogen and compressed air. Any revenues from such products have been included under "Others" and not "Utilities" throughout this Offering Circular.

Operating costs

Operating costs consist primarily of raw materials, principally crude oil, naphtha and coal. Raw material cost accounted for 68.5 per cent., 73.9 per cent., 79.4 per cent., 71.0 per cent. and 85.0 per cent. of operating costs in the years ended December 31, 2001, 2002 and 2003 and three months ended March 31, 2003 and 2004, respectively. The following table sets forth, for the periods indicated, the amount of crude oil, coal and naphtha consumed by Formosa Petrochemical and the costs to Formosa Petrochemical of such raw materials:

	Year ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
Crude oil					
Amount consumed	5,910,732 MT	11,362,860 MT	15,286,073 MT	3,149,922 MT	4,485,158 MT
Costs to Formosa Petrochemical	NT$37,040.7 million	NT$73,393.0 million	NT$110,805.0 million	NT$23,816.6 million	NT$34,236.4 million
Naphtha					
Amount consumed	4,507,281 MT	4,251,104 MT	4,993,452 MT	866,366 MT	1,461,011 MT
Costs to Formosa Petrochemical[(1)]	NT$36,881.8 million	NT$34,311.7 million	NT$47,935.0 million	NT$9,251.1 million	NT$16,808.0 million
Coal					
Amount consumed	4,373,870 MT	4,485,230 MT	5,413,209 MT	1,176,706 MT	1,502,048 MT
Costs to Formosa Petrochemical	NT$5,026.0 million	NT$5,529.2 million	NT$6,424.9 million	NT$1,386.4 million	NT$1,887.9 million

Note:

(1) Costs listed here only include purchase cost for naphtha purchased from third parties and not production costs for naphtha produced internally

In addition to raw material costs, operating costs also include labor costs incurred in the production process, service costs incurred in storing and transporting imported goods for other Formosa Group companies and costs incurred in the sale of steam and power.

Price of crude oil and petroleum products

Formosa Petrochemical's financial condition and results of operations are significantly influenced by the market prices for crude oil and refined petroleum products, which are subject to international supply and demand and numerous other factors beyond Formosa Petrochemical's control. The markets and prices for crude oil and refined petroleum products may be influenced by the level of demand (which fluctuates with changes in the economy, seasons and weather patterns), the level of production domestically and regionally, the price and availability of imports, and the price and availability of substitute fuels. In recent years, hostilities in Iraq and other events in the Middle East have caused crude oil prices, and thus the price of refined petroleum products, to rise considerably. In addition, financial scandals led to the temporary shut down of 17 power plants in Japan and several refineries in Korea, resulting in decreased supply and increased prices of petroleum products regionally. Crude oil purchases make up the majority of Formosa Petrochemical's raw material costs and rising crude oil prices result in increased cost of goods sold. However, Formosa Petrochemical is generally able to pass such higher costs on to its customers by increasing prices of refined petroleum products. In fact, Formosa Petrochemical is typically able to increase sales prices for its refined petroleum products, particularly its export products, more quickly than it takes a shipment of crude oil to be processed into refined petroleum products. However, there could be circumstances in which Formosa Petrochemical is unable or unwilling to pass higher prices for crude oil on to its customers. In the beginning of June 2004, Formosa Petrochemical announced that it would absorb the rising price of crude oil rather than raise the price of gasoline sold in the domestic Taiwanese market. Holding gasoline prices stable will adversely affect Formosa Petrochemical's profit margin for domestic products, and although Formosa Petrochemical believes that raised prices for exported products should compensate for erosion in profit experienced on the domestic side, there can be no assurance that Formosa Petrochemical's overall net profit or margins will not be materially and adversely affected if crude oil prices remain at current high levels or increase.

Formosa Petrochemical will generally also pass on decreases in crude oil prices in the form of lower prices on refined petroleum products. However, Formosa Petrochemical is generally able to delay decreasing the domestic sales prices of its petroleum products for approximately 30 days, by which time the decrease in the price of crude oil would have resulted in a decrease in Formosa Petrochemical's raw materials costs. Formosa Petrochemical believes that export sales prices generally adjust more quickly than the domestic sales prices to changes in crude oil prices.

The relative market prices of different types and grades of crude oil and petroleum products also greatly affect Formosa Petrochemical's results of operations. Sour crude oils (characterized by high levels of sulphur) are significantly cheaper than sweeter crude oil (characterized by low levels of sulphur). However, processing cheaper crudes with high levels of sulphur requires more advanced equipment. In addition, heavy crudes (characterized by a high density) yield a higher quantity of heavy distillates such as fuel oil as compared to light crudes (characterized by a low density) which yield a higher quantity of light distillates such as gasoline and naphtha. Formosa Petrochemical owns modern refining equipment able to process a wide range of crude oils including some of the heaviest and cheapest crude oils, giving it flexibility as to which type of crude oil to use as its raw material at any given time. On the production side, Formosa Petrochemical must also determine which products to produce in what ratio from the crude oil it refines. Movements in market prices of the various refined petroleum products, while often similar, are not identical and varying demand for different products makes determination of product mix an important aspect of maximizing profitability. Formosa Petrochemical can alter its refined oil product mix in a number of ways, including adjusting the type of crude oil used as feedstock and adjusting the manufacturing process. Formosa Petrochemical determines which crude oils to purchase in what amounts and which refined petroleum products to produce in what volumes, with the help of a linear programming model which takes into account projected prices of different grades of crude oil, projected prices of different refined petroleum products across various markets, yields of different crude oils, Formosa Petrochemical's total refining capacity, projected prices of coal and other sources of energy and certain other factors. Formosa Petrochemical calculates projected prices based on market forecasts made by its oil traders.

Crude oil makes up the majority of Formosa Petrochemical's raw material costs. For the years ended December 31, 2001, 2002 and 2003, 66 per cent., 45 per cent. and 72 per cent., respectively, of Formosa Petrochemical's crude oil imports were made under term contracts with state-owned petroleum companies of oil exporting countries, such as Saudi Arabia's Arabian American Oil Company ("Aramco"), Iran's National Iranian Oil Company and Kuwait's Kuwait Petroleum Corporation. Such term contracts typically provide for the supply of a fixed quantity (within a given range) of crude oil during a period of one to two years at a variable price. The balance of Formosa Petrochemical's crude oil imports were generally purchased on the spot market from time to time at the prevailing market price, to meet fluctuations in supply or demand.

Naphtha is the primary raw material required for Formosa Petrochemical's olefins operations. Naphtha is used as feedstock in Formosa Petrochemical's crackers. Formosa Petrochemical produced 30.4 per cent. and 41.0 per cent. of its naphtha requirements for the year ended December 31, 2003 and the three months ended March 31, 2004, respectively from its own oil refinery operations, with the remaining naphtha requirements being imported from overseas, mostly from countries in the Middle East. Formosa Petrochemical also produces all of the electricity it needs at its own three coal-fired co-generation power plants at the No. 6 Naphtha Cracker Complex. The following table sets out the volumes of naphtha consumed by Formosa Petrochemical and the amounts of such raw materials supplied internally and sourced externally.

	Year ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
Naphtha					
Total amount consumed	4,507,281KT	4,251,105KT	4,993,452KT	866,336KT	1,461,011KT
Produced internally	218,786KT	793,294KT	1,518,476KT	295,918KT	598,201KT
Supplied externally[1]	4,288,495KT	3,457,810KT	3,474,976KT	570,418KT	862,810KT

Note:

(1) Figures supplied here only included external purchases actually consumed internally in the periods indicated and do not include certain limited amounts added to inventory or resold to affiliates at cost.

Operating expenses

Operating expenses include selling and marketing expenses, general and administrative expenses and research and development expenses. Selling and marketing operating expenses primarily include payroll, depreciation, rent, employee benefits, repairment and promotional expenses. General and administrative operating expenses primarily include payroll, depreciation and repairment expenses. Research and development operating expenses primarily include expenses incurred in developing new products.

Non-operating income

Non-operating income consists primarily of investment income, foreign exchange gain, gain on physical inventory, rental income, gain from price recovery of inventory and interest income.

Non-operating expenses

Non-operating expenses consist primarily of interest expenses, foreign exchange losses and financial expenses.

Inventories

Formosa Petrochemical requires significant amounts of crude oil for its operations. Under the ROC Petroleum Administration Law, Formosa Petrochemical must store, in Taiwan, sufficient crude oil and/or refined petroleum product inventory to have or produce sixty days' equivalent (based on its domestic sales volumes in the preceding twelve months) of finished refined petroleum product at its petroleum refinery.

The olefins industry is generally characterized by prompt delivery by producers and rapid product movement through the distribution and production process. Formosa Petrochemical maintains varying levels of raw material and finished product inventory, depending on lead time, shipping schedules, storage space and market conditions.

Temperature effect on the valuation of refined petroleum inventories

Volume of a given mass of petroleum product varies with temperature. Finished refined petroleum product inventories are calculated based on product densities existing at a temperature of 60 degrees Fahrenheit. However, the average temperature in Taiwan is generally several degrees higher than this. Although export volumes are adjusted and booked in accordance with what volumes would be at 60 degrees Fahrenheit, domestic sales volumes are booked at whatever volumes are actually shipped at ambient temperature and Formosa Petrochemical records a decrease in inventories of the same amount (thus overstating the amount removed). As a result, the amounts remaining in Formosa Petrochemical's inventories at the end of any accounting period as calculated using a temperature of 60 degrees Fahrenheit are inevitably higher than amounts calculated on a running basis. Formosa Petrochemical accounts for this effect, which increases as domestic sales increase, as a gain on physical inventory.

Consolidation

Under ROC GAAP, Formosa Petrochemical is required to consolidate the financial statements of a subsidiary if the total assets or net operating revenues of such subsidiary exceeds 10 per cent. of Formosa Petrochemical's non-consolidated total assets or net operating revenues, as the case may be. In addition, under rules promulgated by the ROC Securities and Futures Commission, if the total assets or net operating revenues of all of Formosa Petrochemical's non-consolidated subsidiaries exceed 30 per cent. of its non-consolidated total assets or net operating revenues, as the case may be, Formosa Petrochemical is required to consolidate the financial statements of all non-consolidated subsidiaries whose assets or net operating revenues exceed three per cent. of its non-consolidated total assets or net operating revenues, as the case may be.

The investees, Formosa Oil and Formosa Petrochemical Transportation Corp. are treated as subsidiaries because Formosa Petrochemical owns more than 50 per cent. of their voting stock. However, since both the total assets and operating revenues of each these subsidiaries are below 10 per cent. of Formosa Petrochemical's respective account balances, and the total assets and operating revenues of all above subsidiaries are not more than 30 per cent. of Formosa Petrochemical's respective account balances, consolidated financial statements are not required.

Critical Accounting Policies

Accounting estimates are an integral part of the financial statements prepared by Formosa Petrochemical's management and are based upon management's judgment. Note 2, "Significant accounting policies", to Formosa Petrochemical's Audited Financial Statements included elsewhere in this Offering Circular includes a summary of the principal accounting policies used in the preparation of such financial statements. Critical accounting policies are those that are both most important to the portrayal and understanding of Formosa Petrochemical's financial conditions and results of operations and those that require management's most difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent period. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. Formosa Petrochemical's management believes the following accounting policies are critical to the portrayal and understanding of its financial condition and results of operation and/or involve the most significant judgments and estimates used in the preparation of its financial statements.

Property, plant and equipment

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized, while ordinary maintenance and repairs are expensed as incurred. Interest expenses incurred in the period when such fixed assets are in construction or being installed are capitalized. Depreciation is provided on a straight-line basis using the estimated useful life of the assets less any salvage value. Formosa Petrochemical generally estimates the life of refining and other production machinery to be twenty-five years. When the estimated useful life ends, property, plant and equipment, which are still in use, are depreciated over the newly estimated useful life of the salvage value. When property, plant and equipment are disposed of, their original cost and accumulated depreciation are written off and the related gains or losses are included in the income statement.

Allowance for doubtful accounts

The allowance for doubtful accounts is provided based on history of bad debts, aging report and evaluation of the ability to collect notes and accounts receivable. Formosa Petrochemical does not generally consider accounts due from related parties as doubtful.

Inventories

In 2001, inventories were stated at the lower of aggregate cost and market value at the balance sheet date. Cost was computed using the weighted-average method. Market value was determined based on the replacement cost of raw materials and supplies, or net realizable value of work-in-process and finished goods.

In 2002, 2003 and 2004, raw materials, work-in-process and finished goods were valued by the last-in-first-out ("LIFO") method. Supplies were evaluated by the weighted-average method. As required under ROC accounting standards at that time for companies using LIFO, inventory items in 2002 were valued at cost on the closing date. In accordance with increased flexibility provided by a change in ROC accounting standards, in 2003 and the three months ended March 31, 2004, inventories were valued on the period closing date using the lower-of-cost or market value ("LCM") method. See "—Changes in Accounting Policy".

The comparison of cost and market value is based on aggregate cost while the replacement price is considered as market value.

Net deferred tax assets

Under ROC GAAP, Formosa Petrochemical's income tax expense is recorded based on calculations using the statutory tax rate of each entity's jurisdiction of incorporation. As of March 31, 2004, Formosa Petrochemical's deferred tax assets related principally to income tax credits that expire between 2004 and 2006. The realization of these assets is based upon estimates of future taxable income. In preparing estimates of future taxable income, Formosa Petrochemical has used the same assumptions and projections utilized in its internal forecasts. Based on these projections, Formosa Petrochemical estimates that a portion, but not all, of these tax credits will be fully utilized prior to their expiration. Formosa Petrochemical expects to achieve future earnings through the expansion of its businesses. However, Formosa Petrochemical may not be able to generate sufficient additional income to fully utilize its deferred tax assets. In particular, an additional valuation allowance may be required to the extent Formosa Petrochemical is not able to fully utilize its deferred tax assets. As of March 31, 2004, Formosa Petrochemical's net deferred tax assets were NT$8,863.5 million (U.S.$268.6 million).

Changes in Accounting Policy

Effective from 2002, Formosa Petrochemical changed its valuation method of raw materials, work-in-process and finished goods from the weighted-average method to the LIFO method in order to match industry practice. As a result of this change in accounting method, both of Formosa Petrochemical's inventory value as of December 31, 2002 and income before income tax for the year then ended were reduced by NT$2,735.5 million, which accounted for 0.9 per cent. of total assets and 1.6 per cent. of net sales.

In 2002, ROC accounting standards required the base layer of LIFO inventory to be valued at cost, regardless of what actual method was used prior and for valuation of inventory at cost at the end of any accounting period for which a company valued raw materials, finished products or work in process using LIFO. Generally, when a company changes to LIFO, the year in which the change is made is used as the base year of inventory value. In 2001, while Formosa Petrochemical was using the weighted average method and thus permitted to value inventories using the LCM method, it recognized a loss of NT$768.8 million from inventory market value declining below cost. In 2002, in order to eliminate the write-down of 2001 ending inventory below cost, Formosa Petrochemical reversed its non-operating expense of NT$768.8 million in 2001 with a gain from price recovery of inventory in 2002 in the same amount.

However, in 2003, according to amended ROC Statement of Financial Accounting Standard No.1, the restriction requiring the use of the LCM method in the valuation of inventories on a LIFO basis was removed. Effective from 2003, while Formosa Petrochemical adopted the LIFO method to value raw materials, work-in-process and finished goods, it also used the LCM method to value the above inventories as at the end of the accounting period. This change did not result in changes in the value of year ending inventories or income before income tax in that year as the cost of inventories was actually lower that market value as at December 31, 2003.

Results of Operations

The following table sets forth Formosa Petrochemical's results of operations as a percentage of operating revenues for the periods shown:

	Year ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
	%	%	%	%	%
Operating revenues	100.0	100.0	100.0	100.0	100.0
Operating costs	89.7	90.5	88.1	88.2	84.2
Gross profit	10.3	9.5	11.9	11.8	15.8
Operating expenses:					
General and administrative	1.3	1.0	1.0	1.0	1.0
Selling and marketing	2.2	2.0	1.8	1.7	1.7
Total operating expenses	3.5	3.0	2.8	2.7	2.7
Operating income	6.8	6.5	9.1	9.1	13.1
Non-operating income	2.4	2.3	1.5	1.4	2.0
Non-operating expenses	8.0	3.7	2.7	2.8	2.0
Income before income tax	1.2	5.1	7.9	7.7	13.1
Income tax benefit (cost)	1.8	1.7	0.1	8.7	(0.9)
Net income	3.0	6.8	8.0	16.4	12.2

The following tables set forth the revenues contributed by each of Formosa Petrochemical's product types to its operating revenues and the percentage of Formosa Petrochemical's total operating revenues they represent for the periods indicated:

	Year ended December 31,						
	2001		2002		2003		
	NT$ (millions)	%	NT$ (millions)	%	NT$ (millions)	U.S.$ (millions)	%
Operating revenues							
Refined petroleum products	71,210.0	55.4	107,784.1	63.6	144,564.0	4,253.1	61.1
Olefins	42,022.2	32.7	43,158.7	25.5	61,346.7	1,804.8	26.0
Utilities	10,647.0	8.3	10,656.0	6.3	15,199.0	447.2	6.4
Others(1)	4,720.5	3.6	7,790.8	4.6	15,410.5	453.4	6.5
Total	128,599.7	100.0	169,389.6	100.0	236,520.2	6,958.5	100.0

	Three months ended March 31,				
	2003		2004		
	NT$ (millions)	%	NT$ (millions)	U.S.$ (millions)	%
Operating revenues					
Refined petroleum products	34,703.1	63.5	44,522.5	1,349.2	60.2
Olefins	12,480.5	22.9	21,780.5	660.0	29.4
Utilities	2,797.0	5.1	4,047.2	122.6	5.5
Others(1)	4,662.7	8.5	3,596.0	109.0	4.9
Total	54,643.3	100.0	73,946.2	2,240.8	100.0

Notes:

(1) "Others" include revenues from maintenance services, harbor administration services (such as loading, unloading, and storage fees) and sales of certain other products (such as C_4, CO and industrial water).

Three months ended March 31, 2004 compared to three months ended March 31, 2003

Operating revenues

Operating revenues increased 35.3 per cent. to NT$73,946.2 million (U.S.$2,240.8 million) in the three months ended March 31, 2004 from NT$54,643.3 million in the corresponding period in 2003, primarily as a result of increased sales revenues from its refined petroleum products, olefins products and utilities.

Revenues attributable to the sales of refined petroleum products increased 28.3 per cent. to NT$44,522.5 million (U.S.$1,349.2 million) for the three months ended March 31, 2004 from NT$34,703.1 million in the corresponding period in 2003. This increase was primarily due to increased production of refined petroleum products resulting in an increase in refinery utilization rates to 79.3 per cent. in the three months ended March 31, 2004 from 59.1 per cent. in the corresponding period in 2003 and increased sales volumes of gasoil, gasoline and naphtha. Utilization rates increased as a result of increased production efficiency as Formosa Petrochemical's personnel became more familiar with Formosa Petrochemical's refining processes and equipment and their response time to address problems in the refining process decreased. Export sales revenues constituted 37.1 per cent. of total refined petroleum products sales revenues for the three months ended March 31, 2004 as compared to 31.8 per cent. in the corresponding period in 2003. Export sales volumes of gasoline and gasoil increased 136.1 per cent. and 52.9 per cent., respectively. Domestic sales volumes for gasoil, gasoline and naphtha increased 14.4 per cent., 6.6 per cent. and 35.1 per cent. respectively.

Revenues attributable to the sales of olefins products increased 74.5 per cent. to NT$21,780.5 million (U.S.$660.0 million) for the three months ended March 31, 2004 from NT$12,480.5 million in the corresponding period in 2003. This increase was primarily due to a scheduled maintenance of one of Formosa Petrochemical's two olefins manufacturing facilities in the first quarter of 2003. As a result, utilization rates for Formosa Petrochemical's olefins manufacturing facilities increased to 119.1 per cent. in the three months ended March 31, 2004 from 74.4 per cent. in the corresponding period in 2003. This increase in revenues was also due to increased sales volumes of ethylene, BTX and propylene as well as an increase in average sales prices for most products. Domestic sales volumes of ethylene, BTX and propylene increased 57.1 per cent., 86.7 per cent. and 36.7 per cent., respectively. Export sales volume of propylene increased 260.7 per cent.

Revenues attributable to the sales of utilities increased 44.7 per cent. to NT$4,047.2 million (U.S.$122.6 million) for the three months ended March 31, 2004 from NT$2,797.0 million in the corresponding period in 2003. This increase was primarily due to the completion of a second unit with a capacity of 600,000 KW, in Formosa Petrochemical's No. 2 co-generation power plants which began full operations in June 2003.

Operating costs and gross profit

Operating costs increased 29.3 per cent. to NT$62,292.7 million (U.S.$1,887.7 million) in the three months ended March 31, 2004 from NT$48,193.5 million in the corresponding period in 2003, due primarily to increased crude oil and naphtha prices. Crude oil purchases constituted 55.0 per cent. of operating costs in the three months ended March 31, 2004. Operating costs as a percentage of operating revenues decreased to 84.2 per cent. in the three months ended March 31, 2004 from 88.2 per cent. in the corresponding period in 2003, primarily as a result of increased economies of scale as well as average sales prices of refined petroleum products increasing at a higher rate than the price of crude oil.

As a result of the above, gross profit increased 80.7 per cent. to NT$11,653.5 million (U.S.$353.1 million) in the three months ended March 31, 2004 from NT$6,449.8 million in the corresponding period in 2003, and gross margin increased to 15.8 per cent. in the three months ended March 31, 2004 from 11.8 per cent. in the corresponding period in 2003.

Operating expenses and operating income

Operating expenses increased 35.0 per cent. to NT$1,968.6 million (U.S.$59.7 million) in the three months ended March 31, 2004 from NT$1,458.4 million in the corresponding period in 2003, due to a 26.4 per cent. increase in selling and marketing expenses to NT$1,204.2 million (U.S.$36.5 million) in the three months ended March 31, 2004 from NT$952.8 million in the corresponding period in 2003 and a 50.6 per cent. increase in general and administrative expenses to NT$761.2 million (U.S.$23.1 million) in the three months ended March 31, 2004 from NT$505.3 million in the corresponding period in 2003. Selling and marketing expenses increased primarily as a result of increased exports which resulted in increased freight costs and export duties. General and administrative expenses increased primarily as a result of increased publicity costs associated with being a publicly traded company.

As a result of the foregoing factors, operating income increased 94.0 per cent. to NT$9,684.9 million (U.S.$293.5 million) in the three months ended March 31, 2004 from NT$4,991.4 million in corresponding period in 2003.

Non-operating income

Non-operating income increased 91.7 per cent. to NT$1,477.8 million (U.S.$44.8 million) in the three months ended March 31, 2004 from NT$770.8 million in the corresponding period in 2003. This increase was due to an exchange gain of NT$859.9 million (U.S.$26.1 million) in the three months ended March 31, 2004 which was partially offset by a 40.3 per cent. decrease in investment income to NT$332.7 million (U.S.$10.1 million) in the three months ended March 31, 2004 from NT$557.4 million in the corresponding period in 2003. The exchange gain was primarily due to depreciation of the U.S. dollar against the NT dollar. The decrease in investment income was due to decreased investment income from Mailiao Harbor Administration Corp. and Formosa Oil.

Non-operating expenses

Non-operating expenses decreased 2.2 per cent. to NT$1,510.0 million (U.S.$45.8 million) in the three months ended March 31, 2004 from NT$1,543.3 million in the corresponding period in 2003. This decrease was due to finance expenses of NT$61.7 million in the three months ended March 31, 2003 relating to costs incurred in issuing domestic corporate bonds as well as a 9.7 per cent. decrease in other expenses to NT$261.8 million (U.S.$7.9 million) in the three months ended March 31, 2004 from NT$289.9 million in the corresponding period in 2003 due to losses from cross currency and interest rate swap contracts.

Income before income tax

Income before income tax increased 128.8 per cent. to NT$9,652.8 million (U.S.$292.5 million) in the three months ended March 31, 2004 from NT$4,218.9 million in the corresponding period in 2003, primarily reflecting the foregoing.

Income tax expense

Formosa Petrochemical recorded an income tax expense of NT$696.1 million (U.S.$21.1 million) in the three months ended March 31, 2004, compared to an income tax benefit of NT$4,754.2 million in the corresponding period in 2003. This difference was primarily due to a decrease in investment tax credits and an increase in taxable income in the three months ended March 31, 2004 as compared to the corresponding period in 2003.

Net income

As a result of factors discussed above, particularly the increase in income tax expense, net income decreased 0.2 per cent. to NT$8,956.7 million (U.S.$271.4 million) in the three months ended March 31, 2004 from NT$8,973.1 million in the corresponding period in 2003. Basic earnings per share remained at NT$1.14 (U.S.$0.03) in the three months ended March 31, 2004.

Year ended December 31, 2003 compared to year ended December 31, 2002

Operating revenues

Operating revenues increased 39.6 per cent. to NT$236,520.2 million (U.S.$6,958.5 million) in 2003 from NT$169,389.6 million in 2002, primarily as a result of increases in the sales revenues of all products.

Revenues attributable to sales of refined petroleum products increased 34.1 per cent. to NT$144,564.0 million (U.S.$4,253.1 million) in 2003 from NT$107,784.1 million in 2002. This increase was due to an increase in sales volume coupled with higher export prices of gasoline, gasoil and naphtha. As a result of price increases for refined petroleum products in the international market and increased sales volumes outside of Taiwan, export sales increased 60.5 per cent. to NT$48,235.1 million (U.S.$1,419.1 million) in 2003 from NT$30,046.8 million in 2002. In particular, gasoline export sales increased 84.1 per cent. on a 50.4 per cent. increase in volume exported and gasoil export sales increase 71.2 per cent on a 46.9 increase in volume exported. As a result, export sales of refined petroleum products increased to 33.4 per cent. of total refined petroleum product revenues in 2003 from 27.9 per cent. in 2002.

Revenues attributable to sales of petrochemical products increased 42.1 per cent. to NT$61,346.7 million (U.S.$1,804.8 million) in 2003 from NT$43,158.7 million in 2002. This increase was due to increases in the volume of ethylene and propylene sold primarily to members of the Formosa Group and higher average selling prices for olefins in 2003 due to increased global demand. Sales of ethylene increased 37.9 per cent. to NT$30,800.7 million (U.S.$906.2 million) in 2003 from NT$22,330.2 million in 2002 and sales of propylene increased 51.8 per cent. to NT$17,987.7 million (U.S.$529.2 million) in 2003 from NT$11,848.0 million in 2002.

Revenues attributable to utilities sales increased 42.6 per cent. to NT$15,199.0 million (U.S.$447.2 million) in 2003 from NT$10,656.0 million in 2002. This increase was primarily due to increased sales volumes stemming from the completion of an additional power generation unit at Formosa Petrochemical's No.2 co-generation power plant which began commercial runs in June 2003 with prices remaining relatively stable.

Operating costs and gross profit

Operating costs increased 35.8 per cent. to NT$208,253.4 million (U.S.$6,126.9 million) in 2003 from NT$153,305.5 million in 2002, primarily as a result of increased raw material costs. However, operating costs as a percentage of operating revenues decreased to 88.0 per cent. in 2003 from 90.5 per cent. in 2002, primarily as a result of increased economies of scale as production volume increased while fixed costs remained constant and continued cost-cutting measures. As a result of the above, gross profit increased 75.7 per cent. to NT$28,266.8 million (U.S.$831.6 million) in 2003 from NT$16,084.1 million in 2002, and gross margin increased to 12.0 per cent. in 2003 from 9.5 per cent. in 2002.

Operating expenses and operating income

Operating expenses increased 29.2 per cent. to NT$6,623.8 million (U.S.$194.9 million) in 2003 from NT$5,126.4 million in 2002, due to increases in selling and marketing expenses and general and administrative expenses. Selling and marketing expenses increased 25.2 per cent. to NT$4,254.1 million (U.S.$125.2 million) in 2003 from NT$3,397.2 million in 2002, primarily due to an 18.8 per cent. increase in freight expenses to NT$2,345.3 million (U.S.$69.0 million) in 2003 from NT$1,974.3 million in 2002, a 142.8 per cent. increase in rental expenses to NT$106.1 million (U.S.$3.1 million) in 2003 from NT$43.7 million in 2002 and a 26.8 per cent. increase in depreciation to NT$218.4 million (U.S.$6.4 million) in 2003 from NT$172.2 million in 2002. Freight expenses increased primarily due to increased shipments of products, in particular outside of Taiwan. Rental expenses increased as a result of increased rents in various rental facilities. Depreciation increased due to property, plant and equipment increasing over the course of 2002 and 2003. These increases were partially offset by a 97.3 per cent. decrease in provisions for bad debt to NT$1.6 million (U.S.$0.05 million) in 2003 from NT$59.2 million in 2002 due to the reclassification of outstanding accounts receivable of certain of Formosa Petrochemical's existing customers, including Formosa Taffeta and Nan Chung Petrochemical, as not doubtful when such customers became related parties. General and administrative expenses increased 36.5 per cent. to NT$2,358.4 million (U.S.$69.4 million) in 2003 from NT$1,727.5 million in 2002. This increase was primarily a result of a 303.1 per cent. increase in other miscellaneous expenses to NT$641.0 million (U.S.$18.9 million) in 2003 from NT$158.7 million and a 64.3 per cent. increase in repairment expenses to NT$229.8 million (U.S.$6.8 million) in 2003 from NT$139.9 million in 2002. Miscellaneous expenses increased as a result of an increase in certain depreciation expenses. Repairment expenses increased in 2003 primarily as a result of certain use and construction expenses incurred at the No. 6 Naphtha Cracker Complex.

As a result of the foregoing factors, operating income was NT$21,643.0 million (U.S.$636.7 million) in 2003, compared with operating income of NT$10,957.7 million in 2002.

Non-operating income

Non-operating income decreased 10.4 per cent. to NT$3,557.1 million (U.S.$104.7 million) in 2003 from NT$3,968.9 million in 2002, primarily due to a one-time NT$768.8 million gain from price recovery of inventories in 2002 and a 47.1 per cent. decrease in other operating income to NT$637.4 million (U.S.$18.8 million) in 2003 from NT$1,205.5 million in 2002. The price recovery of inventories in 2002 was due to the recovery of a loss on inventories below cost incurred in 2001. Such recovery was necessitated by a change in Formosa Petrochemical's method of calculating inventories from 2001 to 2002. See "— Change in Accounting Policies". Other non-operating income decreased primarily due to accounting for gains from cross currency swaps and non-delivery forwards contracts as foreign exchange gains in 2003 instead of as other non-operating income. These changes were partially offset by a 34.3 per cent. increase in investment income to NT$1,286.7 million (U.S.$37.9 million) in 2003 from NT$958.1 million in 2002, a 121.0 per cent. increase in gain on physical inventory to NT$420.9 million (U.S.$12.4 million) in 2003 from NT$190.4 million in 2002, a 24.3 per cent. increase in foreign exchange gain to NT$919.3 million (U.S.$27.0 million) in 2003 from NT$739.6 million in 2002 and NT$152.5 million (U.S.$4.5 million) in rental income in 2003. Investment income increased due to improved performance from Formosa Petrochemical's investee companies and the addition of Formosa Environmental Technology Corp. as an investee in 2003. Gain on physical inventory increased primarily due to the temperature effect on the level of inventories recorded. See "— Inventories — Temperature effect on the valuation of refined petroleum inventories". Foreign exchange gain increased due to sustained weakening of the U.S. dollar against the NT dollar over the course of 2002 and 2003 as well as to Formosa

Petrochemical's accounting for gains and losses from its cross currency swaps and non-delivery forwards contracts as foreign exchange gains in 2003 instead of as other non-operating income. Rental income also increased in 2003 as Formosa Petrochemical rented out office space that was previously vacant to unrelated third parties.

Non-operating expenses

Non-operating expenses increased 1.6 per cent. to NT$6,409.1 million (U.S.$188.6 million) in 2003 from NT$6,311.0 million in 2002, as a result of a 37.2 per cent. increase in other non-operating expenses to NT$1,284.3 million (U.S.$37.8 million) in 2003 from NT$936.3 million in 2002 which was partially offset by an decrease of 5.3 per cent. in interest expenses to NT$4,859.4 million (U.S.$143.0 million) in 2003 from NT$5,129.4 million in 2002. Other non-operating expenses increased primarily as a result of losses attributable to its derivative contracts. Interest expenses decreased as a result of a decrease in interest rates while net debt increased only 1.4 per cent. to NT$167,624.5 million (U.S.$4,931.6 million) in 2003 from NT$165,315.0 million in 2002.

Income before income tax

As a result of the foregoing, income before income tax increased 118.1 per cent. to NT$18,791.0 million (U.S.$552.8 million) in 2003 from NT$8,615.6 million in 2002.

Income tax benefit

Formosa Petrochemical recorded an income tax benefit decreased 94.9 per cent. to NT$143.9 million (U.S.$4.2 million) compared to an income tax benefit of NT$2,813.9 million in 2002. The decrease in income tax benefit in 2003 was primarily due to an increase in taxable income and a valuation allowance in 2003 which offset virtually all income tax benefits arising that year.

Net income

As a result of the factors discussed above, net income increased 65.7 per cent. to NT$18,934.9 million (U.S.$557.1 million) in 2003 from NT$11,429.5 million in 2002.

Year ended December 31, 2002 compared to year ended December 31, 2001

Operating revenues

Operating revenues increased 31.7 per cent. to NT$169,389.6 million in 2002 from NT$128,599.7 million in 2001, primarily as a result of increases in refined petroleum product sales revenues.

Revenues attributable to sales of refined petroleum products increased 51.4 per cent. to NT$107,784.1 million in 2002 from NT$71,210.0 million in 2001. This increase was primarily due to increased revenues from the sale of gasoline, gasoil, naphtha, jet fuel/kerosene and fuel oil. In particular, Formosa Petrochemical's refined petroleum product export sales increase dramatically with exports of gasoline, gasoil and jet fuel in 2002 increasing 627.2 per cent., 248.8 per cent., and 107.0 per cent., respectively, over 2001 due primarily to increased production in excess of domestic demand. As a result of these increases, revenues from export sales of Formosa Petrochemical's refined petroleum products increased to 27.9 per cent. of total refined petroleum product revenues in 2002 from 13.6 per cent. in 2001. Domestically, sales of naphtha, gasoline and fuel oil in 2002 increased 59.0 per cent., 14.0 per cent. and 142.2 per cent. over 2001 due to higher volumes sold. The increase in sales volume of refined petroleum products was generally attributable to increased production volumes. The increase in gasoline sales was partially due to increased sales to Formosa

Oil, which had just started its gasoline retail sales business in 2001. Increased sales volumes of refined petroleum products was partially offset by a decrease in the average sales prices of most of these products.

Revenues attributable to the sales of olefins products remained fairly flat over the period, increasing 2.7 per cent. to NT$43,158.7 million in 2002 from NT$42,022.2 million in 2001. This increase was due to small increases in sales revenues from propylene and butadiene partially offset be decreased revenues in ethylene and BTX.

Operating costs and gross profit

Operating costs increased 33.0 per cent. to NT$153,305.5 million in 2002 from NT$115,294.1 million in 2001, primarily as a result of increased raw material costs. Operating costs as a percentage of operating revenues increased to 90.5 per cent. in 2002 from 89.7 per cent. in 2001, primarily as a result of sales price decreases in Taiwan for most refined petroleum products. As a result of the foregoing factors, while gross profit increased 20.9 per cent. to NT$16,084.1 million in 2002 from NT$13,305.6 million in 2001, primarily reflecting increased refined petroleum sales revenues, gross margin decreased to 9.5 per cent. from 10.3 per cent. in 2001.

Operating expenses and operating income

Operating expenses increased 14.0 per cent. to NT$5,126.4 million in 2002 from NT$4,496.6 million in 2001, due to increases selling and marketing expenses and general and administrative expenses. Selling and marketing expenses increased 17.8 per cent. to NT$3,397.2 million in 2002 from NT$2,883.5 million in 2001, primarily due to a 19.6 per cent. increase in freight costs to NT$1,974.3 million in 2002 from NT$1,650.1 million in 2001, a 130.0 per cent. increase in payroll to NT$206.5 million in 2002 from NT$89.8 million in 2001. Freight expenses increased primarily due to increased shipments of products, in particular outside of Taiwan. These increases were partially offset by a decrease in promotional expenses in 2002, which were particularly high in 2001 (NT$275.1 million) as Formosa Petrochemical focused on gaining market share in the domestic refined petroleum products market. General and administrative expenses increased 7.4 per cent. to NT$1,727.5 million in 2002 from NT$1,607.9 million in 2001, primarily as a result of a 382.4 per cent. increase in repairment expenses to NT$139.9 million in 2002 from NT$29.0 million in 2001 and a 19.3 per cent. increase in payroll expenses to NT$821.9 million in 2002 to NT$689.0 million in 2001. The increase in repairment expenses was due to use and construction expenses at Mailiao harbor. The increase in payroll expenses was primarily due to an increase in the number of employees.

As a result of the foregoing factors, Formosa Petrochemical's operating income increased 24.4 per cent. to NT$10,957.7 million in 2002 from NT$8,809.0 million in 2001.

Non-operating income

Non-operating income increased 30.9 per cent. to NT$3,968.9 million in 2002 from NT$3,031.1 million in 2001, primarily due to a one-time NT$768.8 million gain from price recovery of inventories and foreign exchange gain of NT$739.6 million in 2002. This was partially offset by a decrease in interest income of 85.1 per cent. to NT$95.6 million in 2002 from NT$640.3 million in 2001. The price recovery of inventories in 2002 was due to the recovery of a loss on inventories below cost in 2001. Such recovery was necessitated by a change in Formosa Petrochemical's method of calculating inventories from 2001 to 2002. The decline in inventory market value below cost, as calculated in 2001, was effectively offset by a corresponding gain on disposal of assets in 2002, reflected as a gain from price recovery from inventories. See "— Changes in Accounting Policy". Gain on physical inventory increased due to temperature effect on the level of inventories recorded. See "— Inventory — Temperature effect on the valuation of refined petroleum inventories".

Non-operating expenses

Non-operating expenses decreased 38.4 per cent. to NT$6,311.0 million in 2002 from NT$10,246.2 million in 2001, primarily as a result of recording net foreign exchange losses of NT$2,763.0 million in 2001 (compared with a net foreign exchange gain in 2002), a provision for inventory loss of NT$768.8 million in 2001 and a 14.1 per cent. decrease in interest expenses to NT$5,129.4 million in 2002 from NT$5,970.6 million in 2001. The foreign exchange loss was due to the depreciation of the NT dollar against the U.S. dollar in 2001. The provision for inventory loss was primarily due to losses of refined petroleum product during the domestic transportation process in 2001 due to the sole use of oil trucks for refined petroleum product transport. Such losses were not material in 2002 as Formosa Petrochemical began transporting the majority of its refined petroleum products domestically by means of oil tanker ships. Interest expenses decreased 14.1 per cent. due to decreased interest rates.

Income before income tax

As a result of the foregoing, income before income tax increased 440.5 per cent. to NT$8,615.6 million in 2002 from NT$1,594.0 million in 2001.

Income tax benefit

Income tax benefit increased 23.0 per cent. to NT$2,813.9 million in 2002 compared to NT$2,288.6 million in 2001 due primarily to a reversal of valuation allowance for investment tax credits partially offset by an increase in taxable income in 2002.

Net income

As a result of the factors discussed above, net income increased 194.4 per cent. to NT$11,429.5 million in 2002 from NT$3,882.6 million in 2001. Basic earnings per share after tax was NT$1.46 in 2002, compared to NT$0.55 in 2001.

Liquidity and Capital Resources

Formosa Petrochemical's principal sources of liquidity are cash flow from operations and financing activities, including short and long-term secured and unsecured borrowings. Formosa Petrochemical's principal uses of cash in the three months ended March 31, 2004 were primarily for purchase of additional short-term investments, capital expenditures and repayment of liabilities to its affiliates. Formosa Petrochemical's principal uses of cash in 2003 were primarily for repayment of debt, purchase of additional short-term investments, payment of cash dividends and capital expenditures.

Cash flow

Cash flow for the three months ended March 31, 2004 and 2003

In the three months ended March 31, 2004, Formosa Petrochemical's net cash flow was an inflow of NT$296.7 million (U.S.$9.0 million) as compared to an outflow of NT$571.0 million in the corresponding period in 2003, bringing its cash and cash equivalents position as of March 31, 2004 to NT$955.5 million (U.S.$29.0 million).

Three months ended March 31, 2004. Net cash provided by operating activities was NT$7,532.5 million (U.S.$228.3 million) in the three months ended March 31, 2004. This amount reflected net income of NT$8,956.7 million (U.S.$271.4 million), depreciation and amortization of

NT$2,795.9 million (U.S.$84.7 million) and a decrease in inventories of NT$1,399.8 million (U.S.$42.4 million) in the three months ended March 31, 2004. This was partially offset by a decrease in accounts payable (including related parties) of NT$3,396.4 million (U.S.$102.9 million).

Net cash used in investing activities in the three months ended March 31, 2004 was NT$6,513.5 million (U.S.$197.4 million). This amount reflected an increase in short-term investments in both listed securities and mutual funds of NT$4,256.9 million (U.S.$129.0 million) and acquisition of property, plant and equipment of NT$1,706.6 million (U.S.$51.7 million).

Net cash used in financing activities in the three months ended March 31, 2004 was NT$733.6 million (U.S.$22.2 million). This amount reflected a decrease in amounts due to affiliates of NT$2,254.7 million (U.S.$68.3 million) and a decrease in long-term loans of NT$565.4 million (U.S.$17.1 million). This was partially offset by an increase in other payables (including related parties) of NT$1,988.3 million (U.S.$60.3 million).

Three months ended March 31, 2003. Net cash provided by operating activities was NT$7,766.1 million in the three months ended March 31, 2003. This amount reflected net income of NT$8,973.1 million, a decrease in inventories of NT$3,476.6 million, depreciation and amortization of NT$2,710.4 million, and a decrease in accounts receivable (including related parties) of NT$1,142.9 million. This was partially offset by a decrease in accounts payable (including related parties) of NT$3,766.1 million.

Net cash used in investing activities in the three months ended March 31, 2003 was NT$1,849.0 million. This amount reflected primarily the acquisition of property, plant and equipment of NT$1,896.1 million and an increase in deferred expenses of NT$636.0 million. This was partially offset by a decrease in other financial assets of NT$643.0 million.

Net cash used in financing activities in the three months ended March 31, 2003 was NT$6,492.3 million. This amount reflected a decrease in short-term loans of NT$10,113.6 million and a decrease in long-term loans of NT$636.8 million. This was partially offset by an increase in amounts due to affiliates of NT$2,091.2 million and an increase in commercial paper payable of NT$1,319.2 million.

Cash flow for the years ended December 31, 2003, 2002 and 2001

In 2003, net cash flow was an outflow of NT$177.7 million (U.S.$5.2 million), compared to an inflow of NT$508.9 million in 2002 and an outflow of NT$8,546.8 million in 2001, bringing Formosa Petrochemical's cash and cash equivalents position as of December 31, 2003 to NT$658.8 million (U.S.$19.4 million).

Year ended December 31, 2003. Net cash provided by operating activities was NT$18,342.5 million (U.S.$539.6 million) in 2003. This amount reflected net income of NT$18,934.9 million (U.S.$557.1 million) and depreciation and amortization of NT$10,732.3 million (U.S.$315.7 million). This was partially offset by an increase in accounts receivable (including related parties) of NT$8,282.6 million (U.S.$243.7 million) and an increase in inventories of NT$2,896.9 million (U.S.$85.2 million).

Net cash used in investing activities in 2003 was NT$15,361.1 million (U.S.$451.9 million). This amount reflected an increase in short-term investments, primarily in mutual funds, of NT$8,788.2 million (U.S.$258.6 million) acquisition of property, plant and equipment of NT$5,197.5 million (U.S.$152.9 million) and an increase in deferred expenses of NT$2,101.0 million (U.S.$61.8 million).

Net cash used in financing activities in 2003 was NT$3,181.6 million (U.S.$93.6 million). This amount reflected the repayment of the current portion of long-term debts of NT$15,271.2 million (U.S.$449.3 million), payment of cash dividends of NT$8,400.0 million (U.S.$247.1 million) and a decrease in notes payable due to repayment of current portion of long-term loans of NT$3,048.5 million (U.S.$89.7 million). This was offset by an increase in bonds payable of NT$17,000.0 million (U.S.$500.1 million), an increase in long-term loans of NT$3,500.0 million (U.S.$103.0 million) and an increase in amounts due to related parties of NT$2,416.7 million (U.S.$72.4 million).

Year ended December 31, 2002. Net cash provided by operating activities was NT$9,939.5 million in 2002. This amount reflected net income of NT$11,429.5 million, depreciation and amortization of NT$9,432.8 million, an increase in accounts receivables (including related parties) of NT$7,842.5 million, an increase in inventories of NT$4,189.2 million and an increase in notes receivable of NT$1,919.9 million. This was partially offset by an increase in accounts payable (including related parties) of NT$5,360.8 million.

Net cash used in investing activities in 2002 was NT$16,211.5 million. This amount reflected an acquisition of property, plant and equipment of NT$13,421.6 million, an increase in deferred expenses of NT$2,159.8 million, an increase in other receivables of NT$878.4 million and an increase in short-term investments of NT$500.0 million. This was partially offset by the proceeds from disposal of property, plant and equipment of NT$985.3 million.

Net cash provided by financing activities in 2002 was NT$6,766.2 million. This amount reflected an increase in long-term loans of NT$7,732.0 million, an increase in bonds payable of NT$4,300.0 million and an increase in short-term loans of NT$1,976.0 million. This was partially offset by the repayment of the current portion of long-term debts of NT$6,814.4 million and a decrease in other payables of NT$1,461.0 million.

Year ended December 31, 2001. Net cash provided by operating activities was NT$2,723.6 million in 2001. This amount reflected net income of NT$3,882.6 million and depreciation and amortization of NT$7,279.4 million. This was partially offset by an increase in inventories of NT$5,429.0 million, a decrease in accounts payable to related parties of NT$2,314.9 million, an increase in deferred tax assets of NT$2,289.6 million and an increase in accounts receivable (including related parties) of NT$1,550.4 million.

Net cash used in investing activities was NT$22,638.5 million in 2001. This amount reflected an acquisition of property, plant and equipment of NT$15,610.9 million, an increase in other receivables of NT$3,317.2 million, an increase in deferred expenses of NT$2,183.7 million and an increase in long-term investments of NT$1,751.0 million.

Net cash provided by financing activities in 2001 was NT$11,359.3 million. This amount reflected an increase in bonds payable of NT$14,200.0 million, issuance of common stock of NT$10,000.0 million and additional paid-in capital of NT$10,000.0 million. This was partially offset by a decrease in amounts due to related parties of NT$21,802.2 million.

Capital resources

Short-term debt

As of March 31, 2004, Formosa Petrochemical had total availability of NT$41,284.0 million (U.S.$1,251.0 million) and U.S.$1,789.7 million in short-term credit facilities, and a combined total of NT$22,184.0 million (U.S.$672.2 million) outstanding. The interest rates for such short-term credit facilities ranged from 2.537 per cent. to 2.849 per cent. Short-term financing is used primarily to purchase raw materials. As of March 31, 2004, the current portion of long-term debt was

NT$31,238.5 million (U.S.$946.6 million). Formosa Petrochemical believes that the amount of available credit under its short-term credit facilities provides sufficient liquidity to serve its short-term debt and otherwise meet its working capital requirements.

Long-term debt

As of March 31, 2004, Formosa Petrochemical had total long-term loans due after one year of NT$38,807.9 million (U.S.$1,176.0 million). The interest rates from such long-term loans ranged from 2.0 per cent. to 2.975 per cent. Long-term financing is used primarily to purchase property, plant and equipment in the No. 6 Naphtha Cracker Complex. The following table sets forth the repayment schedule of Formosa Petrochemical's long-term debt obligations as of March 31, 2004:

Balances due	**March 31, 2004**
	NT$ (in millions)
April 1, 2004–March 31, 2005	31,238.5
April 1, 2005–March 31, 2006	19,525.5
April 1, 2006–March 31, 2007	13,600.5
April 1, 2007–March 31, 2008	13,599.9
April 1, 2008–March 31, 2009	26,272.7
April 1, 2009 and thereafter	39,062.4
Total	143,299.5

The interest rates for many of Formosa Petrochemical's long-term credit facilities are floating rates, which rates ranged from 1.880 per cent. to 5.215 per cent. in 2003 and from 2.0 per cent. to 2.975 per cent. in the three months ended March 31, 2004.

Summary of major credit facilities. The following is a summary of the terms of Formosa Petrochemical's major credit facilities:

Syndicated loan with Chiao Tung Bank and 31 other banks. In order to finance the construction of the No. 6 Naphtha Cracker Complex, Formosa Petrochemical entered into a syndicated loan from 33 banks, including Chiao Tung Bank, on April 28, 1994. On April 21, 1999, the contract was amended and the number of participating banks reduced to 32. The agreement, as amended, provides for various credit facilities with an aggregate credit amount of NT$61,887 million and U.S.$1,162 million and with duration ranging from 10 to 15 years after the initial signing date. The agreement contains covenants requiring Formosa Petrochemical to maintain a debt ratio under 2.0 and a current ratio above 1.2. As of March 31, 2004 Formosa Petrochemical was in compliance with all such covenants. As of March 31, 2004, NT$65,036.6 million of such loans were outstanding and NT$2,127.0 million was available.

Expansion syndicated loan with Chiao Tung Bank in relation to the No.6 Naphtha Cracker Complex. In order to finance the construction of the No.6 Naphtha Cracker Complex, Formosa Petrochemical entered into a syndicated loan from 35 banks, including Chiao Tung Bank, on December 6, 2000. As of December 31, 2003, Formosa Petrochemical had NT$33,427.3 million outstanding. The agreement, as amended, provides for various credit facilities with an aggregate credit amount of NT$51,261.0 million and with duration ranging from 10 to 15 years after the initial signing date. The agreement contains covenants requiring Formosa Petrochemical to maintain a debt ratio under 2.0 and a current ratio above 1.0. As of March 31, 2004 Formosa Petrochemical was in compliance with all such accounts. As of March 31, 2004, NT$35,402.0 million of such loans were outstanding and NT$859.0 million was available.

On June 17, 2004, Formosa Petrochemical entered into a syndicated loan with 13 banks, including Chinatrust Bank, for an aggregate loan amount of U.S.$400 million. The purpose of the credit facility is for the purchase of crude oil and for its operating use.

Long-term notes payable

In 2003, at the request of Chiao Tung Bank, Formosa Petrochemical reclassified its current portion of long-term loans to current liabilities as well as notes payable.

Corporate bonds

The following table sets out the corporate bonds issued by Formosa Petrochemical:

	Year ended December 31,			
	2001	2002	2003	
	NT$ (millions)	NT$ (millions)	NT$ (millions)	U.S.$ (millions)
Secured bonds No. 1	$ 7,000.0	$ 7,000.0	$ 7,000.0	$ 205.9
Secured bonds No. 2	6,000.0	6,000.0	6,000.0	176.5
Secured bonds No. 3	5,700.0	5,700.0	5,700.0	167.7
Secured bonds No. 4	7,000.0	7,000.0	7,000.0	205.9
Secured bonds No. 5	7,200.0	7,200.0	7,200.0	211.8
Unsecured bonds No. 1	—	4,300.0	4,300.0	126.5
Unsecured bonds No. 2	—	—	6,000.0	176.5
Unsecured bonds No. 3	—	—	5,000.0	147.1
Unsecured bonds No. 4	—	—	6,000.0	176.5
Subtotal	32,900.0	37,200.0	54,200.0	1,594.6
Less: Current portion	—	—	(18,700.0)	(550.2)
Long-term bonds payable	$32,900.0	$37,200.0	$35,500.0	$1,044.4

In order to finance plant constructions under the No. 6 Naphtha Cracker Complex, Formosa Petrochemical revised the terms of the syndicated loan with Chiao Tung Bank and the other 31 participating banks on April 21, 1999. According to the revised terms, Formosa Petrochemical can choose to issue bonds (in place of borrowing directly from the banks) to finance the purchase of domestic machinery and equipment and the participating banks would act as guarantors. The guarantee would cover a period of five, seven or ten years. In addition, Formosa Petrochemical entered into a syndicated loan with Chiao Tung Bank and the other 34 banks on December 6, 2000 to finance Formosa Petrochemical's expansion project. According to the terms of this loan, Formosa Petrochemical can choose to issue bonds (in place of borrowing directly from the banks) to finance the purchase of domestic or imported machinery and equipment of up to NT$15,000.0 million, and the participating banks would act as guarantors. The guarantee may cover a period of five, seven or ten years.

Secured bonds No. 1, No. 2 and No. 3 were issued in 2000 and were pre-approved by the ROC Securities and Futures Commission ("ROC SFC") and the ROC Ministry of Finance ("ROC MOF") on May 5, 1999, July 2, 1999 and October 19, 1999, respectively. These bonds mature five years from the date of issuance with interest payable annually and principal repayable upon maturity. Secured bonds No. 4 and No. 5 were issued in 2001 and were pre-approved by the ROC SFC and ROC MOF on January 9, 2001 and May 19, 2001, respectively. Secured bonds No. 4 mature five years from the date of issuance with interest payable annually and the principal repayable upon maturity. Secured bonds No.5 mature ten years from the date of issuance with interest payable annually and the principal repayable in four equal instalments at the end of year seven, eight, nine and ten.

Unsecured bonds No.1 were issued in 2002 and were approved by the ROC SFC in the same year. The bonds mature seven years from the date of issuance, with interest payable annually and the principal amount repayable in four equal instalments at the end of year four, five, six and seven. Unsecured bonds No. 2, No. 3 and No. 4 were issued in 2003 and were approved by the ROC SFC on July 1, 2003 and July 17, 2003 and August 11, 2003, respectively. Unsecured bonds No. 2 and No. 3 mature in five years with interest payable annual and the principal amount repayable upon maturity. Unsecured bonds No. 4 mature in seven years, with interest payable annually and the principal amount repayable upon maturity.

On May 12, 1999, July 26, 1999, October 19, 1999, February 8, 2001 and May 29, 2001, the amount of secured bonds No. 1 to No. 5 were issued in the amount of NT$7,000.0 million, NT$6,000.0 million, NT$5,700.0 million, NT$7,000.0 million and NT$7,200.0 million, respectively, bearing an annual interest rate of 5.57 per cent., 6.05 per cent., 5.76 per cent., 5.35 per cent. and 4.46 per cent., respectively. The total amount of secured bonds No. 1, No. 2 and No. 3 was NT$18.7 billion and will expire in 2004. Accordingly, they are recorded as current portion of long-term loans in the balance sheet as of December 31, 2003 and March 31, 2004.

During the period of August 16–30, 2002, July 1–16, 2003, July 1–August 16, 2003, July 17–August 6, 2003 and August 11–21, 2003, the amount of unsecured bonds No. 1 to No. 4 issued were NT$4,300.0 million, NT$6,000.0 million, NT$5,000.0 million and NT$6,000.0 million, respectively. For unsecured bonds, No. 1 and No. 3, the annual interest rate was 3.05 per cent. and 1.4855 per cent., respectively. For unsecured bonds No. 2 and No. 4, the interest rate was floating and the annual rate was 3.0 per cent.

During the period of May 3–14, 2004 and May 19–21, 2004, unsecured bonds No. 1 and No. 2 in the amount of NT$5,000 million and NT$5,000 million, respectively, were issued. Two types of unsecured bonds No. 1 were issued; one type bears floating rate of interest and the other bears a fixed rate of interest, and the average rate was approximately 1.496 per cent. per annum. The interest rate payable under unsecured bonds No. 2 is floating and the average rate was approximately 1.54 per cent. per annum. Each of the unsecured bonds No. 1 and No. 2 mature five years from their respective dates of issuance, with interest payable semi-annually and the principal amount repayable upon maturity of the bonds.

Capital expenditures

Formosa Petrochemical operates its own manufacturing and power generating facilities and therefore requires significant amount of capital to build, expand, modernize and maintain its facilities and equipment. Total capital expenditures were NT$17,866.5 million in 2001, NT$11,155.8 million in 2002 and NT$3,372.7 million (U.S.$99.2 million) in 2003. In the three months ended March 31, 2003 and 2004, Formosa Petrochemical's total capital expenditures were NT$1,373.2 million and NT$2,461.8 million (U.S.$74.6 million), respectively. The following table sets forth capital expenditures incurred by Formosa Petrochemical in 2001, 2002 and 2003, the three months ended March 31, 2003 and 2004 and projected capital expenditure for 2004:

	Year ended December 31,					Three months ended March 31,		
	2001	2002	2003		2004 (estimated)	2003	2004	
	NT$ (millions)	NT$ (millions)	NT$ (millions)	U.S.$ (millions)	NT$ (millions)	NT$ (millions)	NT$ (millions)	U.S.$ (millions)
Expansion	16,023.7	8,453.3	3,275.9	96.4	16,024.3	1,052.5	2,413.5	73.1
Improvements/ Debottlenecking	1,842.8	2,698.3	96.8	2.8	—	320.7	48.3	1.5
Land purchases	—	4.2	—	—	—	—	—	—
Total	17,866.5	11,155.8	3,372.7	99.2	16,024.3	1,373.2	2,461.8	74.6

Formosa Petrochemical plans to spend an estimated NT$41,333.3 million in connection with expansion of its business including purchases on new facilities and equipment for its refining, olefins and utilities operations, expansion of its storage facilities and purchase of additional loading equipment and a new maintenance center in 2004. Formosa Petrochemical also plans to spend an estimated NT$210.8 million on improvements and debottlenecking in 2004, primarily in respect of its olefins facilities. As of March 31, 2004, Formosa Petrochemical had incurred NT$2,461.7 million in capital expenditures.

Actual capital expenditures may vary from the projected capital expenditures for a variety of reasons, including changes in market conditions and other factors. Formosa Petrochemical expects to meet its capital expenditure requirements through cash and cash equivalents on hand, cash generated from future operations and financing activities, including additional bank borrowings. In the future, Formosa Petrochemical may consider additional debt financing or additional equity financing, including issuances of convertible securities, depending on market conditions, its financial performance and other relevant factors. There can be no assurance that Formosa Petrochemical will be able to raise additional capital, should that become necessary, on acceptable terms or at all.

Commitments and contingencies

As of March 31, 2004, Formosa Petrochemical's commitments and contingencies were as follows:

- Formosa Petrochemical had outstanding guarantees for other companies in the same industry and related parties amounting to NT$6,129.0 million.
- The number of Nan Ya Plastics' shares pledged by the stockholders as collateral for Formosa Petrochemical's bank loans was 140,000,000 shares.
- Guarantee notes received and guarantee notes receivable, as deposits from clients for operational needs was NT$8,240.9 million.
- Guarantee notes issued and guarantee notes payable for borrowings were NT$31,569.0 million plus U.S.$1,162.0 million.
- The unutilized portion of letters of credit issued by banks for importing raw materials was NT$5,739.1 million.

Formosa Group Ocean Marine Investment has recently applied for and will obtain a syndicated loan of seven-year duration in the amount of 35.4 billion Japanese yen from a syndicate of six banks including BNP Paribas and Chinatrust Bank for the construction of five vessels for petroleum products, two crude oil tankers and two bulk carriers. Furthermore, Formosa Petrochemical intends to enter into a seven-year leasing agreement with the companies that will own these ships and to issue a letter of consent concerning the transfer of those companies' right to receive lease payments to the bank syndicate. On June 4, 2004, the Board of Directors of Formosa Petrochemical passed a resolution agreeing to this arrangement and authorizing the Chairman and President to negotiate and sign the relevant agreements on behalf of Formosa Petrochemical.

The following table sets forth the details of outstanding endorsements and guarantees made by Formosa Petrochemical on behalf of its related parties as at March 31, 2003 and 2004:

	March 31,		
	2003	2004	
	NT$ (millions)	NT$ (millions)	U.S.$ (millions)
Mailiao Power	$ 6,735.0	$ 5,910.0	$ 179.1
Simosa Oil	99.0	99.0	3.0
Whale Home International	80.0	80.0	2.4
Formosa Oil	—	40.0	1.2
Total	$ 6,914.0	$ 6,129.0	$ 185.7

Quantitative and qualitative disclosures about market risks

Formosa Petrochemical's exposure to financial market risks derives primarily from changes in interest rates and foreign exchange rates. To mitigate these risks, Formosa Petrochemical utilizes derivative financial instruments, the application of which is primarily for hedging purposes and not for speculative purposes.

Interest rate risk

Formosa Petrochemical's exposure to interest rate risk relates primarily to its long-term debts, which are normally entered into to support its corporate activities, primarily for capital expenditures. Formosa Petrochemical enters into interest rate swap contracts in order to hedge its exposure to interest rate fluctuations. As of March 31, 2004, it had 59 NT dollar interest rate swap contracts with Deutsche Bank, Citibank, Taipei Bank, ABN-AMRO Bank, HSBC, Bank of America, BNP Paribas, Taishin International Bank, Credit Agricole Indosuez, Taipei and Credit Lyonnais so that the interest payment which is calculated by the floating interest rate every three months can be replaced by the fixed interest rate.

Formosa Petrochemical is exposed to substantial interest rate risk on its existing floating rate debt and on additional debt financing that may be periodically needed for the capital expenditures associated with the purchase of property, plant and equipment for capacity expansion. Upward fluctuations in interest rates increase the cost of both existing and new debt. The interest rate that Formosa Petrochemical will be able to obtain in a new debt financing will depend on market conditions at that time and may differ from the rates it has secured on its current debt. An increase in interest rates of 1 per cent. would increase Formosa Petrochemical's annual interest charges by NT$1,654.8 million (U.S.$50.1 million) based on the principal amount of its outstanding indebtedness as of March 31, 2004.

Foreign exchange risk

A substantial portion of Formosa Petrochemical's operating revenues are traditionally denominated in or referenced to U.S. dollars, with the remaining portion denominated in NT dollars while virtually all costs related to the purchase of raw materials, were denominated in U.S. dollars. Formosa Petrochemical's financial statements are expressed in NT dollars. Formosa Petrochemical records a foreign currency denominated transaction on the date it occurs in NT dollars using the prevailing exchange rate for such date. The realized gains or losses resulting from the application of a different foreign exchange rate when the transaction is settled and the amount received or paid in settlement is converted into or from NT dollars and credited or charged to income. At the end of each period, balances of foreign currency assets and liabilities are restated at the period-end spot rate of exchange and the resulting exchange difference is accounted for as exchange gain or loss on the income statement of the current accounting period. See Note 2 to Formosa Petrochemical's Audited Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 and Note 2 to Formosa Petrochemical's Unaudited Financial Statements as at and for the three months ended March 31, 2003 and 2004 included elsewhere in this Offering Circular. As a result, changes in the rate of exchange between the NT dollar and the U.S. dollar will affect Formosa Petrochemical's gross and operating profit margins and could result in foreign exchange and operating losses. Formosa Petrochemical recorded a net foreign exchange loss of NT$2,763.0 million in 2001 and net foreign exchange gains of NT$739.6 million, NT$919.3 million (U.S.$27.0 million) and NT$859.9 million (U.S.$26.1 million) in 2002, 2003 and the three months ended March 31, 2004, respectively.

Formosa Petrochemical also enters into forward foreign exchange contracts and cross-currency swaps from time to time in order to hedge exposure to currency rate fluctuation. As of March 31, 2004, it had cross-currency swaps, foreign exchange forward contracts and non-delivery forward contracts.

As of March 31, 2004, Formosa Petrochemical has signed thirty-eight cross-currency swap contracts with Citibank and three other banks. The first contract will expire on June 10, 2005 and the others will expire on December 12, 2005. According to the terms of the contracts, the principal amount was to be delivered in nine or ten six month instalments starting June 11, 2001 with a fixed exchange rate. In addition the floating U.S. dollar interest payments are also converted into NT dollar interest payments. As a result of the above arrangement, the repayment of principal and related interest payments are fixed.

As of March 31, 2004, Formosa Petrochemical has signed five foreign exchange forward contracts with ABN-AMRO Bank and Deutsche Bank. The principal is swapped on the settlement date rather than on the contract date.

As of March 31, 2004, Formosa Petrochemical has signed fifteen non-delivery forward contracts with Deutsche Bank, ABN-AMRO Bank and BNP Paribas. According to the terms of the contracts, no principal is required to be settled. Instead, the contracts are settled on a net basis on the settlement date.

Formosa Petrochemical also has exposure to foreign exchange risk due to U.S. dollar liabilities incurred due to its financing activities.

Taxation

Formosa Petrochemical is subject to a general income tax rate of 25 per cent. Since incorporation, Formosa Petrochemical has enjoyed preferential tax treatment in certain respects under the SUI. Such tax credits resulted in income tax savings of NT$870.3 million, NT$1,894.2 million and NT$4,485.6 million (U.S.$132.0 million) in 2001, 2002 and 2003, respectively.

Article 6 of the SUI provides tax credits of up to 35 per cent. for certain research and development and employee training expenses (if the amount of expenses exceeds the average of such expenses for the preceding two years, an additional tax credit of 50 per cent. of the excess amount may be used). These tax credits must be utilized within five years from the year such expense or investment was incurred. In addition, the aggregate tax reduction from the tax credits related to research and development and employee training expenses mentioned above for any year except the final year before expiration cannot, subject to certain exceptions, exceed 50 per cent. of the company's income tax liability for that year. As of March 31, 2004, Formosa Petrochemical had no qualified unused tax credits under Article 6. Formosa Petrochemical has submitted investment tax credit applications relating to Article 6 and the applications are being reviewed by the ROC Tax Authorities.

Article 7 of the SUI provides tax credits of up to 20 per cent. for certain investment in specific industries of a county or township area with scanty natural resources or with slow development. These tax credits for investment in barren areas must be utilized within five years from the year such investment was incurred. Formosa Petrochemical received a majority of its tax credits from Article 7 as a result of its large investment in the No. 6 Naphtha Cracker Complex in Mailiao. As of March 31, 2004, qualified unused tax credits under Article 7 amounted to NT$23,937.1 million (U.S.$725.4 million).

Article 8 of the SUI provides tax credits of up to 20 per cent. for subscription to the registered stock issued by a company within the newly emerging, important and strategic industries, and has held such stock for a period of three years or longer. These tax credits for investment must be utilized within five years from the year such investment was incurred. In addition, the aggregate tax reduction from these tax credits for any year except the final year before expiration cannot, subject to certain exceptions, exceed 50 per cent. of the company's income tax liabilities for that year. However, all of Formosa Petrochemical's tax credits under Article 8 of the SUI were derived prior to December 31, 1999, when Article 8 was amended. The former version of Article 8 included a wider category of industries, investments in which qualified for tax credits and only required a holding period of two years. As of March 31, 2004, qualified unused tax credits under Article 8 amounted to NT$998.7 million (U.S.$30.3 million).

In 1997, the ROC Legislative Yuan passed an amendment to the ROC Income Tax Law to integrate corporate income tax and shareholder dividend tax. Under the amendment, retained earnings of a year, as adjusted, generated after January 1,1998 and not distributed to shareholders in the following year as dividends for the year in which such retained earnings were generated will be assessed a 10 per cent. tax. For each of the years ended December 31, 2001, 2002 and 2003, such tax payable by Formosa Petrochemical arising from the amendment amounted to NT$428.3 million, NT$196.0 million and nil, respectively, each of which was offset by available tax credits in such year.

FORMOSA PETROCHEMICAL CORPORATION

BUSINESS OF FORMOSA PETROCHEMICAL CORPORATION

Overview

Formosa Petrochemical is involved primarily in the business of refining crude oil, selling refined petroleum products and producing and selling olefins (including ethylene, propylene, butadiene and BTX) from its naphtha cracking operations. It also sells electricity, steam and certain other products generated from its co-generation power plants. Formosa Petrochemical is the only privately owned oil refinery in Taiwan and the second largest gasoline and gasoil producer in Taiwan. Its refined petroleum products are both sold domestically and overseas. Formosa Petrochemical is also the largest olefins producer in Taiwan and its olefins products are mostly sold to companies within the Formosa Group, primarily Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre. Excess electricity generated from Formosa Petrochemical's co-generation power plants is sold to other companies located within the No. 6 Naphtha Cracker Complex and to Taiwan Power Company.

Revenues from the sale of Formosa Petrochemical's refined petroleum products, olefins products and utilities represented 61.1 per cent., 26.0 per cent. and 6.4 per cent., respectively, of Formosa Petrochemical's total operating revenues for the year ended December 31, 2003, with other products and services representing 6.5 per cent. of Formosa Petrochemical's total operating revenues for such period. Revenues from the sale of Formosa Petrochemical's refined petroleum products, olefins products and utilities represented 60.2 per cent., 29.4 per cent. and 5.5 per cent., respectively, of Formosa Petrochemical's total operating revenues for the three months ended March 31, 2004, with other products and services representing 4.9 per cent. of Formosa Petrochemical's total operating revenues for such period. For the year ended December 31, 2003, Formosa Petrochemical's total operating revenues were NT$236,520.2 million (U.S.$6,958.5 million) and its net income was NT$18,934.9 million (U.S.$557.1 million). For the three months ended March 31, 2004, Formosa Petrochemical's total operating revenues were NT$73,946.2 million (U.S.$2,240.8 million) and its net income was NT$8,956.7 million (U.S.$271.4 million).

A significant proportion of Formosa Petrochemical's sales of its refined petroleum products and its olefins products are sales to the domestic market in Taiwan. All of Formosa Petrochemical's sales of utilities are domestic sales to Taiwan Power Company and to other customers located in the No. 6 Naphtha Cracker Complex. Domestic sales accounted for 76.9 per cent. of Formosa Petrochemical's total operating revenues for the year ended December 31, 2003 and 73.4 per cent. of Formosa Petrochemical's total operating revenues for the three months ended March 31, 2004.

Formosa Petrochemical's principal refined petroleum products include gasoline, gasoil, naphtha, fuel oil (including pyrolysis fuel oil), jet fuel/kerosene and liquefied petroleum gas ("LPG"). As of March 31, 2004, Formosa Petrochemical's oil refinery consisted of three crude oil distillation units ("CDUs") with a combined nameplate processing capacity of 450,000 barrels of crude oil per day (or 21 million MTY based on 333 days a year). As of March 31, 2004, Formosa Petrochemical sold all of these products, known generally as refined petroleum products, primarily to wholesale buyers both domestically and overseas. Some of these products are then sold to the retail market through gasoline service stations, including those owned by Formosa Petrochemical's direct subsidiary, Formosa Oil, its indirect subsidiary, Whale Home, and its affiliate Formosa Taffeta as well as franchise gasoline service stations owned by unrelated third parties. Refined petroleum products are produced in Formosa Petrochemical's oil refinery located within the No. 6 Naphtha Cracker Complex.

Formosa Petrochemical's principal olefins products include ethylene, propylene, BTX and butadiene. Formosa Petrochemical currently operates two naphtha crackers in the No. 6 Naphtha Cracker Complex, with a combined ethylene nameplate capacity of 1.6 million MTY. Almost all of

Formosa Petrochemical's ethylene, propylene and BTX production is sold to companies within the Formosa Group (in particular, Nan Ya Plastics and Formosa Plastics) for further downstream processing.

The principal products of Formosa Petrochemical's utilities division are electricity and steam. Formosa Petrochemical currently operates three co-generation power plants, all of which are coal-fired, with a combined installed capacity of 1,820 MW.

In addition to its three operating business divisions, Formosa Petrochemical also has an engineering division and a maintenance division. Formosa Petrochemical's engineering division typically carries out planning, engineering and construction tasks. Its maintenance division provides day-to-day maintenance services for Formosa Petrochemical's existing facilities.

As at March 31, 2004, Formosa Petrochemical employed 3,241 employees, of which 1,198 were employed in its refinery division, 284 were employed in its olefins division and 286 were employed in its utilities division.

Formosa Petrochemical's registered address is 1-1, Formosa Plastics Group Industrial Zone, Mailiao, Yun Lin County, Taiwan.

Formosa Petrochemical was incorporated in April 6, 1992 as a company organized under the laws of the ROC. Formosa Petrochemical's initial shareholders were Formosa Plastics (31.8 per cent.), Nan Ya Plastics (26.2 per cent.), Formosa Chemicals & Fibre (27.6 per cent.) and Formosa Taffeta (4.0 per cent.), with certain other entities in the Formosa Group and certain employees of Formosa Petrochemical holding the remainder. The shareholdings of the initial shareholders were sold down, when 179,500,000 Common Shares were offered to the public in Taiwan and the Common Shares were listed on the TSE and offered to the public in Taiwan on December 26, 2003. As at June 28, 2004, the total market capitalization of Formosa Petrochemical, based on a closing price of NT$53.0 per Common Share on the TSE, was NT$415.5 billion.

History

Certain key dates in the history of Formosa Petrochemical include:

April 1992 .	Formosa Petrochemical was established through joint investments from Formosa Plastics, Nan Ya Plastics, Formosa Chemicals & Fibre, Formosa Taffeta and others.
July 1994. .	Construction of the No. 6 Naphtha Cracker Complex commenced.
November 1998 . . .	Formosa Petrochemical obtained operating licenses for five co-generation power units.
December 1998 . . .	Formosa Petrochemical's No. 1 naphtha cracking plant, with ethylene nameplate capacity of 450,000 MTY, was commissioned.
January 1999 . . .	Construction on Formosa Petrochemical's No. 1 naphtha cracking plant was completed and commercial operation began.
December 1999 . . .	The first batch of crude oil for Formosa Petrochemical's petroleum refinery arrived at Mailiao Harbor.
February 2000 . . .	Construction on Formosa Petrochemical's No. 1 co-generation power plant, with an installed electricity generation capacity of 300 MW, was completed and commercial operation began.

	Construction of Formosa Petrochemical's No. 2 co-generation power plant unit 1, with an installed electricity generation capacity of 600 MW, was completed, and commercial operation began.
March 2000	Phase 1 of Formosa Petrochemical's oil refinery, with a nameplate processing capacity of 150,000 barrels of crude oil per day, was completed, and began commercial production.
October 2000 . . .	Construction of Formosa Petrochemical's No. 3 co-generation power plant, with an installed electricity generation capacity of 320 MW, was completed, and commercial operation began.
December 2000 . . .	Formosa Petrochemical's No. 2 naphtha cracking plant, with ethylene nameplate capacity of 900,000 MTY, was completed and began commercial production.
April 2001 .	Phase 2 of Formosa Petrochemical's oil refinery, with a nameplate processing capacity of 150,000 barrels of crude oil per day, was completed, and began commercial production.
November 2001 . . .	Phase 3 of Formosa Petrochemical's oil refinery, with a nameplate processing capacity of 150,000 barrels of crude oil per day, was completed, and began commercial production. Thus, Formosa Petrochemical's total nameplate processing capacity for its oil refinery increased to 450,000 barrels of crude oil per day.
November 2002 . . .	Capacity de-bottlenecking of Formosa Petrochemical's No. 1 naphtha cracking plant was completed, increasing such plant's ethylene nameplate capacity to 700,000 MTY and Formosa Petrochemical's total ethylene nameplate capacity to 1.6 million MTY.
June 2003 .	Construction of Formosa Petrochemical's No. 2 co-generation power plant unit 2, with an installed electricity generation capacity of 600 MW, was completed and commercial operation began.
December 2003 . . .	Formosa Petrochemical's initial public offering was completed, and the Common Shares were listed on the TSE.

Competitive Strengths

Asia's only listed fully integrated petroleum refinery, naphtha cracker and utilities company

Formosa Petrochemical is Asia's only listed company with fully integrated petroleum refinery, naphtha cracking and utilities operations. Formosa Petrochemical's petroleum refinery operations produces gasoline, gasoil, naphtha, fuel oil, jet fuel/kerosene and LPG. Almost all of the naphtha produced by Formosa Petrochemical's petroleum refinery complex is consumed internally as feedstock for Formosa Petrochemical's naphtha cracking operations. All of the electricity, steam, ultra-pure water, compressed air, industrial water and other utilities required by Formosa Petrochemical's petroleum refining and naphtha cracking activities are supplied by three coal-fired co-generation power plants that Formosa Petrochemical owns and operates. Formosa Petrochemical's high level of internal integration with respect to its petroleum refining, naphtha cracking and power and steam generation businesses allows it to be less dependent on outside sources for raw materials and utilities supplies, and provides a ready-made market for some of the products produced in Formosa Petrochemical's petroleum refinery, naphtha cracking and utilities businesses. Having its own steady supply of raw materials allows Formosa Petrochemical to weather any unexpected shortages of, or sharp increases in the prices of, raw materials, such as naphtha, which is a key advantage in cyclical industries such as the petroleum refining and petrochemical industries. Such self sufficiency allows Formosa Petrochemical to better control raw materials costs, maintain its profit margins and help ensure continuous operations.

Full downstream integration with other companies in the Formosa Group

The four core companies in the Formosa Group are Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre. Of all the four companies' businesses, Formosa Petrochemical's petroleum refining and naphtha cracking businesses are the furthest upstream. To a large extent, the businesses of Formosa Petrochemical have been vertically integrated with the downstream businesses of the other three companies. For example, Formosa Plastics and Formosa Chemicals & Fibre purchase a significant proportion of their raw materials from Formosa Petrochemical. Formosa Petrochemical believes vertical integration with its affiliate companies with facilities located in the No. 6 Naphtha Cracker Complex provides for prompt delivery and helps the company save on transportation costs. Formosa Petrochemical believes such downstream integration with companies in the Formosa Group, which share a certain common culture, identity and ultimate ownership and offer logistical benefits, provides it a significant advantage over third party sellers of petrochemical and olefin products. Such downstream integration also provides Formosa Petrochemical with a higher level of stability and predictability in terms of its operating revenues, as these downstream companies provide captive demand for some of the sales of Formosa Petrochemical.

Leading upstream petrochemical operator, with world-class production facilities

Formosa Petrochemical believes it is one of the largest and most efficient upstream petrochemical operators in Asia. Formosa Petrochemical's revenues for the year ended December 31, 2003 amounted to NT$236.5 billion, up from NT$169.4 billion for the year ended December 31, 2002. Formosa Petrochemical's oil refinery complex has a total nameplate capacity of 450,000 barrels per day. Formosa Petrochemical's two naphtha crackers have a combined ethylene capacity of 1.6 million MTY. Both naphtha crackers rank among the top 10 in Asia with respect to ethylene capacity according to CMAI, and the larger of the two, the No. 2 Naphtha Cracker plant, with a nameplate capacity of 900,000 MTY, is the largest single naphtha cracker in Asia. In building its petroleum refinery, Formosa Petrochemical acquired facilities and equipment which are sophisticated enough to process cheaper sour crude oil, providing the company more flexibility in selecting which crude oils to process and which have an extremely high conversion rate, giving it the ability to crack higher volumes of residual oil (a low value product) into other, high value products. The sophistication of its refining equipment provides Formosa Petrochemical with the ability to achieve a higher value-added product mix in its refined petroleum products and to achieve an average cash processing cost that is lower than many of its regional peers. This gives Formosa Petrochemical more flexibility to manage its product mix in accordance with market conditions and to maximize profit. Furthermore, as Formosa Petrochemical's oil refinery facility and its naphtha crackers are newer than the production facilities of many of its competitors, Formosa Petrochemical's refining and naphtha cracking processes tend to be relatively efficient.

Competitive and sustainable cost structure

Formosa Petrochemical's cost structure is very competitive and in many respects lower than the costs structure of its competitors. First, the engineering and construction costs of Formosa Petrochemical's petroleum refinery complex, its naphtha crackers and its power plants, are all considerably lower than the costs of its competitors, for facilities of comparable size and configuration. This is because most of the construction has been carried out internally, with help from Formosa Heavy Industries Corporation. Second, because of its internal vertical integration, Formosa Petrochemical's production costs are lower compared with its competitors. For example, electricity and steam are generated internally by the power plants, and a significant proportion of naphtha feedstock is sourced internally from the refined petroleum products. Third, the location of the No. 6 Naphtha Cracker Complex in Mailiao is ideally suited to allow Formosa Petrochemical to benefit from the economies of scale generated by companies within the Formosa Group. For example, raw materials required by Formosa Petrochemical, like crude oil and coal, can be unloaded at Mailiao Harbor, which is controlled by companies within the Formosa Group, and which is very near to Formosa Petrochemical's production facilities, thereby lowering transportation costs such as loading, storage handling and other logistical fees. Fourth, Formosa Petrochemical's close integration with other companies within the Formosa Group allows it to access other ancillary services provided by companies within the Formosa Group, for example oil tankers for transport of crude oil from overseas, oil tanker trucks for land transportation within Taiwan, pipelines and engineering and construction expertise. Formosa Petrochemical's costs competitiveness means that it is able to consistently achieve higher margins, compared with competitors who have a higher cost base.

Seasoned management and proven execution capabilities

Formosa Petrochemical, although itself not a long established company, can draw upon the experience and expertise of managers from other companies within the Formosa Group. Most of Formosa Petrochemical's current Board of Directors and members of its present senior management are from companies within the Formosa Group, primarily Formosa Plastics. Collectively, they have over decades of experience in the petroleum and petrochemicals businesses. Companies within the Formosa Group also traditionally have a reputation for sound management and strong execution expertise. For example, Formosa Petrochemical's current Board of Directors and senior management have proven their strong execution capabilities by successfully leading Formosa Petrochemical through the design, planning, construction and operation of large projects like the No. 6 Naphtha Cracker Complex.

Strategy

Formosa Petrochemical's aim is to consolidate its position as Asia's only vertically integrated crude oil refinery and naphtha cracker, and to become one of the world's leading producer of refined petroleum products and olefins products. Formosa Petrochemical will also continue to concentrate on producing higher quality and higher margin refined petroleum products and olefins products at competitive prices by taking advantage of its advanced production facilities, its production process know-how and the built-in demand for its products from downstream companies within the Formosa Group. Formosa Petrochemical's strategy is to capitalize on these strengths by means of the following:

Continue to pursue and capitalize on synergies provided by vertical integration

Synergies provided by vertical integration with companies within the Formosa Group allowed Formosa Petrochemical to construct its production facilities at relatively low cost, and to continue to enjoy benefits to its business resulting from access to facilities and services common to companies within the Formosa Group, for example the Mailiao Harbor and the engineering and construction expertise of Formosa Heavy Industries Corporation, as well as lower transportation costs through access to oil tankers, oil tanker trucks and pipelines owned by other companies within the Formosa Group. Vertical integration with the businesses and operations of other companies within the Formosa Group, for example Formosa Chemicals & Fibre, Formosa Plastics and Nan Ya Plastics, has also ensured a steady stream of purchase orders for the products of Formosa Petrochemical from these companies. Formosa Petrochemical will continue to pursue a strategy of vertical integration both internally in respect of its own business and operations, and externally in respect of the businesses and operations of companies within the Formosa Group.

Develop higher value-added product mix, including environmentally-friendly fuel and gasoil

Formosa Petrochemical intends to increase the proportion of higher value-added products within its products portfolio. With its advanced equipment and production processes, Formosa Petrochemical is able to achieve a higher value-added product mix in respect of its refined petroleum products, giving Formosa Petrochemical the flexibility to optimize its product yield in accordance with market demand. Formosa Petrochemical also intends to develop more environmentally-friendly fuel and gasoil in anticipation of a change in ROC law, which will increase demand for such fuels. Development of such environmentally-friendly fuel and gasoil would also increase Formosa Petrochemical's ability to increase sales of its products to countries which have more stringent environmental regulations.

Expand production capacity to consolidate economies of scale and lower unit production costs

Formosa Petrochemical's low cost production base is partly a result of its newer, advanced production equipment and partly a result of the economies of scale offered by its large production volume. Formosa Petrochemical intends to expand the production capacity of both its petroleum refinery complex and its naphtha cracking operations, through debottlenecking and possibly through construction of new facilities. Formosa Petrochemical believes that there is sufficient demand for its refined petroleum and olefins products, especially from companies in the PRC and from companies within the Formosa Group, for it to expand its production capacity significantly.

Expand share of domestic gasoline and gasoil market

Formosa Petrochemical intends to expand its market share of the Taiwan domestic gasoline and gasoil market. Formosa Petrochemical views this segment of the market as one that may be attractive in terms of profit margins and which will continue to contribute steady revenues to Formosa Petrochemical.

Products

Formosa Petrochemical produces and markets three major types of products: refined petroleum products, olefins products and utilities products.

Formosa Petrochemical refines crude oil and sells the products of such refining operations. Refined petroleum products produced by Formosa Petrochemical include gasoline, gasoil, naphtha, jet fuel/kerosene, LPG and certain other products. Refined petroleum products are Formosa Petrochemical's largest contributor to revenues. Sales of refined petroleum products contributed 55.4 per cent., 63.6 per cent. and 61.1 per cent. of Formosa Petrochemical's total revenues for the years ended December 31, 2001, 2002 and 2003, respectively, and 63.5 per cent. and 60.2 per cent. of Formosa Petrochemical's total revenues for the three months ended March 31, 2003 and 2004, respectively.

Formosa Petrochemical produces and sells olefins including ethylene, propylene, BTX and butadiene. Olefins products are Formosa Petrochemical's second largest contributor to revenues. Sales of olefins products contributed 32.7 per cent., 25.5 per cent. and 26.0 per cent. of Formosa Petrochemical's total revenues for the years ended December 31, 2001, 2002 and 2003, respectively, and 22.9 per cent. and 29.4 per cent. of Formosa Petrochemical's total revenues for the three months ended March 31, 2003 and 2004, respectively.

Formosa Petrochemical also produces and sells utilities products, including electricity and steam. Sales of such products contributed 8.3 per cent., 6.3 per cent. and 6.4 per cent. of Formosa Petrochemical's total revenues for the years ended December 31, 2001, 2002 and 2003, respectively, and 5.1 per cent. and 5.5 per cent. of Formosa Petrochemical's total revenues for the three months ended March 31, 2003 and 2004, respectively.

Formosa Petrochemical also derives revenues from harbor administration fees for the administration of the Mailiao Harbor which involves loading/unloading and storage activities.

The following tables set forth the revenues contributed by each of Formosa Petrochemical's product types to its operating revenues and the percentage of Formosa Petrochemical's total operating revenues they represent for the periods indicated:

	Year ended December 31,						
	2001		2002		2003		
	NT$ (millions)	%	NT$ (millions)	%	NT$ (millions)	U.S.$ (millions)	%
Refined petroleum	71,210.0	55.4	107,784.1	63.6	144,564.0	4,253.1	61.1
Olefins	42,022.2	32.7	43,158.7	25.5	61,346.7	1,804.8	26.0
Utilities	10,647.0	8.3	10,656.0	6.3	15,199.0	447.2	6.4
Others(1)	4,720.5	3.6	7,790.8	4.6	15,410.5	453.4	6.5
Total	128,599.7	100.0	169,389.6	100.0	236,520.2	6,958.5	100.0

	Three months ended March 31,				
	2003		2004		
	NT$ (millions)	%	NT$ (millions)	U.S.$ (millions)	%
Refined petroleum	34,703.1	63.5	44,522.5	1,349.2	60.2
Olefins	12,480.5	22.9	21,780.5	660.0	29.4
Utilities	2,797.0	5.1	4,047.2	122.6	5.5
Others(1)	4,662.7	8.5	3,596.0	109.0	4.9
Total	54,643.3	100.0	73,946.2	2,240.8	100.0

Notes:

(1) "Others" include revenues from maintenance services, harbor administration services (such as loading, unloading, and storage fees) and sales of certain other products (such as C_4, CO, and industrial water).

Refined petroleum products

Formosa Petrochemical's principal refined petroleum products include gasoline, gasoil, naphtha, fuel oil, jet fuel/kerosene and LPG. Sales of refined petroleum products under the refinery division accounted for 61.1 per cent. of Formosa Petrochemical's operating revenues for the year ended December 31, 2003. The following table sets forth the sales volumes and sales revenues of each of Formosa Petrochemical's refined petroleum products and the percentage of total operating revenues from refined petroleum products provided by each product for the periods indicated:

	Year ended December 31,										
	2001			2002			2003				
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Gasoline	2,383,756 kL	36,023.1	50.6	3,910,041 kL	46,913.5	43.5	4,590,141 kL	58,547.1	1,722.5	40.5
Gasoil	1,632,900 kL	15,199.0	21.3	3,420,784 kL	26,532.2	24.6	4,656,412 kL	39,127.5	1,151.1	27.1
Naphtha	736,343 MT	5,946.6	8.4	1,193,425 MT	9,453.4	8.8	1,340,468 MT	13,060.3	384.2	9.0
Fuel oil(1)	760,351 kL	4,789.4	6.7	1,550,411 kL	10,160.7	9.4	2,073,816 kL	14,995.4	441.2	10.4
Jet fuel/ Kerosene	623,570 kL	3,800.7	5.3	1,258,574 kL	7,867.5	7.3	1,255,649 kL	9,582.2	281.9	6.6
LPG	491,956 MT	5,451.2	7.7	631,377 MT	6,856.8	6.4	746,210 MT	9,251.5	272.2	6.4
Total	—	71,210.0	100.0	—	107,784.1	100.0	—	144,564.0	4,253.1	100.0

Notes:

(1) These amounts include pyrolysis fuel oil volumes which are generally calculated in MT but have been converted to kL at a rate of 1.02 MT = 1 kL. Of the total amounts shown in the tables, pyrolysis fuel oil calculated on this basis accounted for 204,903 kL, 234,412 kL, 264,673 kL, 59,465 kL and 73,540 kL in the years ended December 31, 2001, 2002 and 2003 and the three months ended March 31, 2003 and 2004, respectively.

Sales of refined petroleum products accounted for 60.2 per cent. of Formosa Petrochemical's operating revenues for the three months ended March 31, 2004. The following table sets forth the sales volumes and sales revenues of each of Formosa Petrochemical's refined petroleum products and the percentage of total operating revenues from refined petroleum products provided by each product for the periods indicated:

	Three months ended March 31,						
	2003			2004			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Gasoline	961,749 kL	13,281.7	38.3	1,383,740 kL	16,736.1	507.2	37.6
Gasoil	993,385 kL	9,154.9	26.4	1,419,188 kL	12,951.7	392.5	29.1
Naphtha	269,298 MT	3,050.0	8.8	363,873 MT	5,307.9	160.8	11.9
Fuel oil[1]	473,898 kL	3,643.3	10.5	581,380 kL	4,121.6	124.9	9.3
Jet fuel/Kerosene	320,988 kL	2,579.8	7.4	329,838 kL	2,464.2	74.7	5.5
LPG	213,483 MT	2,993.4	8.6	235,245 MT	2,941.0	89.1	6.6
Total	—	34,703.1	100.0	—	44,522.5	1,349.2	100.0

Notes:

(1) These amounts include pyrolysis fuel oil volumes which are generally calculated in MT but have been converted to kL at a rate of 1.02 MT = 1 kL.

Formosa Petrochemical refines crude oil into refined petroleum products at its refinery inside the No. 6 Naphtha Cracker Complex.

Crude oil can be refined into various petroleum products, which can be broadly categorized into light oils, middle distillates and heavy oils. Examples of light oils include propane, butane, naphtha and gasoline. Examples of middle distillates include jet fuel, kerosene and gasoil. Examples of heavy oils include fuel oils, asphalt and pyrolysis fuel oil. The proportion of the various types of petroleum products that can be refined from a single stream of crude oil depends on the mix and quality of the feedstock, and the specifications of the refinery facilities. A key competitive advantage of Formosa Petrochemical's petroleum refinery operation is its flexibility in feedstock selection. In building its petroleum refinery, Formosa Petrochemical deliberately acquired facilities and equipment able to refine and optimize the yield rate of cheaper heavy/sour crude oil from countries in the Middle East such as Saudi Arabia, Kuwait, Iran and Iraq. Formosa Petrochemical's yield rate for the less profitable fuel oil can be minimized to 7 per cent. even when refining heavy/sour crude due to its ability to crack higher volumes of residual oil into other, higher value products, while older, simpler refineries' yield rate for fuel oil would be significantly higher. Sophisticated facilities not only give Formosa Petrochemical flexibility and cost advantage in choosing raw materials, but also maximize its product value, providing it with an advantage over other refineries. In building its petroleum refinery, Formosa Petrochemical acquired facilities and equipment which are sophisticated enough to process cheaper sour crude oil and switch freely between different blends of light and heavy crudes. This gives Formosa Petrochemical more flexibility to manage its product mix and maximize profit. See "— Production Processes — Refined petroleum products".

In recent years, domestic and regional demand for petroleum products has been shifting gradually toward light oil products and low-sulfur products, due largely to the increasing use of such products in transportation and household heating and increasing demand for cleaner fuels with lower sulfur levels, in response to stricter regulatory requirements. In light of such demand, Formosa Petrochemical has concentrated most of its production efforts on the production of light oils and middle distillates, which also tend to be higher value added products.

Gasoline. Gasoline is a type of light oil that has a boiling range between 365 degrees Fahrenheit (185 degrees Celsius) to 374 degrees Fahrenheit (190 degrees Celsius) at the 90 per cent. recovery point. It is used primarily as fuel for the internal combustion engines of automobiles. Modern gasolines tend to be blends of petroleum liquids (such as hexane, heptane and octane) which are produced in several different processes and which generally contain additives. Formosa Petrochemical produced 2,440,038 kL, 3,913,488 kL and 4,639,655 kL of gasoline in the years ended December 31, 2001, 2002 and 2003, respectively. Formosa Petrochemical produced 882,407 kL and 1,215,529 kL of gasoline in the three months ended March 31, 2003 and 2004, respectively. Gasoline is Formosa Petrochemical's single largest product by revenues. Formosa Petrochemical's revenues from sales of gasoline amounted to NT$36,023.1 million, NT$46,913.6 million and NT$58,547.1 million, for the years ended December 31, 2001, 2002 and 2003, respectively. For the three months ended March 31, 2003 and 2004, Formosa Petrochemical's revenues from sales of gasoline amounted to NT$13,281.7 million and NT$16,736.1 million, respectively. Formosa Petrochemical sells all of its refined petroleum products wholesale. These products are then sold to the retail market through gasoline service stations, including those owned by Formosa Petrochemical's direct subsidiary, Formosa Oil, its indirect subsidiary, Whale Home, and its affiliate Formosa Taffeta as well as franchise gasoline service stations owned by unrelated third parties. Formosa Petrochemical's gasoline is also sold to industrial users and wholesalers both domestically and throughout the region.

Gasoil. Gasoil, also known as diesel, is a liquid petroleum distillate having a viscosity intermediate between that of kerosene and lubricating oil. Formosa Petrochemical produced 1,895,043 kL, 3,451,017 kL and 4,782,618 kL of gasoil in the years ended December 31, 2001, 2002 and 2003, respectively. Formosa Petrochemical produced 977,404 kL and 1,477,952 kL of gasoil for the three months ended March 31, 2003 and 2004, respectively. Gasoil is the second largest product by revenues in Formosa Petrochemical's refinery division. For the years ended December 31, 2001, 2002 and 2003, Formosa Petrochemical's revenues from sales of gasoil amounted to NT$15,199.0 million, NT$26,532.2 million and NT$39,127.5 million, respectively. For the three months ended March 31, 2003 and 2004, Formosa Petrochemical's revenues from sales of gasoil amounted to NT$9,154.9 million and NT$12,951.7 million, respectively. Formosa Petrochemical's gasoil is sold domestically to retail users through the same gas stations which sell Formosa Petrochemical's gasoline. Formosa Petrochemical's gasoil is also sold to industrial users and wholesalers both domestically and throughout the region.

Naphtha. Naphtha is a refined or partly refined distillate derived from crude oil or natural gas, with a boiling range of between 81 degrees Fahrenheit (27 degrees Celsius) and 430 degrees Fahrenheit (221 degrees Celsius). It is used as feedstock for the production of downstream petrochemicals. Formosa Petrochemical produced 950,033 MT, 1,737,165 MT and 2,647,523 MT of naphtha in the years ended December 31, 2001, 2002 and 2003, respectively. Formosa Petrochemical produced 511,392 MT and 858,845 MT of naphtha in the three months ended March 31, 2003 and 2004, respectively. Naphtha is one of Formosa Petrochemical's most important products. Almost all of the naphtha produced by Formosa Petrochemical is consumed as feedstock either by Formosa Petrochemical at its two naphtha crackers or at facilities owned by other companies within the Formosa Group. In 2003, 57.4 per cent. of the naphtha produced by Formosa Petrochemical was used as feedstock in Formosa Petrochemical's two naphtha crackers, with the remaining 42.6 per cent. sold to other companies within the Formosa Group, also for use as feedstock for the production of other downstream petrochemicals. Although Formosa Petrochemical still needs to import naphtha feedstock for its two naphtha crackers, the naphtha produced by its refinery has allowed it to lessen its dependence on such imports. For the years ended December 31, 2001, 2002 and 2003, Formosa Petrochemical's revenues from sales of naphtha amounted to NT$5,946.6 million, NT$9,453.4 million and NT$13,060.3 million, respectively. For the three months ended March 31, 2003 and 2004, Formosa Petrochemical's revenues from sales of naphtha amounted to NT$3,050.0 million and NT$5,307.9 million, respectively.

Fuel oil. Fuel oil includes both distillate fuel oil, heavy (residual) fuel oil and pyrolysis fuel oil. Distillate fuel oil can be further categorized into No. 1 Distillate Fuel Oil, No. 2 Distillate Fuel Oil and No. 4 Distillate Fuel Oil. No. 1 Distillate Fuel Oil is a light distillate fuel oil that has distillation temperatures of 400 degrees Fahrenheit (204 degrees Celsius) at the 10 per cent. recovery point and 550 degrees Fahrenheit (288 degrees Celsius) at the 90 per cent. recovery point. It is used primarily as fuel for portable outdoor stoves and portable outdoor heaters. No. 2 Distillate Fuel Oil (heating oil) is a distillate fuel oil that has distillation temperatures of 400 degrees Fahrenheit (204 degrees Celsius) at the 10 per cent. recovery point and 640 degrees Fahrenheit (338 degrees Celsius) at the 90 per cent. recovery point. It is used primarily in atomizing type burners for domestic heating or for moderate capacity commercial/industrial burner units. No. 4 distillate fuel oil is a distillate fuel oil made by blending distillate fuel oil and residual fuel oil stocks. It is used extensively in industrial plants and in commercial burner installations that are not equipped with pre-heating facilities. Heavy (residual) fuel oil is heavier oil that remains after the distillate fuel oils and lighter hydrocarbons have been boiled off in refinery operations. Heavy (residual) fuel oil has a viscosity which is always above 115" Redwood 1 at 100 degrees Fahrenheit (38 degrees Celsius), a flash point which is always above 122 degrees Fahrenheit (50 degrees Celsius) and a specific gravity which is always more than 0.90. It is used primarily in the production of electric power, space heating, vessel bunkering and various heavy industrial purposes. Formosa Petrochemical also produces pyrolysis fuel oil. Pyrolysis fuel oil is used as a raw material in the manufacture of carbon black or as a low-sulphur fuel oil. It is a mixture of higher boiling aromatic hydrocarbons, produced as a by-product during pyrolysis of oil fractions. Formosa Petrochemical produced 587,463 kL, 1,368,675 kL and 1,818,487 kL of fuel oil in the years ended December 31, 2001, 2002 and 2003, respectively. Formosa Petrochemical produced 407,438 kL and 547,801 kL of fuel oil in the three months ended March 31, 2003 and 2004, respectively. Fuel oil is an important product in Formosa Petrochemical's refinery division. For the years ended December 31, 2001, 2002 and 2003, Formosa Petrochemical's revenues from sales of fuel oil amounted to NT$3,600.3 million, NT$8,720.6 million and NT$13,206.2 million, respectively. For the three months ended March 31, 2003 and 2004, Formosa Petrochemical's revenues from sales of fuel oil amounted to NT$3,221.6 million and NT$3,627.8 million, respectively. Formosa Petrochemical's fuel oil is sold to commercial and industrial users, as well as wholesalers, both domestically and throughout the region.

Jet fuel/kerosene. Jet fuel is either a naphtha-type or a kerosene-type fuel suitable for commercial or military aviation purposes and used in aircraft turbine engines. Kerosene is a light petroleum distillate that has a maximum distillation temperature of 400 degrees Fahrenheit (204 degrees Celsius) at the 10 per cent. recovery point, a final boiling point of 520 degrees Fahrenheit (284 degrees Celsius), and a minimum flash point of 100 degrees Fahrenheit (38 degrees Celsius). Kerosene's specific gravity is in the region of 0.80. It is mainly used as a heating fuel and as a fuel for certain types of internal combustion engines. Formosa Petrochemical produced 688,190 kL, 1,361,996 kL and 1,341,822 kL of jet fuel/kerosene in the years ended December 31, 2001, 2002 and 2003, respectively. Formosa Petrochemical produced 289,893 kL and 288,448 kL of jet fuel/kerosene in the three months ended March 31, 2003 and 2004, respectively. Jet fuel/kerosene is an important product in Formosa Petrochemical's refinery division. For the years ended December 31, 2001, 2002 and 2003, Formosa Petrochemical's revenues from sales of jet fuel/kerosene amounted to NT$3,800.7 million, NT$7,867.5 million and NT$9,582.2 million, respectively. For the three months ended March 31, 2003 and 2004, Formosa Petrochemical's revenues from sales of jet fuel/kerosene amounted to NT$2,579.8 million and NT$2,464.2 million, respectively. Formosa Petrochemical's jet fuel/kerosene is sold to airlines and other industrial users, as well as wholesalers, both domestically and throughout the region.

LPG. LPG are light saturated paraffinic hydrocarbons derived from the refinery processes, crude oil stabilization and natural gas processing plants. They consist mainly of propane (C_3H_8) and butane (C_4H_{10}) or a combination of the two. They are normally liquefied under pressure for transportation and storage. Formosa Petrochemical produced 499,655 MT, 665,265 MT and 748,769 MT of LPG in the years ended December 31, 2001, 2002 and 2003, respectively. Formosa Petrochemical produced 212,839 MT and 214,500 MT of LPG in the three months ended March 31, 2003 and 2004, respectively. For the years ended December 31, 2001, 2002 and 2003, Formosa Petrochemical's revenues from sales of LPG amounted to NT$5,451.2 million, NT$6,856.8 million and NT$9,251.5 million, respectively. For the three months ended March 31, 2003 and 2004, Formosa Petrochemical's revenues from sales of LPG amounted to NT$2,993.4 million and NT$2,941.0 million, respectively. Formosa Petrochemical's LPG is sold to commercial and industrial users, as well as wholesalers, both domestically and throughout the region.

Olefins products

Formosa Petrochemical's principal olefins products include ethylene, propylene, BTX, butadiene. Sales of olefins products accounted for 26.0 per cent. of Formosa Petrochemical's operating revenues for the year ended December 31, 2003. The following table sets forth the sales volumes and sales revenues of each of Formosa Petrochemical's olefins products and the percentage of total operating revenues of olefins products provided by each product for the periods indicated:

	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Ethylene	1,527,229	23,460.5	55.8	1,467,727	22,330.2	51.7	1,661,852	30,800.7	906.2	50.2
Propylene	781,618	10,080.7	24.0	835,247	11,848.0	27.5	1,066,807	17,987.7	529.2	29.3
BTX	714,156	5,967.3	14.2	668,186	5,522.2	12.8	745,137	7,515.8	221.1	12.3
Butadiene	182,671	2,513.7	6.0	196,844	3,458.3	8.0	225,822	5,042.5	148.3	8.2
Total	3,205,674	42,022.2	100.0	3,168,004	43,158.7	100.0	3,699,618	61,346.7	1,804.8	100.0

Sales of olefins products accounted for 29.4 per cent. of Formosa Petrochemical's operating revenues for the three months ended March 31, 2004. The following table sets forth the sales volumes and sales revenues of each of Formosa Petrochemical's olefins products and the percentage of total operating revenues from olefins products provided by each type of product for the periods indicated:

	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Ethylene	306,768	6,073.7	48.7	481,898	11,030.7	334.3	50.6
Propylene	212,325	3,972.8	31.8	309,369	6,491.9	196.7	29.8
BTX	122,989	1,410.3	11.3	232,622	2,781.0	84.3	12.8
Butadiene	45,077	1,023.7	8.2	66,677	1,476.9	44.7	6.8
Total	687,159	12,480.5	100.0	1,090,566	21,780.5	660.0	100.0

Olefins are principally produced by Formosa Petrochemical in its naphtha crackers. In such a facility, a steam cracking furnace is used to "crack" the hydrocarbon feedstock, which in the case of Formosa Petrochemical is typically naphtha. Cracking is simply the process of breaking down heavy oil molecules into lighter, more valuable fractions. Heavy hydrocarbons (in Formosa Petrochemical's case, typically naphtha) are broken into two or more fragments, forming a stream of mixed light hydrocarbons (for example, ethylene, propylene and butadiene). See "— Production Processes — Olefins products". Formosa Petrochemical's crackers can also use LPG and gasoil as substitute feedstock for naphtha. Almost all of Formosa Petrochemical's olefins products are sold to companies within the Formosa Group. Formosa Petrochemical sells its olefins products to other companies within the Formosa Group on an arm's length basis, by reference to the existing market price of the particular olefin product at the time of sale.

Ethylene. Ethylene (C_2H_4) is an olefinic hydrocarbon used as a petrochemical feedstock for various petrochemical processes and the production of consumer goods. Formosa Petrochemical produced 1,537,078 MT, 1,422,525 MT and 1,666,373 MT of ethylene in the years ended December 31, 2001, 2002 and 2003, respectively. Formosa Petrochemical produced 297,526 MT and 476,296

MT of ethylene in the three months ended March 31, 2003 and 2004, respectively. Ethylene is the largest product by revenues in Formosa Petrochemical's olefins division. For the years ended December 31, 2001, 2002 and 2003, Formosa Petrochemical's revenues from sales of ethylene amounted to NT$23,460.5 million, NT$22,330.2 million and NT$30,800.7 million, respectively. For the three months ended March 31, 2003 and 2004, Formosa Petrochemical's revenues from sales of ethylene amounted to NT$6,073.7 million and NT$11,030.7 million, respectively. Formosa Petrochemical's ethylene is mostly sold to Formosa Plastics, for use as a raw material in downstream products manufactured by Formosa Plastics.

Propylene. Propylene (C_3H_6) is an olefinic hydrocarbon recovered from refinery processes or petrochemical processes. The propylene produced by both of Formosa Petrochemical's naphtha crackers is typically non-fuel use propylene. Non-fuel use propylene is propylene that is intended for use in non-fuel applications such as petrochemical production and processes. Non-fuel use propylene includes chemical-grade propylene, polymer-grade propylene, and trace amounts of propane. Propylene is used as a feedstock for various petrochemical processes and the production of consumer goods. Formosa Petrochemical produced 784,847 MT, 846,715 MT and 1,084,614 MT of propylene in the years ended December 31, 2001, 2002 and 2003, respectively. Formosa Petrochemical produced 224,449 MT and 309,142 MT of propylene in the three months ended March 31, 2003 and 2004, respectively. Propylene is the second largest product by revenues in Formosa Petrochemical's olefins division. For the years ended December 31, 2001, 2002 and 2003, Formosa Petrochemical's revenues from sales of propylene amounted to NT$10,080.7 million, NT$11,848.0 million and NT$17,987.7 million, respectively. For the three months ended March 31, 2003 and 2004, Formosa Petrochemical's revenues from sales of propylene amounted to NT$3,972.8 million and NT$6,491.9 million, respectively. Formosa Petrochemical's propylene is mostly sold to Formosa Chemicals & Fibre, for use as a raw material in downstream products manufactured by Formosa Chemicals & Fibre.

BTX . BTX is a mixture of benzene, toluene and xylene. Formosa Petrochemical produced 706,863 MT, 672,452 MT and 748,485 MT of BTX in the years ended December 31, 2001, 2002 and 2003, respectively. Formosa Petrochemical produced 117,234 MT and 232,248 MT of BTX for the three months ended March 31, 2003 and 2004, respectively. For the years ended December 31, 2001, 2002 and 2003, Formosa Petrochemical's revenues from sales of BTX amounted to NT$5,967.3 million, NT$5,522.2 million and NT$7,515.8 million (U.S.$221.1 million), respectively. For the three months ended March 31, 2003 and 2004, Formosa Petrochemical's revenues from sales of BTX amounted to NT$1,410.3 million and NT$2,781.0 million, respectively.

Butadiene. Butadiene, is also called 1,3 butadiene and is a flammable gaseous olefin used in the production of synthetic elastomer (synthetic rubber), adiponitrile and nylon 6,6. Formosa Petrochemical produced 185,612 MT, 196,845 MT and 224,562 MT of butadiene in the years ended December 31, 2001, 2002 and 2003, respectively. Formosa Petrochemical produced 41,824 MT and 67,073 MT of butadiene for the three months ended March 31, 2003 and 2004, respectively. Butadiene is an important product in Formosa Petrochemical's olefins division. For the years ended December 31, 2001, 2002 and 2003, Formosa Petrochemical's revenues from sales of butadiene amounted to NT$2,513.7 million, NT$3,458.3 million and NT$5,042.5 million, respectively. For the three months ended March 31, 2003 and 2004, Formosa Petrochemical's revenues from sales of butadiene amounted to NT$1,023.7 million and NT$1,476.9 million, respectively. Formosa Petrochemical's butadiene is mostly sold to Formosa Chemicals & Fibre, for use as a raw material in downstream products manufactured by Formosa Chemicals & Fibre.

Utilities

Formosa Petrochemical's principal utilities are electricity and steam. Sales of utilities accounted for 6.4 per cent. of Formosa Petrochemical's net operating revenues for the year ended December 31, 2003. The following table sets forth the sales volumes and sales revenues of Formosa Petrochemical's principal utilities products and the percentage of total operating revenues from the company's principal utilities products provided by each type of utility for the periods indicated:

	Year ended December 31,									
	2001			2002			2003			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Electricity	6,263,723 mWh	7,951.7	74.7	6,090,506 mWh	7,663.1	71.9	9,014,677 mWh	11,870.7	349.3	78.1
Steam	8,388,977 T	2,695.3	25.3	9,328,215 T	2,992.9	28.1	10,374,169 T	3,328.3	97.9	21.9
Total	—	10,647.0	100.0	—	10,656.0	100.0	—	15,199.0	447.2	100.0

Note: Formosa Petrochemical also produces certain other minor utilities products such as industrial water, ultra-pure water, oxygen, nitrogen and compressed air. Any revenues from such products have been included under "Others" and not "Utilities" throughout this Offering Circular.

Sales of utilities 5.5 per cent. of Formosa Petrochemical's operating revenues for the three months ended March 31, 2004, respectively. The following table sets forth the sales volumes and sales revenues of Formosa Petrochemical's utilities products and the percentage of total operating revenues from utilities products provided by each type of utility for the periods indicated:

	Three Months ended March 31,						
	2003			2004			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Electricity	1,757,876 mWh	2,073.5	74.1	2,596,540 mWh	3,201.9	97.0	79.1
Steam	2,252,386 T	723.5	25.9	2,636,002 T	845.3	25.6	20.9
Total	—	2,797.0	100.0	—	4,047.2	122.6	100.0

Note: Formosa Petrochemical also produces certain other minor utilities products such as industrial water, ultra-pure water, oxygen, nitrogen and compressed air. Any revenues from such products have been included under "Others" and not "Utilities" throughout this Offering Circular.

Formosa Petrochemical's utilities are produced from the three coal-fired co-generation power plants used by Formosa Petrochemical to supply electricity and other utilities to its own refinery and naphtha cracking operations as well as the production facilities of other companies located in the No. 6 Naphtha Cracker Complex.

Electricity. Formosa Petrochemical's three coal-fired co-generation power plants generated 7,208,263 mWh, 7,699,853 mWh and 10,257,379 mWh of electricity in the years ended December 31, 2001, 2002 and 2003, respectively. Formosa Petrochemical used 1,251,217 mWh, 1,659,296 mWh and 1,947,568 mWh of electricity for its own operations and sold 6,263,723 mWh, 6,090,506 mWh and 9,014,677 mWh of excess electricity, for the years ended December 31, 2001, 2002 and 2003, respectively. Formosa Petrochemical generated 2,063,475 mWh and 2,838,656 mWh of electricity in the three months ended March 31, 2003 and 2004, respectively. Formosa Petrochemical used 305,599 mWh and 590,113 mWh of electricity in its own operations and sold 1,757,876 mWh and 2,596,540 mWh of excess electricity, for the three months ended March 31, 2003 and 2004, respectively. Electricity is the largest product by revenues in Formosa Petrochemical's utilities division. For the years ended December 31, 2001, 2002 and 2003, Formosa Petrochemical's revenues from sales of electricity amounted to NT$7,951.7 million, NT$7,663.1

million and NT$11,870.7 million, respectively. For the three months ended March 31, 2003 and 2004, Formosa Petrochemical's revenues from sales of electricity amounted to NT$2,073.5 million and NT$3,201.9 million, respectively.

Steam. Formosa Petrochemical generated 14,843,066 metric tons, 11,776,742 metric tons and 12,087,973 metric tons of steam in the years ended December 31, 2001, 2002 and 2003, respectively. Formosa Petrochemical used 6,454,089 metric tons, 2,793,534 metric tons and 3,899,519 metric tons of steam for its own operations and sold 8,388,977 metric tons, 9,328,215 metric tons and 10,374,169 metric tons of excess steam, for the years ended December 31, 2001, 2002 and 2003, respectively. Formosa Petrochemical generated 2,915,579 metric tons and 2,901,454 metric tons of steam in the three months ended March 31, 2003 and 2004, respectively. Formosa Petrochemical used 663,193 metric tons and 724,827 metric tons of steam for its own operations and sold 2,252,386 metric tons and 2,636,002 metric tons of excess steam, for the three months ended March 31, 2003 and 2004. For the years ended December 31, 2001, 2002 and 2003, Formosa Petrochemical's revenues from sales of steam amounted to NT$2,695.3 million, NT$2,992.9 million and NT$3,328.3 million, respectively. For the three months ended March 31, 2003 and 2004, Formosa Petrochemical's revenues from sales of steam amounted to NT$723.5 million and NT$845.3 million, respectively. Steam is principally used to power turbines in Formosa Petrochemical's co-generation power plants as well as to provide heat in the refinery and manufacturing process.

Other products and services

Formosa Petrochemical's other products and services include maintenance services and harbor administration services, as well as sales of certain other products such as C_4, CO and industrial water. The maintenance center provides repair and maintenance services to the existing facilities at the No. 6 Naphtha Cracker Complex. Harbor administrative services includes Formosa Petrochemical's operation of the jetty and storage facilities for Mailiao Harbor at the No. 6 Naphtha Cracker Complex. Formosa Petrochemical charges other companies at the No. 6 Naphtha Cracker Complex for loading and unloading services and rents out excess space in its storage facilities on a monthly and per shipment basis. Sales from Formosa Petrochemical's other products and services accounted for 3.7 per cent., 4.6 per cent. and 6.5 per cent. of Formosa Petrochemical's operating revenues for the years ended December 31, 2001, 2002 and 2003, respectively, and 8.5 per cent. and 4.9 per cent. of Formosa Petrochemical's operating revenues for the three months ended March 31, 2003 and 2004, respectively. Formosa Petrochemical also provides engineering services in relation to the planning and construction of its facilities, though these services are entirely internal and do not, therefore, generate any revenues for the company.

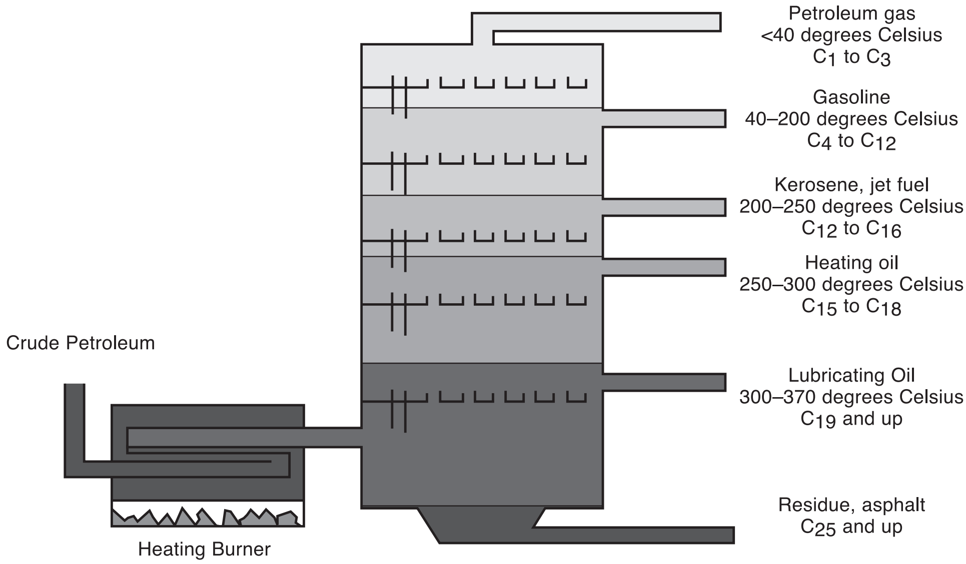
Production Processes

Refined petroleum products

Petroleum refining is the process of separating the many compounds present in crude oil. The principle which is employed is that the longer the carbon chain, the higher the boiling point of the compounds. Crude oil is heated until it takes on a gaseous form. The gases are passed through a distillation column which becomes cooler as the height increases. When a compound in the gaseous state cools below its boiling point, it condenses into a liquid. These different types of liquids are then drawn off the distillation column at various heights.

The following diagram shows a generic distillation tower used in the distillation of crude oil:

Crude Oil Distillation Tower



Formosa Petrochemical operates an oil refinery complex with a total nameplate capacity of 450,000 barrels per day. The main process units of Formosa Petrochemical's oil refinery complex consist of the following:

(a) 3 trains of crude oil distillation units for the fractional distillation of crude oil;

(b) a vacuum tower for the fractional distillation of crude residue;

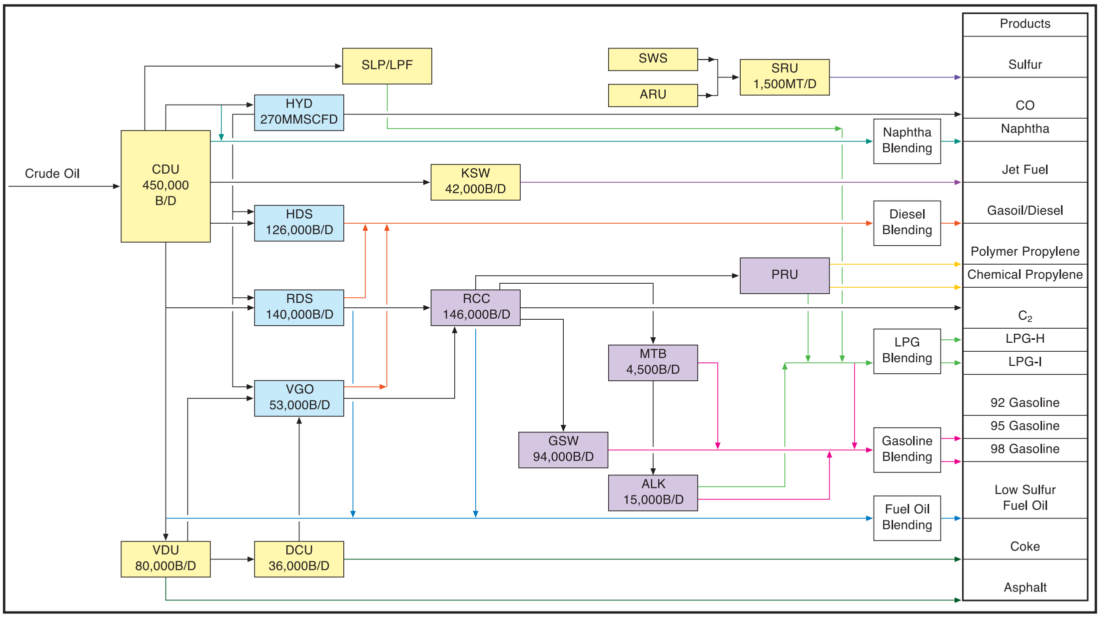
(c) a delayed coker unit for the thermal cracking of vacuum residue oil from the vacuum distillation unit;

(d) hydrotreating units consisting of 2 trains of diesel hydrotreating units, a vacuum gasoil hydrotreating unit, and 2 trains of residue hydrotreating units for the hydrotreatment of diesel, vacuum gasoil and crude residue into low sulfur products; and

(e) a residue catalytic cracker complex consisting of 2 trains of catalytic crackers, an MTBE unit, and an alkylation unit for the catalytic conversion of crude residue and vacuum gasoil into propylene and gasoline blending components.

The following is a simplified diagram of the production flow chart for Formosa Petrochemical's refined petroleum products:

Production Flow Chart for Refined Petroleum Products



The yields and quality of refined petroleum products produced by any given oil refinery depends on the mixture of crude oil used as feedstocks and the configuration of the refinery facilities. Light/sweet crudes are generally more expensive and have inherent greater yields of higher value light products/clean oil and middle distillates such as naphtha, jet fuel/kerosene and gasoil. Heavy/sour crudes are generally less expensive and produce greater yields of lower value heavy products/dirty oil such as fuel oil.

The configuration of certain refineries is more oriented towards the production of gasoline (large reforming and/or catalytic cracking) whereas the configuration of other refineries is more oriented towards the production of middle distillates such as jet fuel and gasoil (large thermal conversion and/or hydrocracking processes). Formosa Petrochemical's refinery and the use of the catalytic cracking and hydrocracking processes in its configuration provides Formosa Petrochemical more flexibility to modify its product mix to maximize profit.

Formosa Petrochemical determines which crude oils to purchase in what amounts and which refined petroleum products to produce in what volumes with the help of a linear programming model which takes into account projected prices of different grades of crude oil, projected prices of different refined petroleum products across various markets, yields of different crude oils, Formosa Petrochemical's total refining capacity and certain other factors. Formosa Petrochemical calculates projected prices based on market forecasts made by its oil traders.

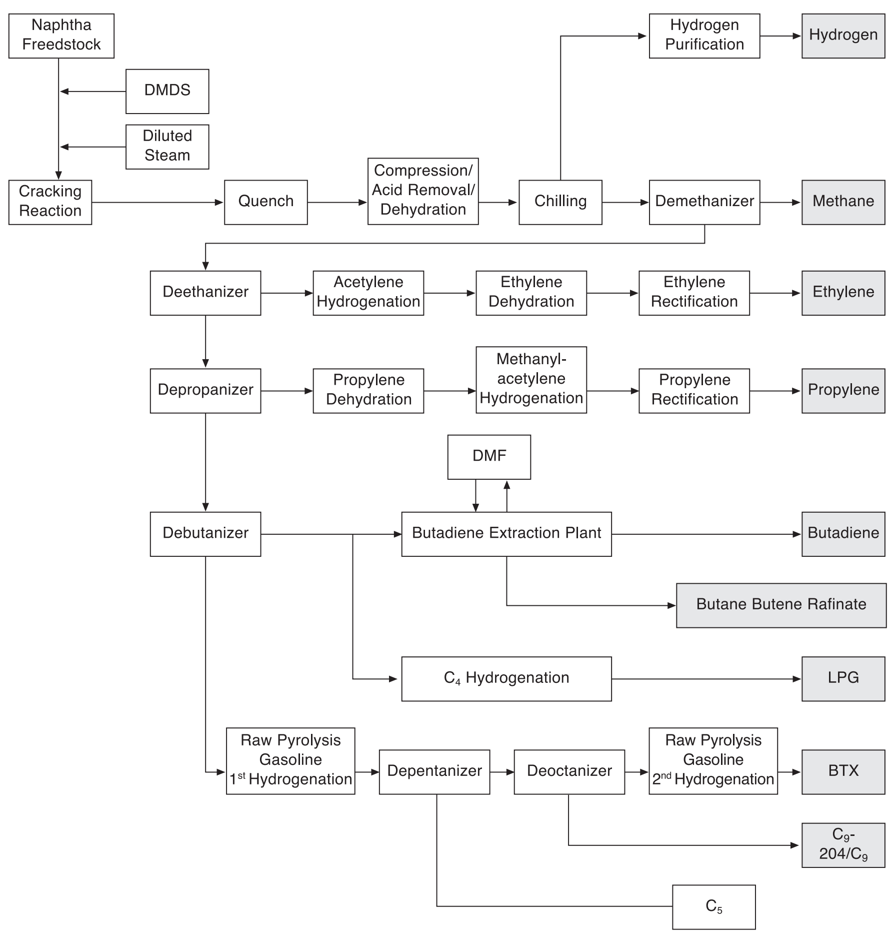
Olefins products

Formosa Petrochemical's naphtha crackers convert naphtha feedstock into ethylene, propylene, BTX and by-products in a two-step process of cracking and separating. Formosa Petrochemical's two crackers are capable of cracking naphtha, or a combination of naphtha, gasoil and LPG. Historically, however, Formosa Petrochemical's crackers have been run primarily on naphtha feedstock.

Formosa Petrochemical has two naphtha crackers that have a combined nameplate capacity of 1,600,000 MTY of ethylene.

The following is a simplified diagram of the production flow chart for Formosa Petrochemical's olefins products:

Production Flow Chart for Olefins Products



Feedstock, typically naphtha, is first pumped through the pyrolysis section of the naphtha cracker, where it is cracked in a tubular furnace in the presence of steam. The pyrolysis process converts the heavier hydrocarbons into lighter fractions, primarily ethylene and propylene, by removing the hydrogen molecules. The hot gas effluent from the furnace is then passed through the quench section where it is cooled to retard further cracking and to condense heavy fractions. The heavy fractions are subsequently processed into fuel oil, light cycle oil and pygas by-products. The pygas stream can then be fed to the aromatics plants such as those owned by Formosa Chemicals & Fibre for benzene and toluene production. Steam generated in the quench section is recycled back to the furnace for re-use.

The cooled gases are then compressed, treated to remove acid gases, dried over a desiccant and fractionated into separate components at low temperature through a series of refrigeration processes. Hydrogen and methane are removed by way of a compression/expansion process. The methane removed is distributed as fuel gas for use in the furnaces, boilers and co-generation power plants. Hydrogen is collected and further purified in a pressure swing unit for use in the hydrogenation process. Polymer grade ethylene and propylene are separated in the cold section. The separated ethane and propane streams are recycled back to the furnace for further cracking while the mixed C_4 stream is hydrogenated prior to recycling back to the furnace for further cracking.

Formosa Petrochemical regularly monitors the performance of its naphtha crackers by tracking a number of commonly used performance indicators.

The following table sets forth the capacity utilization for Formosa Petrochemical's two naphtha crackers for the periods indicated:

	Year ended December 31,		
	2001	2002	2003
Capacity utilization[1]	112.0%	103.8%	104.1%

Notes:

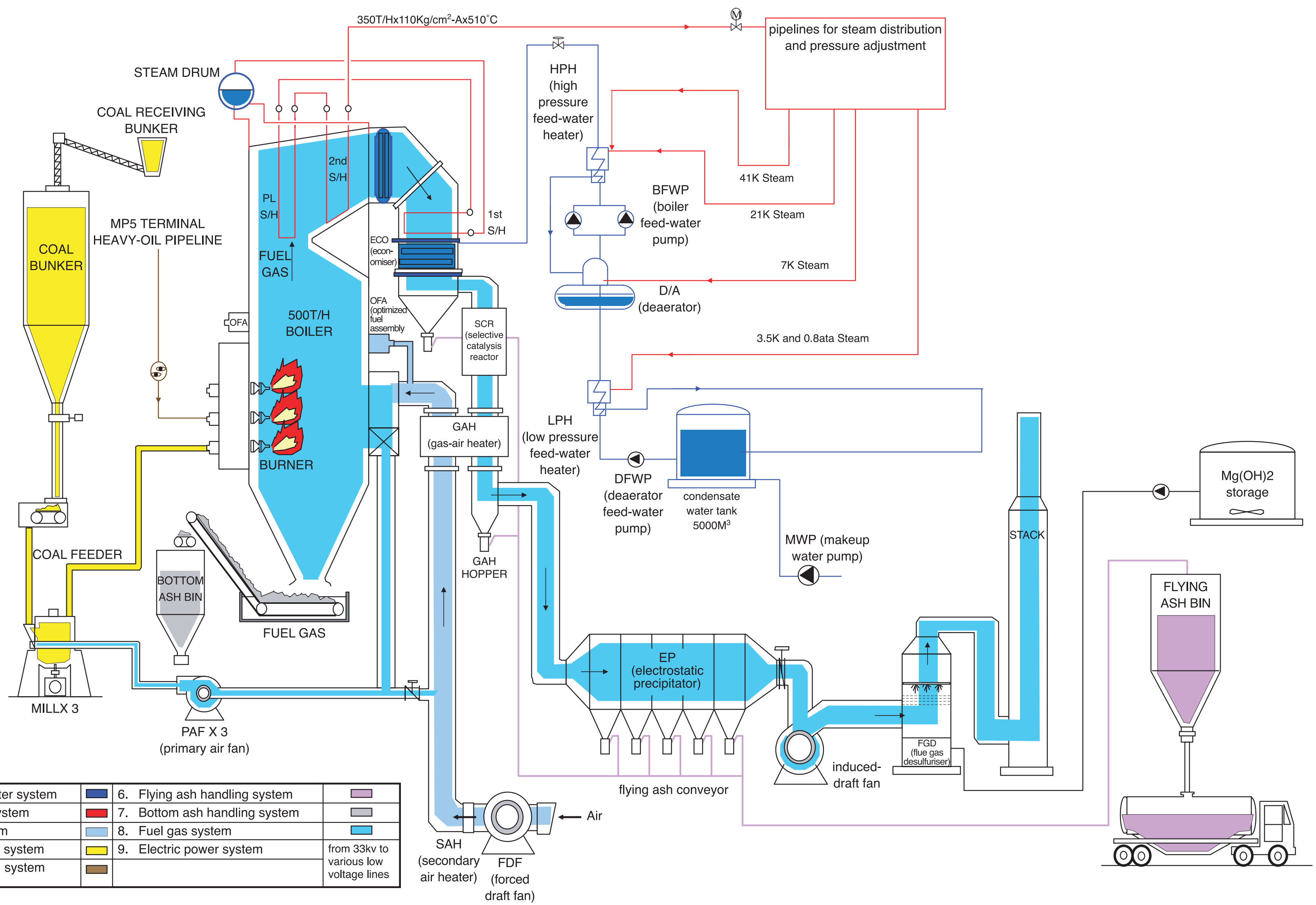
(1) Capacity utilization is defined as total production expressed as a percentage of nameplate capacity, adjusted for plant debottlenecking, scheduled turnaround and scheduled maintenance during the year.

(2) Yield is defined as feedstock consumed expressed as a percentage of production, each measured in tons.

Utilities products

Formosa Petrochemical's co-generation power plants generate the electricity needed by Formosa Petrochemical for its petroleum refinery and naphtha cracking activities. Coal is burned in the burner units of the power plants to generate superheated steam. The steam is channelled to drive the 10 turbines in the power plants, which produces electricity. This process also generates other utilities products, for example excess steam, industrial water, ultra-pure water, nitrogen, oxygen and compressed air.

Production Flow Chart for Utilities Division Products



1. Feed-water system		6. Flying ash handling system	
2. Steam system		7. Bottom ash handling system	
3. Air system		8. Fuel gas system	
4. Fuel coal system		9. Electric power system	from 33kv to various low voltage lines
5. Heavy oil system			

Organization

Operating divisions

Formosa Petrochemical's three main operating business divisions are its refinery division, its olefins division, and its utilities division.

In addition to its three operating business divisions, Formosa Petrochemical also has an engineering division, a maintenance center and a harbor administration division. Formosa Petrochemical's engineering division typically carries out planning, engineering and construction tasks in relation to Formosa Petrochemical's facilities for Formosa Petrochemical. Formosa Petrochemical's maintenance center provides day-to-day maintenance services for its existing facilities. Formosa Petrochemical's harbor administration division conducts loading and unloading services in Mailiao Harbor and operates storage facilities.

Operations through subsidiaries

Formosa Oil, a wholly-owned subsidiary of Formosa Petrochemical, owned 119 gas stations in Taiwan as of March 31, 2004. These 119 gas stations, together with the 11 gas stations owned by Whale Home International Corporation, an indirect subsidiary of Formosa Petrochemical, 66 stations owned by Formosa Taffeta, an affiliate of Formosa Petrochemical and 453 gas stations owned by unrelated third parties, sell gasoline and gasoil produced by Formosa Petrochemical, and constitute the outlets for the retail side of Formosa Petrochemical's refined petroleum products business. As at March 31, 2004, there were a total of 2,347 gas stations in Taiwan, of which Formosa Petrochemical supplied refined petroleum products to 649.

Formosa Petrochemical Transportation Corp., a subsidiary of Formosa Petrochemical, owns 100 oil tankers used for land transport. The company's gas tankers and other vehicles are used to transport gasoline and gasoil to the gas stations supplied by Formosa Petrochemical, and to transport products and raw materials domestically in Taiwan.

General Administrative Office of the Formosa Group

As a member of the Formosa Group, Formosa Petrochemical shares in the expenses of the Formosa Group's General Administrative Office, or GAO. The GAO maintains facilities and personnel for the performance of some financing, stock transfer and other administrative functions and procurements on a pooled basis for companies within the Formosa Group. See "The Formosa Group — General Administrative Office of the Formosa Group". Each Formosa Group company contributes a small sum towards the expenses and administrative costs of the GAO. For the years ended December 31, 2001, 2002 and 2003, Formosa Petrochemical contributed NT$208.8 million, NT$244.4 million and NT$308.2 million, respectively, towards this end.

Raw Materials

The principal raw materials used by Formosa Petrochemical in its refining, naphtha cracking and power production activities are crude oil, naphtha and coal, respectively.

Supply and Consumption

Cost of raw materials constituted 68.5 per cent., 73.9 per cent. and 79.4 per cent. of Formosa Petrochemical's operating costs for the years ended December 31, 2001, 2002 and 2003, respectively, and 71.0 per cent. and 85.0 per cent. of Formosa Petrochemical's operating costs for the three months ended March 31, 2003 and 2004, respectively. The table below sets forth certain information regarding the principal raw materials used by Formosa Petrochemical, the principal uses of such raw materials and the principal suppliers of such raw materials.

Raw materials	Principal use(s)	Principal supplier(s)
Crude oil	Feedstock for refinery	Aramco, National Iranian Oil Company, Kuwait Petroleum Corp
Naphtha.	Feedstock for crackers	Generated internally from oil refinery operations, Shell, British Petroleum, Marubeni
Coal	Primary fuel for power plants	Chinacoal Corp, Shen Dong Coal Company, BAC

Formosa Petrochemical's principal raw materials by value consumed are crude oil, coal, naphtha, propane and butane. The following table sets forth, for the periods indicated, the amount of crude oil, coal and naphtha consumed by Formosa Petrochemical and the costs to Formosa Petrochemical of such raw materials:

	Year ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
Crude oil					
Amount consumed . . .	5,910,732 MT	11,362,860 MT	15,286,073 MT	3,149,922 MT	4,485,158 MT
Costs to Formosa Petrochemical.	NT$37,040.7 million	NT$73,393.0 million	NT$110,805.0 million	NT$23,816.6 million	NT$34,236.4 million
Naphtha					
Amount consumed . . .	4,507,281 MT	4,251,104 MT	4,993,452 MT	866,366 MT	1,461,011 MT
Costs to Formosa Petrochemical[(1)] . . .	NT$36,881.8 million	NT$34,311.7 million	NT$47,935.0 million	NT$9,251.1 million	NT$16,808.0 million
Coal					
Amount consumed . . .	4,373,870 MT	4,485,230 MT	5,413,209 MT	1,176,706 MT	1,502,048 MT
Costs to Formosa Petrochemical.	NT$5,026.1 million	NT$5,529.2 million	NT$6,424.9 million	NT$1,386.4 million	NT$1,887.9 million

Note:

(1) Costs listed here only include purchase cost for naphtha purchased from third parties and not production costs for naphtha produced internally

Types of raw materials

Refinery division

Crude oil is the primary raw material required for Formosa Petrochemical's petroleum refinery operations. Crude oil is used as feedstock in Formosa Petrochemical's petroleum refinery complex. Formosa Petrochemical imports all of the crude oil it needs from overseas, mostly from countries in the Middle East. For the years ended December 31, 2001, 2002 and 2003, Formosa Petrochemical imported 5,831,136 MT, 11,790,046 MT and 15,709,432 MT of crude oil, respectively, or 14.8 per cent., 29.6 per cent. and 33.9 per cent. of Taiwan's total crude oil imports over the same periods. For the three months ended March 31, 2003 and 2004, Formosa Petrochemical imported 3,150,315 MT and 4,409,522 MT of crude oil respectively.

For the year ended December 31, 2001, 2002 and 2003, 66 per cent., 45 per cent. and 72 per cent., respectively of Formosa Petrochemical's crude oil imports were made under term contracts with state-owned petroleum companies of petroleum exporting countries, such as Saudi Arabia's Aramco, Iran's National Iranian Oil Company and Kuwait's Kuwait Petroleum Corporation. Such term contracts typically provide for the supply of a fixed quantity (within a given range) of crude oil during a period of one year at a variable price. The prices of crude oil under these term contracts are typically referenced off the Dubai and Oman Platts Prices of crude oil. The balance of Formosa Petrochemical's crude oil imports were generally purchased on the spot market from time to time at the prevailing market price, to meet fluctuations in supply or demand.

Formosa Petrochemical typically plans its crude oil inventory requirements on average three months in advance, by reference to factors like projected utilization rates at its petroleum refinery complex and transport time from the Middle East. Under ROC Petroleum Administration Law, Formosa Petrochemical must store in Taiwan sufficient crude oil and/or petroleum products equal to (or, in the case of crude oil, able to produce) sixty days' equivalent of refined petroleum product at its petroleum refinery, calculated based on its domestic sales volume in the preceding twelve months. Formosa Petrochemical typically keeps a stockpile of crude oil which is substantially in excess of that required by ROC Petroleum Administration Law. For the years ended December 31, 2001, 2002 and 2003, Formosa Petrochemical stockpiled an average of 968,586 MT, 998,938 MT and 1,158,549 MT, respectively, of crude oil and/or petroleum product.

Formosa Petrochemical is exposed to currency fluctuation risk by virtue of the mismatch between its sales revenues from refined petroleum products, a significant proportion of which is denominated in NT dollars, and its costs of crude oil purchases, all of which is denominated in U.S. dollars. Formosa Petrochemical believes it is able to pass on most of such risk to its customers through price increases. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Formosa Petrochemical — Quantitative and Qualitative Disclosures about Market Risks — Foreign Exchange Risk".

Olefins division

Naphtha is the primary raw material required for Formosa Petrochemical's cracker operations. Naphtha is typically used as feedstock in Formosa Petrochemical's crackers. Formosa Petrochemical produces on average 40 per cent. of the naphtha it needs from its petroleum refinery operations, with the remaining naphtha imported from overseas, mostly from countries in the Middle East. For the years ended December 31, 2001, 2002 and 2003, Formosa Petrochemical produced 218,786 MT, 793,294 MT and 1,518,476 MT of its naphtha requirements internally, respectively, compared with imports of 4,288,495 MT, 3,457,810 MT and 3,474,976 MT of its naphtha requirements, respectively, over the same periods. For the three months ended March 31, 2003 and 2004, Formosa Petrochemical produced 295,918 MT and 598,201 MT of its naphtha requirements internally, respectively, compared with imports of 570,418 MT and 862,810 MT of its naphtha requirements, respectively, over the same period.

For the year ended December 31, 2003, approximately 20 per cent. of Formosa Petrochemical's naphtha imports were made under term contracts, mostly with the same state-owned petroleum companies of oil exporting countries from which Formosa Petrochemical buys crude oil. Such term contracts typically provide for the supply of a fixed quantity (within a given range) of naphtha during a period of one year at a variable price. The balance of Formosa Petrochemical's naphtha imports are generally purchased on the spot market from time to time at the prevailing market price, to meet fluctuations in supply or demand.

Formosa Petrochemical typically plans its naphtha requirements on average 1.5 months in advance, by reference to factors such as projected utilization rates at its naphtha crackers, projected volume of production of naphtha from its petroleum refinery operations and projected transport time from the Middle East. Formosa Petrochemical typically keeps an inventory stockpile of naphtha sufficient for 13 days' of operations at its crackers. This translates into an inventory stockpile of 220,000 MT. For the years ended December 31, 2001, 2002 and 2003, Formosa Petrochemical stockpiled an average of 194,112 MT, 222,065 MT and 217,208 MT, respectively, of naphtha.

Formosa Petrochemical is exposed to currency fluctuation risk by virtue of the mismatch between its sales revenues from its olefins division, most of which is denominated in NT dollars, and its costs of naphtha purchases, which is denominated in U.S. dollars. Formosa Petrochemical believes it is able to pass on most of such risks to its customers through price increases if necessary. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Formosa Petrochemical — Quantitative and Qualitative Disclosures about Market Risks — Foreign Exchange Risk".

Utilities division

Coal is the primary raw material required for Formosa Petrochemical's power generation operations. Coal is used as the fuel in Formosa Petrochemical's power plants. Formosa Petrochemical imports all of its coal requirements from overseas. Approximately half of Formosa Petrochemical's coal is imported from Australia, with the remaining half typically coming from the PRC. For the years ended December 31, 2001, 2002 and 2003, Formosa Petrochemical imported 5.3 million tons, 3.9 million tons and 5.5 million tons of coal, respectively. For the three months ended March 31, 2003 and 2004, Formosa Petrochemical imported 1.1 million tons and 1.8 million tons of coal.

For the year ended December 31, 2003, virtually all of Formosa Petrochemical's coal imports were made under term contracts with BAC in Australia and China Coal Corp and Shan Dong Coal Company in the PRC. The balance of Formosa Petrochemical's coal imports were generally purchased on the spot market from time to time at prevailing market prices, to meet fluctuations in supply or demand. However, due to supply shocks in the PRC from mining accidents and stricter governmental regulations combined with increased domestic demand, coal exports from the PRC have decreased significantly and exports from Australia have become more difficult to procure. As a result, Formosa Petrochemical expects purchases on the spot market to represent a higher proportion of total purchases in 2004 than they have in past years. Formosa Petrochemical's spot supply of coal typically comes from Australia, the PRC and Indonesia.

Formosa Petrochemical typically plans its coal inventory requirements on average one month in advance, by reference to factors like projected utilization rates at its power plants and transport time from Australia or the PRC. Formosa Petrochemical typically keeps an inventory stockpile of coal sufficient for 15 days' of operations at its power plants. Formosa Petrochemical's coal is stockpiled at coal yards located near the Mailiao Harbor, which it shares with Mailiao Power.

Power and Transportation

Formosa Petrochemical generates all of the electricity it needs for its production processes through the three coal-fired co-generation power plants it owns and operates inside the No. 6 Naphtha Cracker Complex.

On average, Formosa Petrochemical needs seven 260,000 metric tons deadweight oil tanker ship shipments per month for the transportation of crude oil. Formosa Group Ocean Marine Investment Company ("Formosa Ocean Marine Investment"), an associate company of Formosa Petrochemical, provides Formosa Petrochemical with five oil tanker ships for the transportation of crude oil from the Middle East and elsewhere. Of the seven shipments needed per month, three of these oil tanker ships are met through oil tanker ships provided by Formosa Ocean Marine Investment on a time-charter basis that is fixed for a period of three years. Formosa Ocean Marine Investment also assists Formosa Petrochemical to charter an additional shipment from third parties, typically on a time-charter basis that is fixed for two years with an additional one year option. The shortfall of three oil tanker ships is normally chartered by Formosa Petrochemical from the spot charter market. The crude oil and naphtha transported via these oil tanker ships are all unloaded at the Mailiao Harbor within the No. 6 Naphtha Cracker Complex and piped to Formosa Petrochemical's petroleum refinery and naphtha crackers within the same complex.

Formosa Ocean Marine Investment has seven dry bulk carriers equipped for the shipment of coal. As at March 31, 2004, Formosa Petrochemical had three of these ships under a fixed term and fixed rate charter. Formosa Petrochemical typically needs three coal shipments, with deadweight of 160,000 metric tons, a month. Any shortfall in coal shipments is typically met through the spot charter market. The coal from the coal ships is unloaded at the Mailiao Harbor within the No. 6 Naphtha Cracker Complex and stored at the coal-yard within the same complex which Formosa Petrochemical shares with Mailiao Power.

Sales

Geographical Markets

Formosa Petrochemical primarily sells its products in the domestic market in Taiwan, although a significant portion of its refined petroleum products are exported overseas. Most of Formosa Petrochemical's olefins sales are domestic sales and all of Formosa Petrochemical's utilities sales are domestic sales.

The following table sets forth, for the periods indicated, the percentage breakdown of Formosa Petrochemical's operating revenues by geographic segments for each major product type:

	Year ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
	(percentage of operating revenues)				
	%	%	%	%	%
Refined Petroleum Products					
Taiwan	86.4	72.1	66.6	68.2	62.9
North America and South America	1.9	2.8	1.5	2.0	3.0
PRC	0.0	0.0	0.5	0.1	0.4
Hong Kong	5.6	2.4	2.3	1.5	4.5
North East Asia(1)	3.8	11.2	15.1	13.5	2.2
South East Asia(2)	1.9	9.6	10.4	9.1	22.9
Middle East	0.0	0.0	0.2	0.0	0.0
Australia and New Zealand	0.0	0.4	2.7	2.4	0.8
Europe	0.4	1.5	0.7	3.2	3.3
Total	100.0	100.0	100.0	100.0	100.0
Olefins Products					
Taiwan	98.0	98.8	97.7	98.2	96.9
PRC	0.9	0.4	0.9	0.0	0.0
North East Asia(1)	0.5	0.5	0.9	1.1	0.9
South East Asia(2)	0.4	0.3	0.5	0.7	2.2
Europe	0.2	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0
Utilities Products					
Taiwan	100.0	100.0	100.0	100.0	100.0
Total	100.0	100.0	100.0	100.0	100.0

Notes:

(1) Includes Japan and Korea

(2) Includes Philippines, Singapore, Thailand, Vietnam, Malaysia

Refined petroleum products. On an operating revenues basis, 47.8 per cent., 45.9 per cent. and 40.7 per cent. of Formosa Petrochemical's refined petroleum products were sold within Taiwan for the year ended December 31, 2001, 2002 and 2003, respectively. On an operating revenues basis, 43.3 per cent. and 37.8 per cent. of Formosa Petrochemical's refined petroleum products were sold within Taiwan in the three months ended March 31, 2003 and 2004. Most of Formosa Petrochemical's domestic sales of its refined petroleum products are sales of gasoline and gasoil to retail customers through the gas stations supplied by Formosa Petrochemical. Gasoline and diesel are primarily sold to automobile and other vehicle owners at those gas stations. As at March 31, 2004, there were 2,347 gas stations in Taiwan, of which Formosa Petrochemical supplied 649. Of the 649 gas stations supplied by Formosa Petrochemical, 119 are owned by Formosa Oil (a wholly owned subsidiary of Formosa Petrochemical), 11 are owned by Whale Home International (an indirect subsidiary of Formosa Petrochemical), 66 are owned by Formosa Taffeta (an affiliate of Formosa Petrochemical) and 453 are owned by unrelated third parties. Some of Formosa Petrochemical's domestic sales of its refined petroleum products are sold to industrial and commercial users, and wholesalers, within Taiwan.

On an operating revenues basis, 7.5 per cent., 17.7 per cent. and 20.4 per cent. of Formosa Petrochemical's refined petroleum products were exported in the years ended December 31, 2001, 2002 and 2003, respectively. On an operating revenues basis, 20.2 per cent. and 22.4 per cent. of Formosa Petrochemical's refined petroleum products were exported in the three months ended March 31, 2003 and 2004. Most of Formosa Petrochemical's refined petroleum products exports are to industrial and commercial users, as well as wholesalers, in countries such as Vietnam, the Philippines, Korea, Australia, the U.S. and the PRC.

Olefins products. Virtually all of Formosa Petrochemical's olefins products are sold to companies within the Formosa Group. For classification purposes, olefins products which are sold by Formosa Petrochemical to other companies in the Formosa Group and shipped outside Taiwan are classified as export sales. On an operating revenues basis, for the year ended December 31, 2003, 97.7 per cent. of Formosa Petrochemical's olefins sales were classified as domestic sales and 2.3 per cent. of Formosa Petrochemical's olefins sales were classified as export sales. On an operating revenues basis, for the three months ended March 31, 2004, 96.9 per cent. of Formosa Petrochemical's olefins sales were classified as domestic sales and 3.1 per cent. of Formosa Petrochemical's olefins sales were classified as export sales.

Utilities division products. All sales of Formosa Petrochemical's utilities products are domestic sales.

Product users

Refined petroleum products. Formosa Petrochemical's refined petroleum products are sold to retail customers through the gas stations supplied by Formosa Petrochemical and to industrial and commercial users and wholesalers. Gasoline and gasoil are mostly sold through the gas stations to retail customers, to wholesalers overseas as well as industrial and commercial users. Formosa Petrochemical sells its gasoline and gasoil on a wholesale basis to operators of gas stations (including stations owned by Formosa Oil, Whale Home and Formosa Taffeta), who in turn sell the gasoline and gasoil to Formosa Petrochemical's end-consumers on a retail basis at their gas stations. Some gasoline and gasoil is also sold to industrial and commercial users, as well as to overseas wholesalers. Formosa Petrochemical's naphtha is almost all used internally for its cracker operations. Fuel oil is mostly sold to industrial and commercial users for use in their manufacturing and commercial operations. Jet fuel/kerosene is mostly sold to airlines and aviation companies. LPG is mostly sold to distributors and ultimately resold to the public as fuel for cooking and other domestic uses.

For the year ended December 31, 2003, the three largest customers by value of Formosa Petrochemical's refined petroleum products were Formosa Plastics, Formosa Chemicals & Fibre and Nan Ya Plastics. For the three months ended March 31, 2004, the three largest customers by value of Formosa Petrochemical's refined petroleum products were Formosa Plastics, Formosa Chemicals & Fibre and Nan Ya Plastics.

Olefins products. Almost all of Formosa Petrochemical's olefins products are sold to other companies within the Formosa Group as raw materials for their further processing into downstream products. Most of the ethylene produced by Formosa Petrochemical is sold to Formosa Plastics for use in the production of PVC resins, polyolefins and polypropylene. Most of the propylene produced by Formosa Petrochemical is sold to Formosa Chemicals & Fibre for use in the production of phenol, acetone and PP. Most of the butadiene produced by Formosa Petrochemical is sold to Formosa Chemicals & Fibre for use in production of ABS.

Utilities products. Formosa Petrochemical sells electricity and steam not used internally to other companies in the No. 6 Naphtha Cracker Complex. Any excess electricity is sold to Taiwan Power Company, for onward transmission to end-users through the Taiwan national electricity grid.

Other products and services. Formosa Petrochemical provides jetty and storage services to other companies in the No. 6 Naphtha Cracker Complex.

Manner of Sale and Distribution

Most of Formosa Petrochemical's products are sold directly to its principal customers by the relevant business divisions.

Properties and Facilities

Formosa Petrochemical operates a petroleum refinery complex, two naphtha cracking plants and three dedicated co-generation power plants, all located within the No. 6 Naphtha Cracker Complex. Formosa Petrochemical owns its petroleum refinery complex, the two naphtha cracking plants and the three dedicated co-generation power plants, as well as the properties on which these facilities are situated on and all the plants and equipments located therein. Formosa Petrochemical also has its own maintenance crew for each site.

Formosa Petrochemical's engineering division produces much of the standard equipment used by Formosa Petrochemical. This arrangement allows Formosa Petrochemical to control the supply and quality of such equipment and machinery. Each of Formosa Petrochemical's production facility also has a maintenance department, which regularly checks equipment and makes standard repairs. Formosa Petrochemical also has a centralized maintenance group, which assists each of the divisions on larger or more difficult jobs.

The following table sets forth Formosa Petrochemical's total nameplate capacity and average utilization rates for each Formosa Petrochemical's facilities for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2001	**2002**	**2003**	**2003**	**2004**
Oil Refinery					
Capacity (barrels per day)	300,000	450,000	450,000	450,000	450,000
Average Utilization Rate	40.3%	50.4%	68.4%	59.1%	79.3%
Olefins manufacturing plants (two)					
Capacity (tpa)	1,350,000	1,370,833	1,600,000	400,000	400,000
Average Utilization Rate	112.0%	103.8%	104.1%	74.4%	119.1%
Co-generation power plants (three)					
Capacity *(mW)*	1,224,313	1,224,313	1,533,354	1,224,313	1,824,313
Average Utilization Rate	72.7%	79.3%	83.5%	85.0%	77.8%

Competition

Formosa Petrochemical competes on the basis of price and also on quality, speed of delivery, the ability to meet varied product specifications and the ability to supply the quantities ordered. Formosa Petrochemical's olefins and utilities businesses are almost exclusively domestic businesses, with almost all of its olefins being supplied to other companies within the Formosa Group and all of its utilities sales going to companies in the No. 6 Naphtha Cracker Complex or Taiwan Power Company. Formosa Petrochemical's refining business is both a regional and a domestic business, with exports accounting for 33.4 per cent. of its refined petroleum products sales for the year ended December 31, 2003, and 37.1 per cent. of its refined petroleum products sales for the three months ended March 31, 2004. Formosa Petrochemical's only competitor in the domestic market in respect of its refined petroleum products is the larger state-owned CPC. For the year ended December 31, 2003, CPC accounted for 73.5 per cent. of Taiwanese refined petroleum products sales in Taiwan, compared to Formosa Petrochemical's 26.5 per cent. In its export sales of refined petroleum products, Formosa Petrochemical competes with other exporters of refined petroleum products in the region, including Shell, SK Corp, CPC and LG-Caltex. In the olefins division, Formosa Petrochemical faces limited competition, as most of its olefins products are sold to companies within the Formosa Group located in the No. 6 Naphtha Cracker Complex. Although CPC also sells some products to certain companies within the Formosa Group, those sales are either to meet excess demand that cannot be satisfied by Formosa Petrochemical or as a result of a conveniently located CPC production facility which drastically reduces transportation costs to the production facilities of those Formosa Group companies. For example, most of the Formosa Group's facilities are located in the No. 6 Naphtha Cracker Complex. However, it also has facilities located in Kaohsiung and other locations further away from the complex. Since many of the products Formosa Petrochemical provides to other Formosa Group companies are difficult to transport, those Formosa Group companies that are located further away from Formosa Petrochemical's facilities will choose to purchase products from CPC to the extent there is a CPC production facility that is closer in physical proximity to that company's facilities. The following table sets forth Formosa Petrochemical's principal competitors for each of the sectors in which Formosa Petrochemical competes:

Product sector	Principal geographical markets	Principal competitors
Refined petroleum products		
Gasoline	Taiwan, Korea, Australia & NZ, Singapore	CPC, SK, S-Oil, ExxonMobile, Shell, PTT, Thai-Oil, Chevron Texaco, Sinopec, PetroChina, Wepec
Gasoil	Taiwan, Korea, Vietnam, Philippines	CPC, SK, S-Oil, Petron, PTT
Fuel oil	Taiwan, Hong Kong, PRC	CPC, SK, LG-Caltex, S-Oil
Jet fuel/kerosene	Taiwan, Japan, Korea	CPC, Nippon Oil, Idemitsu, Exxon, Shell, Cosmo
LPG	PRC	CPC, Sinno-Benny
Olefins products		
Ethylene	Taiwan	CPC
Propylene	Taiwan	CPC
Butadiene	Taiwan	CPC
BTX	Taiwan	CPC

Research and Development

Formosa Petrochemical has a research and development center with 159 staff members as of March 31, 2004. In addition, each of Formosa Petrochemical's operating divisions has its own smaller research and development department. Formosa Petrochemical's research and development efforts are primarily devoted to the development and enhancement of process technologies used in its production facilities and research relating to cost reduction, quality improvement and pollution control at each of Formosa Petrochemical's production facilities.

Employees

Formosa Petrochemical had 3,241 employees as at March 31, 2004, 3,129 employees as at December 31, 2003, 3,076 employees as at December 31, 2002 and 2,871 employees as at December 31, 2001. The average employment period of Formosa Petrochemical's employees in Taiwan as at March 31, 2004 was approximately five years and the average age of Formosa Petrochemical's employees as at March 31, 2004 was 33 years.

As at March 31, 2004, none of Formosa Petrochemical's employees belonged to a union.

For the year ended December 31, 2003, direct labor costs made up 0.4 per cent. of Formosa Petrochemical's operating costs. For the three months ended March 31, 2004, direct labor costs made up 0.4 per cent. of Formosa Petrochemical's operating costs.

Environmental and Other Regulatory Matters

Formosa Petrochemical is subject to regulation by the ROC Environmental Protection Administration. In Taiwan, the county and city environmental bureaus in each county or city where Formosa Petrochemical conducts its production operations are responsible for the enforcement of environmental laws applicable to Formosa Petrochemical's operations there.

The principal environmental concerns relating to Formosa Petrochemical's petroleum refinery operations are disposal of solid waste from the refining process, air pollution, wastewater treatment and potential oil spills.

Formosa Petrochemical is committed to maintaining appropriate environmental controls in all of its production facilities and is seeking through its research and development efforts to develop more efficient production processes that generate less waste and emissions. Formosa Petrochemical also uses the services of the Environmental Engineering Center set up by Nan Ya Plastics, which tasks include environmental impact assessment, engineering surveying and monitoring, and data control to ensure a consistent approach by the Formosa Group to environmental protection. Formosa Petrochemical pays fees to Nan Ya Plastics for the services of the Environmental Engineering Center, which also performs environmental services for other members of the Formosa Group and is responsible for all the environmental planning relating to the No. 6 Naphtha Cracker Complex. For the year ended December 31, 2003, Formosa Petrochemical spent NT$426.2 million (or 0.2 per cent. of its total operating revenues for the same period) on its environmental protection efforts. For the three months ended March 31, 2004, Formosa Petrochemical spent NT$126.6 million (or 0.2 per cent. of its total operating revenues for the same period) on its environmental protection efforts.

Formosa Petrochemical's principal environmental protection facilities consist of wastewater treatment facilities, electrostatic precipitators and flue gas desulphurisation equipment. Formosa Petrochemical believes that it is in compliance with all material environmental regulations, although there can be no assurance that the relevant regulatory authorities will not impose new, stricter regulations which would require additional expenditure on environmental protection which could have a material adverse effect on Formosa Petrochemical's business.

Legal Proceedings

Formosa Petrochemical is not involved in any material litigation or proceedings, nor is Formosa Petrochemical aware that any such proceedings are pending or threatened.

See Note 7 of Formosa Petrochemical's Unaudited Financial Statements as at and for the three months ended March 31, 2003 and 2004 included elsewhere in the Offering Circular for a list of certain minor legal proceedings to which Formosa Petrochemical is a party.

SUBSIDIARIES AND INVESTEE COMPANIES

The following table sets forth certain information as of March 31, 2004 regarding Formosa Petrochemical's principal subsidiaries and investee companies:

Name	Registered Office	Book Value of Formosa Petrochemical's Investment	Percentage Interest Held by Formosa Petrochemical	Principal Business
		NT$ (millions)		
Formosa Oil (Asia Pacific) Corporation	2F, No. 54, Sec 4, Mingsheng E., Taipei, Taiwan, ROC	959.3	100.0%	Oil product retail
Formosa Petrochemical Transportation Corporation . .	No. 42, Biaofu Road Mailiao Township, Yuntin County Taiwan, ROC	314.2	88.0%	Transport
Mailiao Harbor Administration Corporation	1–1 Formosa Plastic Group Industrial Zone, Mailiao Shiang Yunlin Hsien, Taiwan, ROC	1,887.1	44.9%	Harbor administration
Formosa Development Corporation	2F, 201-36 Tung Hwa North Road, Taipei, Taiwan, ROC	232.5	46.0%	Industrial site development
Yi-Chi Construction Corporation .	2F, 201-24 Tung Hwa North Road, Taipei, Taiwan, ROC	146.2	40.6%	Construction
Mailiao Power Corporation.	1-1 Formosa Plastic Group Industrial Zone, Mailiao Shiang, Yunlin Hsien, Taiwan, ROC	8,695.6	24.9%	Power generation
Formosa Environmental Technology Corporation.	No. 118 Sec. 1, Sihwei Road, Puzih City, Chiayi County, Taiwan, ROC	236.8	24.3%	Environment protection technology
Simosa Oil Corporation	1F, No. 10–8, Formosa Plastic Group Industrial Zone, Mailiao Shiang, Yunlin Hsian, Taiwan, ROC	52.5	20.0%	Asphalt production and sales
Formosa Plastics Marine Corporation	4F, 201–32 Tung Hwa North Road, Taipei, Taiwan, ROC	43.2	20.0%	Maritime transport
Formosa Group Ocean Marine Investment Corporation	Wickhams Cay, P.O. Box 662, Road Town Tortola, British Virgin Islands	856.9	19.0%	Investment in marine transportation

Formosa Oil (Asia Pacific) Corporation ("Formosa Oil") engages in the retail of oil products. As of March 31, 2004, the company had an issued share capital of NT$1,000.0 million. Formosa Petrochemical did not receive dividends from Formosa Oil in 2003. As of March 31, 2004, there was no intercompany debt between Formosa Petrochemical and Formosa Oil and Formosa Petrochemical provided guarantee up to an aggregate amount of NT$40.0 million for Formosa Oil. For the year ended December 31, 2003, Formosa Oil had a net loss of NT$12.8 million.

Formosa Petrochemical Transportation Corporation ("Formosa Petrochemical Transportation") engages in transportation of petroleum products. As of March 31, 2004, the company had an issued share capital of NT$200.0 million. Formosa Petrochemical received dividends of NT$47.5 million from Formosa Petrochemical Transportation in 2003. As of March 31, 2004, there was no intercompany debt between Formosa Petrochemical and Formosa Petrochemical Transportation and Formosa Petrochemical did not provide any guarantee for Formosa Petrochemical Transportation. For the year ended December 31, 2003, Formosa Petrochemical Transportation made a net income of NT$32.9 million.

Mailiao Harbor Administration Corporation ("Mailiao Harbor Administration") engages in the administration of harbor facilities. As of March 31, 2004, the company had an issued share capital of NT$2,200.0 million. Formosa Petrochemical received dividends of NT$197.8 million from Mailiao Harbor Administration in 2003. As of March 31, 2004, there was no intercompany debt between us and Mailiao Harbor Administration, and Formosa Petrochemical did not provide any guarantee for Mailiao Harbor Administration. For the year ended December 31, 2003, Mailiao Harbor made a net income of NT$699.3 million.

Formosa Development Corporation ("Formosa Development") engages in industrial site development. As of March 31, 2004, the company had an issued share capital of NT$500.0 million. Formosa Petrochemical did not receive dividends from Formosa Development in 2003. As of March 31, 2004, there was no intercompany debt between Formosa Petrochemical and Formosa Development and Formosa Petrochemical did not provide any guarantee for Formosa Development. For the year ended December 31, 2003, Formosa Development had a net loss of NT$0.2 million.

Yi-Chi Construction Corporation ("Yi-Chi Construction") engages in construction. As of March 31, 2004, the company had an issued share capital of NT$198.5 million. Formosa Petrochemical received dividends of NT$8.1 million from Yi-Chi Construction in 2003. As of March 31, 2004, there was no intercompany debt between Formosa Petrochemical and Yi-Chi Construction and Formosa Petrochemical did not provide any guarantee for Yi-Chi Construction. For the year ended December 31, 2003, Yi-Chi Construction made a net income of NT$5.8 million.

Mailiao Power Corporation ("Mailiao Power") engages in the sale of electricity. As of March 31, 2004, the company had an issued share capital of NT$20,000.0 million. Formosa Petrochemical received dividends in the amount of NT$498.9 million from Mailiao Power in 2003. As of March 31, 2004, Mailiao Power owned Formosa Petrochemical NT$198.2 million and Formosa Petrochemical provided guarantee up to an aggregate amount of NT$5,910.0 million for Mailiao Power. For the year ended December 31, 2003, Mailiao Power made a net income of NT$3,509 million.

Formosa Environmental Technology Corporation ("Formosa Environmental Technology") engages in the business of environmental protection technology. As of March 31, 2004, the company had an issued share capital of NT$1,000.0 million. Formosa Petrochemical did not receive dividends from Formosa Environmental Technology in 2003. As of March 31, 2004, there was no intercompany debt between Formosa Petrochemical and Formosa Environmental Technology and Formosa Petrochemical did not provide any guarantee for Formosa Environmental Technology. For the year ended December 31, 2003, Formosa Environmental Technology had a net loss of NT$37.5 million.

Simosa Oil Corporation ("Simosa Oil") engages in asphalt production and sales. As of March 31, 2004, the company had an issued share capital of NT$270.0 million. Formosa Petrochemical did not receive dividends from Simosa Oil in 2003. As of March 31, 2004, there was no intercompany debt between Formosa Petrochemical and Simosa Oil and Formosa Petrochemical provided guarantee up to an aggregate amount of NT$99.0 million for Simosa Oil. For the year ended December 31, 2003, Simosa Oil made a net income of NT$20.5 million.

Formosa Plastics Marine Corporation ("Formosa Plastics Marine") engages in marine transportation. As of March 31, 2004, the company had an issued share capital of NT$100.0 million. Formosa Petrochemical received dividends of NT$8.4 million from Formosa Plastics Marine in 2003. As of March 31, 2004, there was no intercompany debt between Formosa Petrochemical and Formosa Plastics Marine and Formosa Petrochemical did not provide any guarantee for Formosa Plastics Marine. For the year ended December 31, 2003, Formosa Plastics Marine made a net income of NT$108.0 million.

Formosa Group Ocean Marine Investment Corporation ("Formosa Group Ocean Marine Investment") engages in investment in marine transportation. As of March 31, 2004, the company had an issued share capital of U.S.$138.0 million. Formosa Petrochemical did not receive dividends from Formosa Group Ocean Marine Investment in 2003. As of March 31, 2004, Formosa Group Ocean Marine Investment owed Formosa Petrochemical NT$276.6 million. Formosa Petrochemical did not provide any guarantee for Formosa Group Ocean Marine Investment.

Formosa Petrochemical's equity interests in all of the subsidiaries and investee companies listed above have been paid in full.

MANAGEMENT OF FORMOSA PETROCHEMICAL CORPORATION

Directors and Supervisors

The ROC Company Law and the Articles of Incorporation of Formosa Petrochemical provide that the Board of Directors is to be elected by the shareholders of Formosa Petrochemical for three-year terms in a shareholders' meeting at which a quorum, consisting of a majority of all issued and outstanding shares, is present. The Chairman is a Director elected by the Board. The eleven-member Board of Directors of Formosa Petrochemical is responsible for the management of the business of Formosa Petrochemical.

Formosa Petrochemical currently has three Supervisors. Supervisors are typically elected at the time that Directors are elected. The Supervisors' duties and powers include, but are not limited to, investigation of Formosa Petrochemical's financial condition, inspection of Formosa Petrochemical's corporate records, attending meetings of the Board of Directors, verification of certain statements by the Board of Directors prior to the regular shareholders' meetings, calling of shareholders' meetings, representing Formosa Petrochemical in negotiations with its Directors and notification, when appropriate, to the Board of Directors to cease acting in contravention of any applicable law or regulation or in contravention of Formosa Petrochemical's Articles of Incorporation or beyond the scope of Formosa Petrochemical's business. In accordance with the laws of the ROC relating to corporations, a Supervisor cannot concurrently serve as a Director, managerial officer or other staff member. The ROC Company Law requires at least one Supervisor be appointed at all times.

The term of office for the Directors and Supervisors is three years from the date of election. They may serve any number of consecutive terms and may be removed from office at any time by a resolution adopted at a shareholders' meeting. The Director or Supervisor being removed without a reason could claim for damages from Formosa Petrochemical. Normally, all Directors and Supervisors are elected at the same time.

Of the current Directors and Supervisors, Mr. Yeong-Ching Wang was elected in his capacity as a representative of Formosa Plastics, Mr. Kuo-Shong Wu was elected in his capacity as a representative of Formosa Chemicals & Fibre. A Director or Supervisor who serves as a representative of a legal entity may be removed or replaced at any time at the discretion of that legal entity, and the replacement Director or Supervisor may serve the remainder of the term of the office of the replaced Director or Supervisor.

The following table sets forth certain information relating to the Directors and Supervisors of Formosa Petrochemical as of June 4, 2004.

Name	Position	Age	Number of Shares Held Directly[1]	Number of Shares Held Through Spouse and Minor Children[2]	Percentage of Total Shares Issued and Outstanding[3]
Yeong-Ching Wang[4]	Chairman	87	2,496,315,669	—	31.84%
Yeong-Tsai Wang . . .	Vice Chairman	82	107,708	—	*
Wilfred Wang	Executive Director	53	409,597	—	
Chi-Jui Yen	Director	64	371,928	—	*
C.Y. Su	Director	58	360,974	—	*
Han-Ting Chen	Director	58	186,553	—	*
Ven-Chien Yang	Director	57	407,836	—	*
Huan-Nan Chen	Director	63	131,972	—	*
Sung-Hsiung Kuo . . .	Director	62	180,725	56,000	*
Chi-Tong Lo	Independent Director	74	—	—	*
C.P. Chang	Independent Director	58	—	—	*
Kuo-Shong Wu[5] . . .	Supervisor	56	2,161,585,993	—	27.57%
S.W. Hou	Supervisor	58	26,468	—	*
Yu Cheng	Independent Supervisor	51	—	—	*

Notes:

* Less than 1 per cent..

(1) In the case of a Director who is a representative of a legal entity, the number in this column only includes the number of Shares held by the corporate shareholder.

(2) Applies to a Director or Supervisor serving in his or her individual capacity only.

(3) Calculated by dividing the number of Shares held by such person and such person's spouse and minor children as indicated above, by the number of total issued and outstanding shares in each case as of March 31, 2004.

(4) Representative of Formosa Plastics.

(5) Representative of Formosa Chemicals & Fibre.

The business address of each Director and Supervisor is the registered office of Formosa Petrochemical.

Set forth below is a short biography of each of the Directors and Supervisors. Other than the two Independent Directors and the Independent Supervisor, who were elected on December 18, 2003, all other Directors and Supervisors were elected for their present term on May 16, 2003.

Mr. Yeong-Ching Wang is the Chairman of the Board of Directors. He is also the Chairman of the Formosa Group and the chairman of many companies in the Formosa Group. He graduated from elementary school in Taiwan during the Japanese occupation era. Mr. Yeong-Ching Wang is the brother of Mr. Yeong-Tsai Wang, the Vice Chairman of Formosa Petrochemical.

Mr. Yeong-Tsai Wang is the Vice Chairman. He is also the Vice Chairman of the Formosa Group and the vice chairman of many companies in the Formosa Group. He graduated from high school in Taiwan during the Japanese occupation era. Mr. Yeong-Tsai Wang is the brother of Mr. Yeong-Ching Wang, the Chairman of Formosa Petrochemical.

Mr. Wilfred Wang is the Executive Director. He also serves as the President of Formosa Petrochemical. He is also a director of Formosa Plastics, Formosa Oil (Asia Pacific) Corporation and Formosa Petrochemical Transportation Corporation. He graduated from University of London.

Mr. Chi-Jui Yen is a Director. He is also a Director of Formosa Oil (Asia Pacific) Corporation and Formosa Petrochemical Transportation Corporation. He graduated from National Cheng Kung University.

Mr. C.Y. Su is a Director. He also serves as an Executive Vice President of Formosa Petrochemical and the President of Formosa Oil. He graduated from National Cheng Kung University.

Mr. Han-Ting Chen is a Director. He also serves as a Senior Vice President of Formosa Petrochemical. He graduated from Feng Chia University.

Mr. Ven-Chien Yang is a Director. He also serves as a Vice President of Formosa Petrochemical. He graduated from National Taipei University of Technology.

Mr. Huan-Nan Chen is a Director. He also serves as a Vice President of Formosa Petrochemical. He graduated from National Cheng Kung University.

Mr. Sung-Hsiung Kuo is a Director. He is also an Assistant Director of Formosa Petrochemical. He graduated from National Chengchi University.

Mr. Chi-Tong Lo is an Independent Director. He graduated from National Taiwan University.

Mr. C.P. Chang is an Independent Director. He also serves as a Director of Fuhwa Financial Holding Co., Limited. He graduated from National Chengchi University.

Mr. Kuo-Shong Wu is a Supervisor. He is also the President of Formosa Heavy Industries Corporation and Director of Formosa Plastics. He graduated from Chung Yuan Christian University.

Mr. S.W. Hou is a Director. He graduated from National Cheng Kung University.

Mr. Yu Cheng is an Independent Supervisor. He is also the President of Taiwan Television Enterprise, Limited. He graduated from National Chengchi University.

Executive Officers

The executive officers of Formosa Petrochemical are appointed by Formosa Petrochemical's Board of Directors. The following table sets forth certain information relating to the executive officers as of June 4, 2004.

Name	Position	Age	Number of Shares Held Directly(1)	Number of Shares Held Through Spouse and Minor Children(2)	Percentage of Total Shares Issued and Outstanding(3)
Wilfred Wang	President	52	409,597	0	*
Chi-Jui Yen	Executive Vice President	64	371,928	0	*
C.Y. Su	Executive Vice President	58	360,974	0	*
Han-Ting Chen.	Senior Vice President	58	186,553	0	*
Keh-Yen Lin.	Director of President's Office	50	154,560	0	*
Ven-Chien Yang	Vice President	57	407,836	0	*
Huan-Nan Chen	Vice President	63	131,972	0	*
Sung-Hsiung Kuo	Vice President	62	180,725	0	*
Ming-Hsiung Shih	CFO	54	71,771	4,300	*

Notes:

* Less than 1 per cent..

(1) Calculated by dividing the number of Shares held by such person and such person's spouse and minor children as indicated above, by the number of total issued and outstanding shares in each case as of June 4, 2004.

The business address of each executive officer is the registered office of Formosa Petrochemical.

Set forth below is a short biography of each of Formosa Petrochemical's executive officers not described above:

Mr. Keh-Yen Lin is an Executive Officer. He is also the Director of the President's office. He graduated in Tunghai University.

Mr. Ming-Hsiung Shih is an Executive Officer. He graduated from National Cheng Kung University.

Compensation of Directors and Supervisors

The aggregate remuneration paid to the Directors and Supervisors of Formosa Petrochemical for the year ended December 31, 2003 was NT$1.1 million.

Formosa Petrochemical does not have a stock option plan.

Interests of Management in Certain Transactions

Certain of the Directors, Supervisors and executive officers of Formosa Petrochemical also serve as directors, supervisors or executive officers of companies with which it does business. These companies include the affiliates of Formosa Petrochemical. See "— Principal Shareholders of Formosa Petrochemical Corporation", "Related Party Transactions — Formosa Petrochemical" and Note 5 to Formosa Petrochemical's Audited Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 and Note 5 to Formosa Petrochemical's Unaudited Financial Statements as at and for the three months ended March 31, 2003 and 2004 included elsewhere in this Offering Circular. Formosa Petrochemical conducts these transactions on an arms' length commercial basis. There are no outstanding loans or loan guarantees granted by Formosa Petrochemical to any Director, Supervisor or executive officer of Formosa Petrochemical.

PRINCIPAL SHAREHOLDERS OF FORMOSA PETROCHEMICAL CORPORATION

The following table sets forth certain information as of April 6, 2004 with respect to shares owned by each person who, according to the records of Formosa Petrochemical, beneficially owned one per cent. or more of the shares of Formosa Petrochemical and by all Directors, Supervisors and executive officers as a group. Beneficial ownership includes ownership by such person's spouse and minor children.

Name of Shareholder	Number of Common Shares	Percentage of Total Issued and Outstanding Common Shares
Formosa Plastics	2,496,315,669	31.8%
Nan Ya Plastics	2,161,585,993	27.6%
Formosa Chemicals & Fibre	2,056,230,792	26.2%
Formosa Taffeta	312,336,991	4.0%
Directors, Supervisors and executive officers of Formosa Petrochemical, as a group[(1)]	2,410,092	0.03%

Note:

(1) Includes shares held by Directors and Supervisors serving in their individual capacities and executive officers. Excludes shares held by legal entities for which Directors and Supervisors are acting as representatives.

Apart as set out above, no shareholder owned more than one per cent. of the outstanding Common Shares of Formosa Petrochemical.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF FORMOSA PLASTICS CORPORATION

The following discussion should be read in conjunction with "Summary — Summary Financial Information — Formosa Plastics" and each of Formosa Plastics' Audited Consolidated Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 and Unaudited Non-consolidated Financial Statements as at and for the three months ended March 31, 2003 and 2004 and the notes thereto, included elsewhere in this Offering Circular.

Overview

Formosa Plastics is one of the world's leading manufacturers of poly-vinyl chloride ("PVC") resins, one of Asia's leading manufacturers of polyolefins (including HDPE, EVA, LDPE and LLDPE) and caustic soda and Taiwan's leading manufacturer of acrylic acid and esters, acrylic fiber and acryolonitrile ("AN"). Formosa Plastics estimates that it supplies approximately 70 per cent. of Taiwan's requirements of PVC resins and is a principal supplier of such raw material to the Formosa Group. Formosa Plastics develops, manufactures and markets products in six product categories: plastics (including PVC resins and related products), polyolefins, acrylic acid and esters and related products, chemicals, polypropylene and carbide. For the year ended December 31, 2003, sales of PVC resins and related products, polyolefins, acrylic acid and esters and related products, chemicals, polypropylene and carbide accounted for 39.0 per cent., 18.9 per cent., 13.6 per cent., 10.1 per cent., 3.7 per cent. and 1.3 per cent., respectively, of Formosa Plastics' total consolidated operating revenues. For the three months ended March 31, 2004, sales of PVC resins and related products, polyolefins, acrylic acid and esters and related products, chemicals, polypropylene and carbide accounted for 41.7 per cent., 21.9 per cent., 14.3 per cent., 10.0 per cent., 9.4 per cent. and 1.3 per cent., respectively, of Formosa Plastics' total non-consolidated operating revenues.

Formosa Plastics also engages in the production and sale of EDC and caustic soda through its wholly-owned U.S. subsidiary, Formosa Plastics Corp., America ("FPC America"). For the year ended December 31, 2003, sales revenues from FPC America accounted for 11.9 per cent. of Formosa Plastics' total consolidated operating revenues.

Formosa Plastics operates in-house co-generation power plants which supply electricity and steam to its production facilities. It also sells, to affiliates and other third parties, excess electricity produced from internal sources which are not required by its own operations. Sales of electricity and steam to affiliates and other third parties outside the Formosa Group accounted for 1.6 per cent. (of which 1.2 per cent. is derived from the engineering and construction division and 0.4 per cent. is derived from the polyolefin division) of Formosa Plastics' total consolidated operating revenues for the year ended December 31, 2003 and 0.6 per cent. (of which 0.5 per cent. is derived from the engineering and construction division and 0.1 per cent. is derived from the polyolefin division) of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2004.

Formosa Plastics' products are sold primarily to secondary processors in Taiwan. Domestic sales comprised 46.1 per cent. of Formosa Plastics' total consolidated operating revenues for the year ended December 31, 2003 and 51.9 per cent. of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2004. Sales to affiliates in the Formosa Group, primarily Nan Ya Plastics and Formosa Chemicals & Fibre, accounted for 29.0 per cent. of Formosa Plastics' total consolidated operating revenues for the year ended December 31, 2003 and 26.2 per cent. of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2004. In the export market, Formosa Plastics' products are sold primarily to secondary plastics processors in the PRC. Exports to the PRC accounted for 33.2 per cent. of Formosa Plastics' total consolidated operating revenues for the year ended December 31, 2003 and 37.9 per cent. of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2004.

Due to the integrated nature of the Formosa Group, a substantial portion of Formosa Plastics' net sales are derived from, and net purchases are made to, other companies in the Formosa Group. Sales to Formosa Petrochemical, Nan Ya Plastics and Formosa Chemicals & Fibre accounted for 2.6 per cent., 14.9 per cent., 3.7 per cent., respectively, of Formosa Plastics' net sales for the three months ended March 31, 2004. For the same period, purchases by Formosa Plastics from Formosa Petrochemical, Nan Ya Plastics and Formosa Chemicals & Fibre accounted for 63.6 per cent., 1.3 per cent. and 2.2 per cent., respectively, of Formosa Plastics' net purchases.

As at June 28, 2004, Formosa Plastics was one of the largest private sector manufacturing companies in Taiwan in terms of market capitalization. Formosa Plastics' ordinary shares have been listed on the TSE since 1964. As at June 28, 2004, Formosa Plastics' total market capitalization, based on the closing price of NT$46.3 of its ordinary shares on the TSE, was NT$235.9 billion. For the year ended December 31, 2003, Formosa Plastics' consolidated operating revenues were NT$95,156.5 million (U.S.$2,799.5 million) and its consolidated net income was NT$16,606.1 million (U.S.$488.6 million). For the three months ended March 31, 2004, Formosa Plastics had non-consolidated operating revenues of NT$26,461.0 million (U.S.$801.8 million) and non-consolidated net income of NT$8,043.7 million (U.S.$243.7 million).

The petrochemical cycle

The petrochemical industry is capital intensive and margins in the industry have historically been cyclical. Margins are sensitive to supply and demand imbalances both domestically and internationally. Demand for Formosa Plastics' products is generally linked to the level of economic activity, and weak economic conditions tend to reduce demand. Supply is affected by significant capacity additions, and if such additions are not matched by corresponding growth in demand, average industry operating margins will face downward pressures. As a result, the petrochemical cycle is characterized by periods of tight supply, leading to high operating rates and margins, followed by periods of oversupply, primarily resulting from significant capacity additions, leading to reduced operating rates and margins. It is not possible to predict accurately the supply and demand balances, market conditions and other factors that may affect industry operating rates and margins in the future. See "Appendix D — The Petrochemical Industry — Petrochemical Cycle".

Operating revenues

Formosa Plastics' operating revenues consist primarily of net sales of its plastics products (including PVC resins, caustic soda and VCM), polyolefin products (including HDPE, EVA, LLDPE and LDPE), Tairylan Division products (including acrylic acid and esters and acrylic fiber) and chemicals (including AN, ECH, MTBE and MMA). Substantially all of Formosa Plastics' net sales are derived from the sale of PVC resins, acrylic acid and esters and acrylic fiber, HDPE and polyproplene and, except on a non-consolidated basis, EDC and Chlor-alkali. Prices of most of these products are based on or influenced by regional and global market prices, which tend to be cyclical and are subject to significant fluctuations.

Plastics Division Revenues

Revenues from Formosa Plastics' plastics division constituted 43.6 per cent., 41.3 per cent. and 39.0 per cent. of Formosa Plastics' consolidated net operating revenues in the years ended December 31, 2001, 2002, 2003, respectively, and 47.5 per cent. and 41.7 per cent. of Formosa Plastics' non-consolidated net operating revenues in the three months ended March 31, 2003 and 2004, respectively. The following tables set forth sales volumes of Formosa Plastics' key plastics division products, revenues generated by sales of such products and the percentage of total plastics division revenues represented by each product for the periods indicated.

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
PVC resins	1,123,511	20,080.0	67.2	1,192,177	22,757.3	72.2	1,250,980	26,210.1	771.1	70.6
Caustic soda	628,298	4,608.1	15.4	688,322	2,916.8	9.3	782,840	3,984.7	117.3	10.7
VCM	149,148	1,788.1	6.0	149,793	2,177.9	6.9	175,986	2,833.6	83.4	7.6
MBS resin	14,038	760.7	2.6	15,759	851.2	2.7	16,933	901.8	26.5	2.4
POM	18,129	719.2	2.4	19,845	776.4	2.5	17,742	848.1	25.0	2.3
HCFC	11,800	632.0	2.1	10,697	515.8	1.6	10,118	497.0	14.6	1.4
Others	—	1,282.8	4.3	—	1,527.1	4.8	—	1,873.4	55.0	5.0
Total	—	29,870.9	100.0	—	31,522.5	100.0	—	37,148.7	1,092.9	100.0

	Non-consolidated						
	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
PVC resins	290,644	6,258.2	73.9	321,154	8,214.8	248.9	74.5
Caustic soda	176,151	878.2	10.4	213,684	1,032.7	31.3	9.4
VCM	20,484	333.7	3.9	31,513	715.6	21.7	6.5
MBS resin	4,100	220.8	2.6	4,129	213.6	6.5	1.9
POM	4,950	227.1	2.7	5,158	241.4	7.3	2.2
HCFC	3,132	144.4	1.7	2,907	143.7	4.4	1.3
Others	—	406.0	4.8	—	464.6	14.0	4.2
Total	—	8,468.4	100.0	—	11,026.4	334.1	100.0

The principal product manufactured by Formosa Plastics' plastics division is PVC resins. Formosa Plastics believes it is the largest producer of PVC resins in Asia. Sales of PVC resins grew 30.5 per cent. from 2001 to 2003 with sales volume increasing 11.3 per cent. and sales price increasing 17.2 per cent. over the period as global economic growth recovered.

The petrochemical industry in Taiwan is a developed industry. In order to remain competitive within the global market for petrochemical products, Formosa Plastics has begun to build plants in the PRC to increase its market share in the domestic PRC market and take advantage of lower labor costs. Formosa Plastics currently has a number of projects under construction at its Ningbo complex in the PRC, including facilities for production of PVC resins (expected to be completed by August 2004).

Polyolefin Division Revenues

Revenues from Formosa Plastics' polyolefin division constituted 20.0 per cent., 18.7 per cent. and 18.9 per cent. of Formosa Plastics' consolidated net operating revenues in the years ended December 31, 2001, 2002, 2003, and 19.5 per cent. and 21.9 per cent. of its non-consolidated net operating revenues in the three months ended March 31, 2003 and 2004, respectively. The following tables set forth sales volumes of Formosa Plastics' key polyolefin division products, revenues generated by sales of such products and the percentage of total polyolefin division revenues represented by each polyolefin division product for the periods indicated.

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
HDPE	409,352	8,343.6	60.8	411,603	8,057.2	56.4	463,632	10,145.9	298.5	56.3
EVA	37,210	1,005.2	7.3	75,677	1,936.8	13.6	112,193	3,111.8	91.6	17.3
LLDPE	81,203	1,561.7	11.4	96,023	1,738.1	12.1	111,552	2,445.6	72.0	13.6
LDPE	111,516	2,328.1	17.0	96,538	2,032.1	14.2	77,771	1,930.5	56.8	10.7
Electricity & Steam	—	432.2	3.2	—	478.9	3.3	—	320.7	9.4	1.8
Others	—	43.4	0.3	—	51.5	0.4	—	56.1	1.6	0.3
Total	—	13,714.2	100.0	—	14,294.6	100.0	—	18,010.6	529.9	100.0

	Non-consolidated						
	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
HDPE	84,423	1,922.1	55.3	97,808	2,813.9	85.3	48.6
EVA	18,736	518.0	14.9	33,608	1,114.8	33.8	19.3
LLDPE	22,381	485.9	14.0	39,883	1,131.7	34.3	19.5
LDPE	16,637	415.8	12.0	21,024	664.9	20.1	11.5
Electricity & Steam	—	120.0	3.5	—	46.8	1.4	0.8
Others	—	12.0	0.3	—	16.7	0.5	0.3
Total	—	3,473.8	100.0	—	5,788.8	175.4	100.0

Sales of polyolefins (including HDPE, EVA, LDPE and LLDPE) grew 33.2 per cent. from 2001 to 2003 with sales volumes increasing for all key polyolefin products other than LDPE. Average gross margins for these products increased over the course of this period from 7.9 per cent. in 2001 to 10.0 per cent. in 2003 due to a general economic recovery. While the same production machinery can switch between producing EVA or LDPE, Formosa Plastics has in recent years focused on producing and selling higher volumes of EVA, as such product has become more profitable.

Tairylan Division Revenues

Formosa Plastics' Tairylan division historically sold products under the Tairylan brand name. Currently it sells chemical products, principally acrylic acid and esters and acrylic fiber under the Tairylan and other brand names. Revenues from the Tairylan division constituted 13.1 per cent., 13.2 per cent. and 13.6 per cent. of Formosa Plastics' consolidated net operating revenues in the years ended December 31, 2001, 2002 and 2003, and 16.8 per cent. and 14.4 per cent. of its non-consolidated net operating revenues in the three months ended March 31, 2003 and 2004, respectively. The following tables set forth sales volumes of Formosa Plastics' key Tairylan division products, revenues generated by sales of such products and the percentage of total Tairylan division revenues represented by each product for the periods indicated.

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Acrylic acid and esters	160,495	4,737.6	52.8	183,504	5,307.6	52.6	203,189	7,193.2	211.6	55.7
Acrylic fiber	78,991	3,146.4	35.1	87,358	3,616.2	35.9	90,511	4,218.0	124.1	32.6
SAP	17,878	762.4	8.5	21,053	878.0	8.7	23,900	999.4	29.4	7.7
Carbon fiber	607	244.9	2.7	695	218.6	2.2	1,285	510.2	15.0	3.9
Others	—	76.6	0.9	—	66.2	0.7	—	—	—	—
Total	—	8,967.9	100.0	—	10,086.6	100.0	—	12,920.8	380.1	100.0

	Non-consolidated						
	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Acrylic acid and esters	47,050	1,609.5	53.8	45,368	1,936.1	58.7	51.0
Acrylic fiber	22,621	1,042.2	34.9	27,849	1,361.1	41.2	35.8
SAP	6,508	271.9	9.1	6,527	273.1	8.3	7.2
Carbon fiber	201	63.0	2.1	424	213.8	6.5	5.6
Others	—	2.7	—	—	13.7	0.4	0.4
Total	—	2,989.3	100.0	—	3,797.8	115.1	100.0

Sales of acrylic acid and esters made up over 50.0 per cent. of total operating revenues from sales of Formosa Plastics' Tairylan Division products in each of 2001, 2002 and 2003. Sales of acrylic acid and esters grew 51.8 per cent. from 2001 to 2003 with sales volume increasing 26.6 per cent. and sales price increasing 19.9 per cent. over this period due to strong demand from the PRC and increased production capacity from debottlenecking. Gross margins for these products remained fairly high and fairly stable, at approximately 29 per cent. over the three year period. Formosa Plastics expects to complete a new acrylic acid and esters plant in the PRC at its Ningbo complex by the end of 2005.

Chemicals Division Revenues

Revenues from Formosa Plastics' chemicals division constituted 5.0 per cent., 8.0 per cent. and 10.1 per cent. of Formosa Plastics' consolidated net operating revenues in the years ended December 31, 2001, 2002 and 2003, and 11.7 per cent. and 10.0 per cent. of its non-consolidated net operating revenues in the three months ended March 31, 2003 and 2004, respectively. The following tables set forth sales volumes of Formosa Plastics' key chemicals division products, revenues generated by sales of such products and the percentage of total chemicals division revenues represented by each product for the periods indicated.

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
AN	56,671	1,216.5	35.3	86,187	2,102.6	34.4	90,494	2,539.6	74.7	26.3
ECH	10,509	304.8	8.8	37,592	1,222.2	20.0	63,261	2,366.4	69.6	24.5
MTBE	125,842	1,328.5	38.5	143,155	1,474.8	24.1	158,071	1,836.5	54.0	19.0
MMA	2,808	87.0	2.5	17,646	515.0	8.4	40,335	1,791.1	52.7	18.6
B-1	520	8.0	0.2	9,950	119.5	2.0	13,318	206.9	6.1	2.2
Others	—	502.1	14.6	—	681.4	11.1	—	908.3	26.8	9.4
Total	—	3,446.9	100.0	—	6,115.5	100.0	—	9,648.8	283.9	100.0

	Non-consolidated						
	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
AN	18,623	564.5	27.0	25,862	795.4	24.1	30.0
ECH	14,325	533.5	25.5	15,956	590.1	17.9	22.3
MTBE	37,258	465.2	22.3	35,156	394.0	11.9	14.9
MMA	5,139	229.8	11.0	12,451	549.5	16.7	20.7
B-1	—	71.2	3.4	2,480	58.4	1.8	2.2
Others	—	226.2	10.8	—	264.6	8.0	10.0
Total	—	2,090.4	100.0	—	2,652.0	80.4	100.0

Sales of chemicals grew 179.9 per cent. from 2001 to 2003 as Formosa Plastics ramped up production of new chemical products, such as MMA and ECH. Sales of AN also increased 108.9 per cent. due to higher production as a result of process improvements. Formosa Plastics expects the percentage of operating revenues provided by sales of its chemicals products to continue to increase.

Polypropylene Division Revenues

Formosa Plastics' polypropylene division was established in August 2003 upon its acquisition of Yungchia Chemicals Industries Corporation. Revenues from the sale of polypropylene constituted 3.7 per cent. of Formosa Plastics' consolidated net operating revenues in the year ended December 31, 2003 and 9.4 per cent. of its non-consolidated net operating revenues in the three months ended March 31, 2004. The following tables set forth Formosa Plastics' polypropylene division sales volumes and sales revenues generated by polypropylene sales for the periods indicated.

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Polypropylene	—	—	—	—	—	—	141,089	3,493.3	102.8	100.0
Total	—	—	—	—	—	—	141,089	3,493.3	102.8	100.0

	Non-consolidated						
	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Polypropylene	—	—	—	88,059	2,488.9	75.4	100.0
Total	—	—	—	88,059	2,488.9	75.4	100.0

Formosa Plastics expects to complete polypropylene production facilities at its Ningbo complex in the PRC by August 2006.

Carbide Division Revenues

Revenues from Formosa Plastics' carbide division constituted 1.6 per cent., 1.6 per cent. and 1.3 per cent. of Formosa Plastics' consolidated net operating revenues in the years ended December 31, 2001, 2002 and 2003, respectively, and 1.7 per cent. and 1.3 per cent. of its non-consolidated net operating revenues in the three months ended March 31, 2003 and 2004, respectively. The following tables set forth sales volumes of Formosa Plastics' key carbide division products, revenues generated by such products and the percentage of total carbide division revenues represented by each product for the periods indicated.

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Calcium carbonate	116,953	264.5	24.1	115,337	260.3	21.9	121,168	267.4	7.9	21.9
Calcium carbide	18,318	243.6	22.2	17,233	230.1	19.3	17,077	220.2	6.5	18.0
Others	—	591.1	53.7	—	700.9	58.8	—	734.6	21.6	60.1
Total	—	1,099.2	100.0	—	1,191.3	100.0	—	1,222.2	36.0	100.0

	Non-consolidated						
	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Calcium carbonate	28,380	66.0	21.2	27,937	58.2	1.8	16.4
Calcium carbide	4,475	60.0	19.3	5,062	69.4	2.1	19.6
Others	—	184.6	59.4	—	226.8	6.8	64.0
Total	—	310.6	100.0	—	354.4	10.7	100.0

Engineering and Construction Division Revenues

Revenues from Formosa Plastics' engineering and construction division constituted 2.5 per cent., 2.1 per cent. and 1.2 per cent. of Formosa Plastics' consolidated net operating revenues in the year ended December 31, 2001, 2002 and 2003, respectively and 1.6 per cent. and 0.5 per cent. of its non-consolidated net operating revenues in the three months ended March 31, 2003 and 2004, respectively. The following tables set forth revenues generated by engineering and construction activities and the percentage of total engineering and construction division revenues represented by each activity for the periods indicated.

	Consolidated						
	Year ended December 31,						
	2001		**2002**		**2003**		
	NT$ (millions)	**%**	**NT$ (millions)**	**%**	**NT$ (millions)**	**U.S.$ (millions)**	**%**
Electricity & steam	1,687.9	97.1	1,549.2	98.5	1,155.4	34.0	99.1
Others	49.9	2.9	24.1	1.5	11.0	0.3	0.9
Total	1,737.8	100.0	1,573.3	100.0	1,166.4	34.3	100.0

	Non-consolidated				
	Three months ended March 31,				
	2003		**2004**		
	NT$ (millions)	**%**	**NT$ (millions)**	**U.S.$ (millions)**	**%**
Electricity & steam	289.8	99.1	122.4	3.8	99.0
Others	2.5	0.9	1.2	—	1.0
Total	292.3	100.0	123.6	3.8	100.0

Formosa Plastics Corporation America Revenues

Revenues from FPC America constituted 13.9 per cent., 14.4 per cent. and 11.9 per cent. of Formosa Plastics' consolidated net operating revenues in the year ended December 31, 2001, 2002 and 2003, respectively. The following table sets forth sales volumes of FPC America's key products, revenues generated by sales of such products and the percentage of total FPC America revenues represented by each product for the periods indicated.

	Consolidated									
	Year ended December 31,									
	2001			**2002**			**2003**			
	Volume (MT)	**NT$ (millions)**	**%**	**Volume (MT)**	**NT$ (millions)**	**%**	**Volume (MT)**	**NT$ (millions)**	**U.S.$ (millions)**	**%**
EDC	653,933	3,186.4	33.5	802,357	1,365.1	12.4	697,752	6,658.7	195.9	59.0
Caustic soda	741,322	6,321.9	66.5	883,982	9,622.7	87.6	761,690	4,620.1	135.9	41.0
Total	—	9,508.3	100.0	—	10,987.8	100.0	—	11,278.8	331.8	100.0

Cost of goods sold

Formosa Plastics' cost of goods sold consists primarily of raw materials, principally ethylene, VCM, EDC and propylene. Raw material cost accounted for 79.6 per cent., 77.1 per cent., 80.8 per cent., 80.4 per cent. and 80.4 per cent. of cost of goods sold in the years ended December 31, 2001, 2002 and 2003 and the three months ended March 31, 2003 and 2004, respectively. The following table sets forth the volumes consumed and total cost of Formosa Plastics' principal raw materials for the periods indicated.

	Consolidated						Non-consolidated			
	Year ended December 31,						Three months ended March 31,			
	2001		2002		2003		2003		2004	
	Volume (KT)	NT$ (millions)	Volume (KT)	NT$ (millions)	Volume (KT)	NT$ (millions)	Volume (KT)	NT$ (millions)	Volume (KT)	NT$ (millions)
Plastics										
Ethylene . .	527.7	8,615.2	542.1	8,566.1	587.3	11,349.0	132.2	2,728.7	147.5	3,357.0
EDC	1,073.0	7,426.0	1,094.5	8,168.6	1,161.9	9,504.7	263.0	2,211.2	291.8	2,775.9
VCM	1,149.7	14,007.0	1,186.4	14,917.9	1,240.0	17,304.1	297.2	4,288.4	320.5	5,031.0
Salt.	1,158.3	900.3	1,250.4	917.7	1,411.9	967.4	311.1	211.7	367.1	248.2
Tairylan										
Acrylonitrile	74.4	1,594.4	80.1	1,960.4	84.5	2,403.7	20.2	617.3	23.2	704.1
Propylene .	98.0	1,272.4	99.7	1,400.6	108.6	2,134.5	27.3	569.9	28.6	670.1
Polyolefin										
Ethylene . .	679.9	10,109.1	659.8	9,586.9	730.7	12,385.9	134.3	2,459.4	214.8	4,979.3
Chemicals										
Propylene .	121.8	1,561.0	181.6	2,550.7	221.0	3,633.5	37.3	681.5	68.8	1,363.3

Other cost of goods sold include labor costs incurred in the production process, service costs incurred in storing and transporting imported goods for other Formosa Group companies. A significant percentage of Formosa Plastics' costs are fixed and it has achieved a high degree of vertical integration in its operations. Formosa Plastics seeks to maintain high capacity utilization rates and to benefit from economies of scale and production efficiencies resulting from the operation of large, efficient production facilities. The petrochemical industry in Taiwan is a developed industry. In order to remain competitive within the global market for petrochemical products, Formosa Plastics has begun to build plants in the PRC to increase its market share in the domestic PRC market and take advantage of lower labor costs. Formosa Plastics has a number of projects currently under construction at its Ningbo complex in the PRC, including facilities for production of PVC resins (expected to be completed by August 2004), acrylic acid and esters (expected to be completed by the end of 2005) and polypropylene (expected to be completed by August 2006). Such a move should also allow Formosa plastics to cut down on transportation costs as certain of its production facilities would be closer to its PRC customer base. The PRC accounted for 45.0 per cent, 36.0 per cent. and 35.0 per cent. of external sales of PVC resins, acrylic acid and esters and polypropylene, respectively in the year ended December 31, 2003.

Operating expenses

Operating expenses include selling and marketing expenses, general and administrative expenses and research and development expenses. Selling and marketing operating expenses primarily include freight, payroll, depreciation, rent, employee benefits, repairment and promotional expenses. General and administrative operating expenses primarily include payroll, depreciation and repairment expenses. Research and development operating expenses are expenses incurred in developing new products.

Non-operating income

Non-operating income consists primarily of investment income, gain on disposal of investments, dividend income, interest income, gain on physical inventory and foreign exchange gain.

Non-operating expenses

Non-operating expenses consist primarily of interest expenses, investment loss, foreign exchange losses and loss on physical inventory.

Inventory

The industries in which Formosa Plastics operates are generally characterized by prompt delivery by manufacturers and rapid product movement through the distribution and production process. Formosa Plastics maintains varying levels of raw material and finished product inventory depending on lead time and shipping schedules, under Formosa Plastics' supply chain management. Formosa Plastics seeks to keep its raw material inventory level to generally between one and two months and finished product inventory level to generally between two weeks to one month.

Consolidation

The Audited Consolidated Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 for Formosa Plastics included elsewhere in this Offering Circular have been prepared and presented on a consolidated basis in accordance with ROC GAAP.

If a company owns more than 50 per cent. of an investee's voting common stock, the investee is treated as a subsidiary and the company is required to prepare annual consolidated financial statements. However, if both the subsidiary's total assets and operating revenues are below 10 per cent. of the company's respective account balances, such a subsidiary is not required to be consolidated.

However, if the total assets and operating revenues of all unconsolidated subsidiaries are over 30 per cent. of the company's respective account balances, consolidated financial statements are still required for those subsidiaries whose total assets and operating revenues are more than three per cent. of the company's respective account balances. Formosa Plastics owned more than 50.0 per cent. of FPC America, Formosa Teletek Corp., Formosa Plasma Display Corp., and Formosa Plastics Corporation (Cayman Ltd.) in 2003; FPC America, Formosa Teletek Corp., Yung Chia Chemical Industries Corp., Formosa Plasma Display Corp., and Formosa Plastics Corporation (Cayman Ltd.) in 2002; and FPC America and Formosa Teletek Corp. in 2001. Formosa Teletek Corp., Yung Chia Chemical Industries Corp., Formosa Plasma Display Corp. and Formosa Plastics Corporation (Cayman Ltd.) do not meet the criteria; therefore, they are excluded from the consolidated financial statements.

The consolidated financial statements are composed of the accounts of Formosa Plastics and FPC America. All inter-company transactions have been eliminated from the consolidated financial statements. FPC America uses U.S. dollar as its functional currency, and its financial statements have been translated into NT dollars in accordance with Republic of China Statement of Financial Accounting Standards No. 14.

Except for the non-consolidated financial and operating data for the three months ended March 31, 2003 and 2004 presented in this Offering Circular and unless otherwise indicated, the financial and operating data for Formosa Plastics contained in this Offering Circular are presented on a consolidated basis.

For the year ended December 31, 2003, Formosa Plastics' consolidated operating revenues, gross profit, operating income and net income were NT$95,156.5 million (U.S.$2,799.5 million), NT$14,843.3 million (U.S.$436.7 million), NT$8,946.8 million (U.S.$263.2 million) and NT$16,606.1 million (U.S.$488.6 million), respectively, compared to non-consolidated operating revenues, gross profit, operating income and net income of NT$84,468.6 million (U.S.$2,485.1 million), NT$14,893.1 million (U.S.$438.2 million), NT$9,124.0 million (U.S.$268.4 million) and NT$16,606.1 million (U.S.$488.6 million), respectively.

Critical Accounting Policies

Accounting estimates are an integral part of the financial statements prepared by Formosa Plastics' management and are based upon management's judgement. See Note 2, "Significant Accounting Policies", to Formosa Plastics' Audited Consolidated Financial Statements for the years ended December 31, 2001, 2002 and 2003 included elsewhere in this Offering Circular which includes a summary of the principal accounting policies used in the preparation of such financial statements. Critical accounting policies are those that are both most important to the portrayal and understanding of Formosa Plastics' financial conditions and results of operations and those that require management's most difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. Formosa Plastics' management believes the following accounting policies are critical to the portrayal and understanding of its financial condition and results of operations and/or involve the most significant judgments and estimates used in the preparation of its financial statements.

Formosa Plastics believes the following critical accounting policies are affected by management's estimates and assumptions, changes to which could have a significant impact on its consolidated financial statements.

Property, plant and equipment

Property, plant and equipment are stated at cost. Formosa Plastics can revalue its fixed assets in accordance with regulations prescribed by the ROC government and include the revaluation increment in the cost of property, plant and equipment. Interest on borrowings obtained to finance the acquisition or construction of property, plant and equipment is capitalized. Maintenance and improvement expense is recognized as current period expense. Depreciation is calculated using the straight-line method for the assets of FPC America, and Formosa Plastics' HCFC plant, Polypropylene Division and Mailiao plant. Depreciation of the other plants' assets is calculated using the declining-balance method. Assets that are still in service after reaching the end of their estimated useful lives are depreciated over their re-estimated useful lives.

Gains or losses on the disposal of property, plant and equipment are recorded as non-operating income or expenses; and for Formosa Plastics, such gain, net of income tax, was transferred from unappropriated retained earnings to capital surplus in the year of disposal before 2001.

Net deferred tax assets

Under ROC GAAP, Formosa Plastics' income tax expense is recorded based on calculations using the statutory tax rate of each entity's jurisdiction of incorporation. As of March 31, 2004, Formosa Plastics' deferred tax assets related principally to income tax credits that expire after 2005. The realization of these assets is based upon estimates of future taxable income. In preparing estimates of future taxable income, Formosa Plastics has used the same assumptions and projections utilized in its internal forecasts. Based on these projections, Formosa Plastics estimates that most, if not all, of these tax credits will be fully utilized prior to their expiration. However, in the event that Formosa Plastics is not able to fully utilize such deferred tax assets, an additional valuation allowance may be required. As of March 31, 2004, Formosa Plastics' deferred tax assets exceeded its deferred tax liabilities by NT$6,173.7 million (U.S.$187.1 million).

Retirement benefits

In compliance with the ROC Labor Standards Law, Formosa Plastics has established employee benefit pension plans for its regular employees. Formosa Plastics funds the retirement fund monthly at 2 per cent. of its paid salaries and wages. The funds are deposited with the Central Trust of China. After either working for a certain number of years, reaching a certain age, or becoming disabled, an employee may apply for retirement.

Formosa Plastics adopted ROC Statement of Financial Accounting Standard No. 18, "Accounting for Pensions", for the plan. Statement of Financial Accounting Standard No. 18 requires that Formosa Plastics calculate actuarial pension liability using the balance sheet date as the measurement date. The amount of accumulated benefit obligation in excess of fair value of pension plan assets is deemed the minimum pension liability and is to be recognized as accrued pension liability.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by using the monthly weighted-average method. Market value represents replacement cost or net realizable value.

Results of Operations

The following table sets forth Formosa Plastics' results of operations as a percentage of total operating revenues for the periods shown.

	Consolidated			Non-consolidated	
	Year ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
	%	%	%	%	%
Operating revenues	100.0	100.0	100	100.0	100.0
Cost of good sold	87.0	83.1	84.4	83.2	78.1
Gross profit	13.0	16.9	15.6	16.8	21.9
Realized gross profit	—	—	—	16.9	21.7
Operating expenses:					
Selling expenses	4.0	3.7	3.4	3.6	3.3
General & administrative expenses	4.0	2.7	2.3	2.8	2.1
R&D expenses	1.3	0.8	0.5	0.5	0.5
Total operating expenses	9.3	7.2	6.2	6.9	5.9
Operating income	3.7	9.7	9.4	9.9	16.0
Non-operating income	9.4	10.3	11.6	13.9	19.5
Non-operating expenses	5.7	4.0	3.6	4.8	3.6
Income before income tax	7.5	16.0	17.4	19.0	31.9
Income tax (expense) benefit	2.3	(3.0)	0.0	1.8	1.5
Net income	9.8	13.0	17.4	17.2	30.4

The following table sets forth the total operating revenues of each of Formosa Plastics' businesses for the periods shown.

	Consolidated						
	Year ended December 31,						
	2001		2002		2003		
	NT$ (millions)	%	NT$ (millions)	%	NT$ (millions)	U.S.$ (millions)	%
Plastics	29,870.9	43.6	31,522.5	41.3	37,148.7	1,092.9	39.0
Polyolefin	13,714.2	20.0	14,294.6	18.7	18,010.6	529.9	18.9
Tairylan	8,967.9	13.1	10,086.6	13.2	12,920.8	380.1	13.6
Chemicals	3,446.9	5.0	6,115.5	8.0	9,648.8	283.9	10.1
Polypropylene	—	—	—	—	3,493.3	102.8	3.7
Carbide	1,099.2	1.6	1,191.3	1.6	1,222.2	36.0	1.3
Engineering & Construction	1,737.8	2.5	1,573.3	2.1	1,166.4	34.3	1.2
FPC America	9,508.3	13.9	10,987.8	14.4	11,278.8	331.8	11.9
Others(1)	189.9	0.3	563.4	0.7	266.9	7.9	0.3
Total	68,535.1	100.0	76,335.0	100.0	95,156.5	2,799.6	100.0

	Non-consolidated				
	Three months ended March 31,				
	2003		2004		
	NT$ (millions)	%	NT$ (millions)	U.S.$ (millions)	%
Plastics	8,468.4	47.5	11,026.4	334.1	41.7
Polyolefin	3,473.8	19.5	5,788.8	175.4	21.9
Tairylan	2,989.3	16.8	3,797.8	115.1	14.3
Chemicals	2,090.4	11.7	2,652.0	80.4	10.0
Polypropylene	—	—	2,488.9	75.4	9.4
Carbide	310.6	1.8	354.4	10.7	1.3
Engineering & Construction	292.3	1.6	123.6	3.8	0.5
Others(1)	187.4	1.1	229.1	6.9	0.9
Total	17,812.2	100.0	26,461.0	801.8	100.0

(1) The principal products under "others" include DCS and PE bags.

Three months ended March 31, 2004 compared to three months ended March 31, 2003

Non-consolidated operating revenues

Formosa Plastics' non-consolidated total operating revenues increased 48.6 per cent. to NT$26,461.0 million (U.S.$801.8 million) in the three months ended March 31, 2004 from NT$17,812.2 million in the corresponding period in 2003, primarily as a result of increased revenues from sales of its plastics, polyolefin, Tairylan division and chemicals products and from its polypropylene business which started in the third quarter of 2003. Increased sales for these products, representing increases in both sales volumes and average sales prices were primarily attributable to increased demand as a result of a general economic upswing.

Non-consolidated operating revenues from the plastics division increased 30.2 per cent. to NT$11,026.4 million (U.S.$334.1 million) in the three months ended March 31, 2004 from NT$8,468.4 million in the corresponding period in 2003. This increase was primarily due to increased sales of PVC resins and caustic soda resulting from increases in both sales volumes and average sales prices. Sales of PVC resins constituted 31.0 per cent. of total non-consolidated operating revenues in the three months ended March 31, 2004.

Non-consolidated operating revenues from the polyolefin division increased 66.6 per cent. to NT$5,788.8 million (U.S.$175.4 million) in the three months ended March 31, 2004 from NT$3,473.8 million in the corresponding period in 2003. This increase was primarily due to increases in sales revenues of HDPE, LLDPE and EVA in the three months ended March 31, 2004 compared with the corresponding period in 2003 due to increased sales volumes and average sales prices.

Non-consolidated operating revenues from the Tairylan division increased 27.0 per cent. to NT$3,797.8 million (U.S.$115.1 million) in the three months ended March 31, 2004 from NT$2,989.3 million in the corresponding period in 2003. This increase was primarily due to increased sales of acrylic acid and esters and acrylic fiber resulting from increases in both sales volumes and average sales prices.

Non-consolidated operating revenues from the chemicals division increased 26.9 per cent. to NT$2,652.0 million (U.S.$80.4 million) in the three months ended March 31, 2004 from NT$2,090.4 million in the corresponding period in 2003. This increase was primarily due to increased sales revenues from MMA and AN due to increased sales volumes and average sales prices.

Formosa Plastics' polypropylene division generated operating revenues of NT$2,488.9 million (U.S.$75.4 million) in the three months ended March 31, 2004. There were no corresponding revenues in the three months ended March 31, 2003 as Formosa Plastics' polypropylene division was not recognized as an operating division until August 2003 when the purchase of its previously 98.5 per cent. owned subsidiary, Yung Chia Chemical Industries Corp., became effective.

Non-consolidated cost of goods sold and non-consolidated gross profit

Non-consolidated cost of goods sold increased 39.3 per cent. to NT$20,668.3 million (U.S.$626.3 million) in the three months ended March 31, 2004 from NT$14,832.5 million in the corresponding period in 2003. This increase was primarily as a result of increased purchase prices of ethylene and propylene as well as increased volume of raw material purchases corresponding with significantly increased production in Formosa Plastics' chemicals division. Non-consolidated cost of goods sold as a percentage of Formosa Plastics' non-consolidated operating revenues, however, decreased to 78.1 per cent. in the three months ended March 31, 2004 from 83.3 per cent. in the corresponding period in 2003, primarily as a result of higher cost efficiencies, partially offset by increased prices of raw materials.

As a result of the factors discussed above, non-consolidated gross profit increased 91.2 per cent. to NT$5,747.0 million (U.S.$174.2 million) in the three months ended March 31, 2004 from NT$3,006.6 million in the corresponding period in 2003 and gross margins increased to 21.7 per cent. in the three months ended March 31, 2004 from 16.9 per cent. in the corresponding period in 2003.

Non-consolidated operating expenses and non-consolidated operating income

Non-consolidated operating expenses increased 23.5 per cent. to NT$1,526.8 million (U.S.$46.3 million) in the three months ended March 31, 2004 from NT$1,236.5 million in the corresponding period in 2003 primarily as a result of increased selling expenses and general and administrative expenses. Selling expenses increased 31.1 per cent. to NT$845.2 million (U.S.$25.6 million) in the three months ended March 31, 2004 from NT$644.7 million in the corresponding period in 2003 primarily due to increased freight, insurance and promotional expenses associated with increased sales. General and administrative expenses increased 14.2 per cent. to NT$563.4 million (U.S.$17.1 million) in the three months ended March 31, 2004 from NT$493.4 million in the corresponding period in 2003 primarily due to a general increase in salaries. Research and development expenses increased 20.2 per cent. to NT$118.2 million (U.S.$3.6 million) in the three months ended March 31, 2004 from NT$98.4 million in the corresponding period in 2003 primarily due to the increase in research and development staff employed for the newly acquired polypropylene division as well as a general increase in salaries.

As a result of the foregoing factors, non-consolidated operating income increased 138.4 per cent. to NT$4,220.3 million (U.S.$127.9 million) in the three months ended March 31, 2004 from NT$1,770.1 million in corresponding period in 2003 and non-consolidated operating margin increased to 16.0 per cent. in the three months ended December 31, 2004 from 9.9 per cent. in the corresponding period in 2003.

Non-consolidated non-operating income

Non-consolidated non-operating income increased 107.6 per cent. to NT$5,149.0 million (U.S.$156.0 million) in the three months ended March 31, 2004 from NT$2,480.0 million in the corresponding period in 2003, due to a 91.5 per cent. increase in investment income to NT$4,196.1 million (U.S.$127.2 million) in the three months ended March 31, 2004 from NT$2,191.1 million in the corresponding period in 2003, a NT$604.1 million (U.S.$18.3 million) increase in gain on disposal of property, plant and equipment in the three months ended March 31, 2004, a NT$100.6 million (U.S.$3.0 million) increase in gain on disposal of investments in the three months ended March 31, 2004. The increase in investment income was primarily due to increased investment income from Formosa Petrochemical (which contributed NT$2,773.2 million (U.S.$84.0 million)) and Mailiao Power. Gain from disposal of property, plant and equipment increased due to Formosa Plastics' sale of property located in Linkou Industrial Park. Gain on disposal of investments increased primarily due to a sell-down of the company's holdings in Ours Commercial Banking Corporation Ltd. and completely disposing of its holdings in Sequoia Bancshares, Inc.

Non-consolidated non-operating expenses

Non-consolidated non-operating expenses increased 10.0 per cent. to NT$941.0 million (U.S.$28.5 million) in the three months ended March 31, 2004 from NT$855.3 million in the corresponding period in 2003. This increase was due to an 84.0 per cent. increase in investment loss to NT$413.0 million (U.S.$12.5 million) in the three months ended March 31, 2004 from NT$224.4 million in the corresponding period in 2003 due to losses from Formosa Plasma Display (which contributed a NT$255.0 million (U.S.$7.7 million) loss) and FPC America (which contributed a NT$78.1 million (U.S.$2.4 million) loss). This increase was partially offset by a 20.0 per cent. decrease in interest expense to NT$440.1 million (U.S.$13.3 million) in the three months ended March 31, 2004 from NT$549.7 million in the corresponding period in 2003 primarily due to a decrease in interest bearing indebtedness.

Non-consolidated income before income tax

Primarily as a result of the foregoing, non-consolidated income before income tax increased 148.3 per cent. to NT$8,428.2 million (U.S.$255.4 million) in the three months ended March 31, 2004 from NT$3,394.7 million in the corresponding period in 2003.

Non-consolidated income tax expense

Non-consolidated income tax expense increased 21.6 per cent. to NT$384.6 million (U.S.$11.7 million) (an effective rate of 4.6 per cent.) in the three months ended March 31, 2004 from NT$316.2 million (an effective rate of 9.3 per cent.) in the corresponding period in 2003. This was due to an increase in income before income tax in the three months ended March 31, 2004 as compared with the corresponding period in 2003, partially offset by NT$526.0 million (U.S.$15.9 million) reversal of valuation allowance for deferred income tax assets in the three months ended March 31, 2004.

Non-consolidated net income

As a result of the factors discussed above, non-consolidated net income increased 161.3 per cent. to NT$8,043.7 million (U.S.$243.7 million) in the three months ended March 31, 2004 from NT$3,078.5 million in the corresponding period in 2003.

Year ended December 31, 2003 compared to year ended December 31, 2002

Operating revenues

Formosa Plastics' total operating revenues increased 24.7 per cent. to NT$95,156.5 million (U.S.$2,799.6 million) in 2003 from NT$76,335.0 million in 2002, primarily as a result of increases in the operating revenues of each of its plastics division, Tairylan division, polyolefin division and chemicals division and the start of its polypropylene business.

Operating revenues from Formosa Plastics' plastics division increased 17.8 per cent. to NT$37,148.7 million (U.S.$1,092.9 million) in 2003 from NT$31,522.5 million in 2002, primarily due to increases in average prices and export sales of PVC resins and increased sales volumes and average sale prices of caustic soda in 2003. The average sales price of PVC resins increased 9.8 per cent. in 2003 over prices in 2002 primarily due to a general global economic recovery. Although domestic sales remained relatively flat despite increased sales to Formosa Plastics' affiliate, Nan Ya Plastics, export sales of PVC resins increased due to increased sales to the PRC in 2003. Caustic soda sales volumes in both domestic and export markets and average sales price increased due to a general global economic recovery.

Operating revenues from Formosa Plastics' polyolefin division increased 26.0 per cent. to NT$18,010.6 million (U.S.$529.9 million) in 2003 from NT$14,294.6 million in 2002, primarily due to increased sales volumes and average sales prices of HDPE, EVA and LLDPE in 2003. These increases were partially offset by decreased sales of LDPE in 2003.

Operating revenues from Formosa Plastics' Tairylan division increased 28.1 per cent. to NT$12,920.8 million (U.S.$380.1 million) in 2003 from NT$10,086.6 million in 2002, primarily due to increased revenues from acrylic acid and esters and acrylic fiber as average selling prices for these products increased 22.4 per cent. and 12.6 per cent., respectively, in 2003 due to increased demand from the PRC.

Operating revenues from Formosa Plastics' chemicals division increased 57.8 per cent. to NT$9,648.8 million (U.S.$283.9 million) in 2003 from NT$6,115.5 million in 2002, primarily due to increased average sales prices of ECH, MMA and AN as well as increased sales volumes due in part to an increase in production capacity of chemicals in the No. 6 Naphtha Cracker Complex which came on-line during 2002.

Operating revenues from Formosa Plastics' polypropylene division was NT$3,493.3 million (U.S.$102.8 million) in 2003 compared to nil in 2002. Formosa Plastics' polypropylene business only began in August 2003 when the purchase of its previously 98.5 per cent. owned subsidiary, Yungchia Chemicals Industries Corp., became effective.

Operating revenues from FPC America increased 2.6 per cent. to NT$11,278.8 million (U.S.$331.8 million) in 2003 from NT$10,987.8 million in 2002, primarily due to increased sales volumes and average sales prices of EDC and caustic soda in 2003.

Cost of goods sold and gross profit

Formosa Plastics' cost of goods sold increased 26.6 per cent. to NT$80,313.2 million (U.S.$2,363.7 million) in 2003 from NT$63,436.6 million in 2002, primarily due to increased raw material costs corresponding to increased production in 2003, as well as an increase in the price of certain raw materials, particularly ethylene and propylene. Such price increases were also the primary reason operating costs as a percentage of Formosa Plastics' operating revenues increased to 84.4 per cent. in 2003 from 83.1 per cent. in 2002. Gross profit increased 15.1 per cent. to NT$14,843.3 million (U.S.$436.9 million) in 2003 from NT$12,898.5 million in 2002, primarily reflecting the increased revenues from Formosa Plastics' plastics, Tairylan, polyolefin and chemicals divisions and the start of polypropylene operations which was partially offset by the increase in prices of Formosa Plastics' principal raw materials, ethylene and propylene, and operating losses by FPC America in 2003 as compared with 2002.

Operating expenses

Total operating expenses increased 7.3 per cent. to NT$5,896.5 million (U.S.$173.5 million) in 2003 from NT$5,493.8 million in 2002, primarily due to a 15.7 per cent. increase in selling expenses to NT$3,249.2 million (U.S.$95.6 million) in 2003 from NT$2,807.4 million in 2002, in connection with sales volume growth. The increase was partially offset by a 23.2 per cent. decrease in research and development expenses to NT$487.0 million (U.S.$14.3 million) in 2003 from NT$634.5 million in 2002 as test runs for new chemicals products finished.

Operating income

As a result of the foregoing factors, Formosa Plastics' operating income increased 20.8 per cent. to NT$8,946.8 million (U.S.$263.3 million) in 2003 from NT$7,404.7 million in 2002.

Non-operating income

Non-operating income increased 40.9 per cent. to NT$11,085.4 million (U.S.$326.1 million) in 2003 from NT$7,866.9 million in 2002, primarily due to a 43.1 per cent. increase in investment income to NT$7,455.2 million (U.S.$219.3 million) in 2003 from NT$5,211.4 million in 2002 and a 135.0 per cent. increase in gain on disposal of investments. Investment income increased 43.1 per cent. to NT$7,455.2 million (U.S.$219.3 million) in 2003 from NT$5,211.4 million in 2002, primarily as a result of the increased profitability of Formosa Petrochemical. Gain on disposal of investments increased in 2003 primarily due to Formosa Plastics' sale of shares of Formosa Petrochemical in connection with that company's initial public offering in December 2003.

Non-operating expenses

Non-operating expenses increased 13.8 per cent. to NT$3,458.5 million (U.S.$101.8 million) in 2003 from NT$3,038.4 million in 2002, primarily as a result of increased investment losses in 2003. Investment loss increased 128.0 per cent. to NT$714.1 million (U.S.$21.0 million) in 2003 from NT$313.2 million in 2002, primarily as a result of losses incurred by Formosa Plastics' subsidiary, Formosa Plasma Display Corp., in 2003.

Income before income tax

Income before income tax increased 35.5 per cent. to NT$16,573.7 million (U.S.$487.8 million) in 2003 from NT$12,233.2 million in 2002, primarily reflecting the foregoing.

Income tax benefit (expense)

Formosa Plastics recorded an income tax benefit of NT$32.4 million (U.S.$1.0 million) compared to an income tax expense of NT$2,334.7 million in 2002. This change was primarily due to a reversal of valuation allowance for deferred income tax assets of NT$1,071.5 million (U.S.$31.5 million) in 2003 as compared to a provision for deferred tax assets of NT$1,571.1 million in 2002, partially offset by an increase in taxable income in 2003.

Net income

As a result of this and other factors discussed above, Formosa Plastics' net income increased 67.8 per cent. to NT$16,606.1 million (U.S.$488.6 million) in 2003 from NT$9,898.5 million in 2002. Formosa Plastics recorded basic earnings per share after tax of NT$3.45 (U.S.$0.10) in 2003, compared to NT$2.06 in 2002.

Year ended December 31, 2002 compared to year ended December 31, 2001

Operating revenues

Formosa Plastics' operating revenues increased 11.4 per cent. to NT$76,335.0 million in 2002 from NT$68,535.1 million in 2001, primarily as a result of increases in the operating revenues of Formosa Plastics' plastics, chemicals and Tairylan division businesses.

Operating revenues from Formosa Plastics' plastics division increased 5.5 per cent. to NT$31,522.5 million in 2002 from NT$29,870.9 million in 2001, primarily due to increased sales of PVC resin and VCM. This increase was partially offset by decreased sales in caustic soda.

Operating revenues from Formosa Plastics' chemicals division increased 77.4 per cent. to NT$6,115.5 million in 2002 from NT$3,446.9 million in 2001, primarily due to increased sales of ECH, AN and MMA as Formosa Plastics ramped up production.

Operating revenues from Formosa Plastics' Tairylan division increased 12.5 per cent. to NT$10,086.6 million in 2002 from NT$8,967.9 million in 2001, primarily due to increased sales revenues of acrylic fiber and acrylic acid and esters. Revenues for acrylic fiber increased due to increased average sales price and export sales volumes. Revenues for acrylic acid and esters also increased in 2002 compared with 2001, although higher sales volumes in 2002 was partially offset by a 2.0 per cent. drop in average sales price.

Cost of goods sold and gross profit

Formosa Plastics' cost of goods sold increased 6.3 per cent. to NT$63,436.6 million in 2002 from NT$59,653.4 million in 2001, primarily as a result of increased raw materials purchases corresponding to increased production and sales volumes. This increase was partially offset by increased economies of scale, particularly in Formosa Plastics' chemicals division, in which production was being ramped up in 2001 and 2002 and for which utilization rates were low in 2001. Cost of goods sold as a percentage of Formosa Plastics' operating revenues decreased to 83.1 per cent. in 2002 from 87.0 per cent. in 2001, primarily as a result of increased economies of scale in 2002. Primarily as a result of the foregoing factors, gross profit also increased 45.2 per cent. to NT$12,898.5 million in 2002 from NT$8,881.7 million in 2001.

Operating expenses

Operating expenses decreased 13.4 per cent. to NT$5,493.8 million in 2002 from NT$6,346.0 million in 2001, due to decreases in administrative expenses and research and development expenses. Administrative expenses decreased 24.1 per cent. to NT$2,052.0 million in 2002 from

NT$2,705.2 million in 2001, primarily due to decreases in personnel in Formosa Plastics' chemicals division. Research and development expenses also decreased 29.6 per cent. to NT$634.5 million in 2002 from NT$901.8 million in 2001.

Operating income

As a result of the foregoing factors, Formosa Plastics' operating income increased 192.0 per cent. to NT$7,404.7 million in 2002 from NT$2,535.8 million in 2001.

Non-operating income

Non-operating income increased 21.9 per cent. to NT$7,866.9 million in 2002 from NT$6,453.4 million in 2001, primarily due to an increase in investment income and an increase in gain on disposal of investments. Investment income increased 117.1 per cent. to NT$5,211.4 million in 2002 from NT$2,400.2 million in 2001, primarily as a result of the increased profitability of Formosa Petrochemical. The gain on disposal of investments in 2002 was due to the sale of shares of Nanya Technology and a decrease in net interest expenses. These gains were partially offset by decreases in interest income and gains on disposal of property, plant and equipment.

Non-operating expenses

Non-operating expenses decreased 21.7 per cent. to NT$3,038.4 million in 2002 from NT$3,881.9 million in 2001, primarily as a result of investment losses and losses on sale of fixed assets. Investment loss increased 10.9 per cent. to NT$313.2 million in 2002 from NT$282.4 million in 2001, primarily as a result of realized investment loss in Tahshih Textile Corporation and Formosa Automobile Corporation.

Income before income tax

Primarily as a result of the above factors, income before income tax increased 139.5 per cent. to NT$12,233.2 million in 2002 from NT$5,107.3 million in 2001.

Income tax expense

Formosa Plastics recorded an income tax expense NT$2,334.7 million in 2002 compared to a tax benefit of NT$1,598.6 million in 2001. This difference was primarily due to increased taxable income and a decrease in new tax deductions in 2002 compared with 2001.

Net income

As a result of the factors discussed above, Formosa Plastics' net income increased 47.6 per cent. to NT$9,898.5 million in 2002 from NT$6,705.9 million in 2001. Formosa Plastics recorded basic earnings per share of NT$2.06 in 2002, compared to NT$1.40 in 2001.

Liquidity and Capital Resources

Formosa Plastics' principal sources of liquidity are cash flow from operations and financing activities, including short and long-term secured and unsecured borrowings. Formosa Plastics' principal uses of cash in the three months ended March 31, 2004 were for purchases of additional short-term investments and capital expenditures. Formosa Plastics' principal uses of cash in 2003 were primarily for capital expenditures, purchases of additional short-term investments, payment of cash dividends and repayment of long-term debt.

Cash flow

Non-consolidated cash flow

In the three months ended March 31, 2004, non-consolidated net cash flow was an outflow of NT$541.5 million (U.S.$16.4 million) as compared to an outflow of NT$299.5 million in the three months ended March 31, 2003, bringing Formosa Plastics' non-consolidated cash and cash equivalents position as of March 31, 2004 to NT$777.0 million (U.S.$23.5 million).

Three months ended March 31, 2004. Non-consolidated net cash provided by operating activities was NT$3,042.7 million (U.S.$92.2 million) in the three months ended March 31, 2004. This amount reflected non-consolidated net income of NT$8,043.7 million (U.S.$243.7 million) and non-consolidated depreciation and amortization of NT$1,265.1 million (U.S.$38.3 million). This was partially offset by a NT$1,515.3 (U.S.$45.9 million) increase in inventories, a NT$1,240.5 million (U.S.$37.6 million) increase in accounts and notes receivable and a NT$744.0 million (U.S.$22.5 million) decrease in accounts and notes payable. The increase in non-consolidated inventories was primarily a result of an increase in the price of raw materials and consequently the price of finished goods as well as higher volume of raw material inventories in relation to chemicals products and polypropylene. The increase in accounts and notes receivable was due to Formosa Plastics' higher operating revenues. The decrease in accounts and notes payable was due to the maturity of these obligations.

Non-consolidated net cash used in investing activities in the three months ended March 31, 2004 was NT$4,157.4 million (U.S.$126.0 million). This amount reflected a NT$3,641.4 million (U.S.$110.3 million) increase in short-term investments over the period as Formosa Plastics used its increased operating income to purchase stocks, mutual funds and callable credit-linked deposits and NT$1,914.2 million (U.S.$58.0 million) in purchases of property, plant and equipment in connection with its ongoing capital expenditures in relation to the expansion and debottlenecking at the No. 6 Naphtha Cracker Complex.

Non-consolidated net cash provided by financing activities in the three months ended March 31, 2004 was NT$573.2 million (U.S.$17.4 million) primarily reflecting a NT$638.5 million increase in long-term debt and bonds payable.

Three months ended March 31, 2003. Non-consolidated net cash provided by operating activities was NT$517.3 million in the three months ended March 31, 2003. This amount reflected non-consolidated net income of NT$3,078.5 million and non-consolidated depreciation and amortization of NT$1,156.4 million. This was partially offset by long-term investment income under the equity method of NT$1,966.7 million, a NT$1,448.1 million decrease in accounts and notes payable due to the maturity of these obligations and a NT$754.3 million increase in prepayments.

Non-consolidated net cash used in investing activities in the three months ended March 31, 2003 was NT$84.9 million. This amount reflected a NT$704.5 million increase in short-term investments and NT$632.8 million in purchases of property plant and equipment. The effect of these changes was partially offset by a NT$859.8 million decrease in amounts due from related parties and NT$703.2 million in proceeds from the sales of short-term investments.

Non-consolidated net cash used in financing activities in the three months ended March 31, 2003 was NT$731.9 million. This amount reflected a NT$561.7 million decrease in long-term debt and bonds payable and a NT$159.0 million decrease in short-term borrowings and borrowings from employees.

Consolidated cash flow

In 2003, net cash flow was an inflow of NT$3,385.3 million (U.S.$99.6 million), compared to an outflow of NT$661.9 million in 2002 and an outflow of NT$950.6 million in 2001, bringing Formosa Plastics' cash and cash equivalents position as of December 31, 2003 to NT$4,206.8 million (U.S.$123.8 million)

Year ended December 31, 2003. Net cash provided by operating activities was NT$19,211.8 million (U.S.$565.2 million) in 2003. This amount reflected net income of NT$16,606.1 million (U.S.$488.6 million), depreciation and amortization of NT$5,893.7 million (U.S.$173.4 million), cash dividends from investee companies of NT$4,143.9 million (U.S.$121.9 million) and an increase in accounts payables of NT$1,686.4 million (U.S.$49.6 million). These were partially offset by net long-term investment income of NT$6,741.1 million (U.S.$198.3 million) and a NT$1,613.6 million (U.S.$47.5 million) gain on the sale of long-term investments.

Net cash used in investing activities in 2003 was NT$9,402.0 million (U.S.$276.7 million). This amount reflected increased short-term investments of NT$10,899.7 million (U.S.$320.7 million), the purchase of fixed assets of NT$3,653.3 million (U.S.$107.5 million), an increase in amounts due from related parties of NT$3,498.9 million (U.S.$102.9 million) and an increase in long-term investments of NT$1,140.3 million (U.S.$33.5 million). This was partially offset by proceeds from the sale of short-term investments and long-term investments of NT$6,348.1 million (U.S.$186.8 million) and NT$2,762.0 million (U.S.$81.3 million), respectively, and cash received in connection with Formosa Plastics' full acquisition of Yungchia Chemicals of NT$1,065.5 million (U.S.$31.3 million).

Net cash used in financing activities in 2003 was NT$6,380.9 million (U.S.$187.7 million). This was due to a distribution of NT$5,401.5 million (U.S.$158.9 million) in cash dividends and a NT$2,157.0 million (U.S.$63.5 million) decrease in long-term debt and bonds payable. This was partially offset by an NT$1,372.5 million (U.S.$40.4 million) increase in amounts due to related parties.

Year ended December 31, 2002. Net cash provided by operating activities was NT$13,503.3 million in 2002. This amount reflected net income of NT$9,898.4 million, depreciation and amortization of NT$5,619.8 million, a NT$2,393.5 million decrease in deferred income taxes, a NT$770.5 million increase in accounts payable and a NT$680.3 million decrease in inventories. These factors were partially offset by NT$4,898.2 million in long-term investment income and a NT$1.013.8 million increase in accounts and notes receivable.

Net cash used in investing activities in 2002 was NT$8,762.0 million. This amount reflected a NT$4,474.3 million increase in long term investments, purchases of property, plant and equipment of NT$3,562.2 million, an increase of short-term investments of NT$3,501.3 million and an increase in amounts due from related parties of NT$1,290.6 million. These increases were partially offset by proceeds from the sale of short-term investments of NT$3,416.7 million.

Net cash used in financing activities in 2002 was NT$5,405.1 million. This amount reflected a decrease in short-term borrowings and borrowings from employees of NT$6,708.3 million, cash dividends of NT$2,945.5 million, a decrease in amounts due to related parties of NT$2,222.3 million and a decrease in commercial paper payable of NT$1,498.5 million. These factors were partially offset by an increase in long-term debt and bonds payable of NT$7,971.5 million.

Year ended December 31, 2001. Net cash provided by operating activities was NT$6,524.2 million in 2001. This amount reflected net income of NT$6,705.9 million, depreciation and amortization of NT$5,089.6 million and a decrease in prepayments and other current assets of NT$1,058.1 million in 2001. These factors were partially offset by a decrease of accounts and notes payable of NT$1,324.7 million.

Net cash used in investing activities in 2001 was NT$6,695.5 million. This amount reflected an increase in long-term investments of NT$8,761.4 million, purchase of property, plant and equipment of NT$4,754.3 million and an increase in short-term investments of NT$2,718.2 million. This was partially offset by a decrease in due from related parties of NT$8,480.6 million and the sale of fixed assets of NT$1,997.1 million.

Net cash used in financing activities in 2001 was NT$780.9 million. This was primarily due to a distribution of NT$3,816.7 million in cash dividends and a decrease of short-term borrowings and borrowings from employees of NT$1,274.4 million. This was offset by an increase of NT$2,096.5 million in long-term debt and bonds payable, and an increase in payables due to related parties of NT$1,351.9 million and an increase in short term notes payable of NT$998.6 million.

Capital resources

Short-term debt

As of March 31, 2004, Formosa Plastics had total availability of NT$62,069.5 million (U.S.$1,880.9 million) in short-term credit facilities, NT$81.7 million (U.S.$2.5 million) of which was outstanding. All of Formosa Plastics' outstanding short-term debt as of that date was unsecured borrowings and letters of credit. The interest rates for such short-term credit facilities ranged from 1.54 per cent. to 1.61 per cent.. Formosa Plastics uses short-term financing primarily to import raw materials. As of March 31, 2004, the current portion of Formosa Plastics' long-term debt was NT$10,060.3 million (U.S.$304.9 million). Formosa Plastics believes that its cash flow from operations available credit under its short-term credit facilities provide itself with sufficient liquidity to serve short-term debt and otherwise to meet its working capital requirements.

Long-term debt

As of March 31, 2004, Formosa Plastics had long-term debt and bonds payable (net of current portion) outstanding of NT$50,762.7 million (U.S.$1,538.3 million). The following table sets forth the repayment schedule of Formosa Plastics' long-term debt obligations as of March 31, 2004:

Balances due	NT$ denominated debt at a variable rate
	(in millions)
April 1, 2004–March 31, 2005	10,060.3
April 1, 2005–March 31, 2006	14,907.3
April 1, 2006–March 31, 2007	5,057.3
April 1, 2007–March 31, 2008	7,457.3
April 1, 2008–March 31, 2009	9,530.3
April 1, 2009 and thereafter	13,810.5
Total	60,823.0

Long-term debt and corporate bonds as of March 31, 2003 and 2004 was as follows:

	2003	2004	
	NT$ (millions)	NT$ (millions)	U.S.$ (millions)
Formosa Plastics Corporation:			
Chiao Tung Bank and 29 other banks mortgage loan	16,065.0	13,918.7	421.8
Chiao Tung Bank and 32 other banks mortgage loan	11,398.0	10,684.3	323.8
Corp. bond issued in October 1996	1,400.0	—	—
Corp. bond issued in January 1998	4,000.0	2,500.0	75.7
Corp. bond issued in January 1999	4,000.0	—	—
Corp. bond issued in September 1999	3,150.0	3,150.0	95.4
Corp. bond issued in March 2002	5,000.0	5,000.0	151.5
Corp. bond issued in December 2002	4,800.0	4,800.0	145.5
Corp. bond issued in May 2003	—	6,200.0	187.9
Corp. bond issued in January 2004	—	5,200.0	157.6
Taiwan Cooperative Bank mortgage loan	4,000.0	2,500.0	75.7
Hua Nan Commercial Bank guarantee loan	7,400.0	5,900.0	178.8
Taishin International Bank mortgage loan	970.0	970.0	29.4
	62,183.0	60,823.0	1,843.1
Less: current portion	(10,419.0)	(10,060.3)	(304.8)
	51,764.0	50,762.7	1,538.3

Syndicated loan with Chiao Tung Bank and 29 other banks. In order to finance the capital needed for the construction of the No. 6 Naphtha Cracker Project and related factories, Formosa Plastics contracted with 32 banks, headed by Chiao Tung Bank, on April 28, 1995, for a long-term mortgage loan. The terms of the contract was modified in 1999 and 2000 to, inter alia, decrease the minimum current ratio to 1.0 from 1.2 and the number of participating banks to 30 from 32.

Syndicated loan with Chiao Tung Bank and 32 other banks. In order to raise capital for constructing factories in the Yunlin Mailiao Industrial Zone, Formosa Plastics signed a syndicated long-term mortgage loan agreement with Chiao Tung Bank, the managing bank of the syndicated loan, and 32 other banks on December 6, 2000. The loan required Formosa Plastics to maintain its debt ratio under 1.5 and its current ratio above 1.0.

Taiwan Cooperative Bank. In order to improve its financial structure and increase working capital, Formosa Plastics contracted with Taiwan Cooperative Bank for a middle-and long-term pledged loan.

Hua Nan Commercial Bank. In order to improve its financial structure and increase working capital, Formosa Plastics contracted with Hua Nan Commercial Bank for a middle-and long-term pledged loan.

Tai-Shin Bank. In order to improve its financial structure and increase working capital, Formosa Plastics contracted with Tai-Shin Bank for a middle-and long-term pledged loan.

Summary of corporate bonds

In order to improve its financial structure, repay short-term loans, and take advantage of prevailing interest rates, Formosa Plastics had issued domestic unsecured non-convertible corporate bonds on several occasions in recent years.

The above table sets out the bonds outstanding as of March 31, 2004.

Capital expenditures

Formosa Plastics operates its own manufacturing and power generating facilities and therefore require significant amounts of capital to build, expand, modernize and maintain its facilities and equipment. Total capital expenditures were NT$13,515.7 million in 2001, NT$8,036.5 million in 2002 and NT$4,793.6 million (U.S.$141.0 million) in 2003. In the three months ended March 31, 2003 and 2004, Formosa Plastics' total capital expenditures were NT$771.7 million and NT$2,262.9 million (U.S.$68.6 million), respectively. The following table sets forth principal capital expenditures incurred by Formosa Plastics for the years ended December 31, 2001, 2002, 2003 and the three months ended March 31, 2003 and 2004 and projected capital expenditure for 2004:

	Year ended December 31,					Three months ended March 31,		
	2001	2002	2003		2004 (estimated)	2003	2004	
	NT$ (millions)	NT$ (millions)	NT$ (millions)	U.S.$ (millions)	NT$ (millions)	NT$ (millions)	NT$ (millions)	U.S.$ (millions)
Expansion & debottlenecking . . .	4,754.3	3,562.2	3,653.3	107.5	12,288.5	632.9	1,914.2	58.0
Long term investments	8,761.4	4,474.3	1,140.3	33.5	1,402.3	138.8	348.7	10.6
Total.	13,515.7	8,036.5	4,793.6	141.0	13,690.8	771.7	2,262.9	68.6

Long term investments represent investments made by Formosa Plastics in operations in the PRC, Taiwan and the United States.

Formosa Plastics projects it will incur capital expenditures of NT$13,690.8 million in 2004, in large part to increase its production capacity at several of its manufacturing facilities through plant expansion and debottlenecking at existing plants. See "Formosa Plastics Corporation — Business of Formosa Petrochemical Corporation — Property and Facilities — Expansion Plans". As of March 31, 2004, Formosa Plastics had incurred NT$2,262.9 million in capital expenditures.

Actual capital expenditures may vary from projected capital expenditures for a variety of reasons, including changes in market conditions and other factors. Formosa Plastics expects to meet its capital expenditure requirements through its cash and cash equivalents on hand, cash generated from future operations and financing activities, including the proceeds from this offering and additional bank borrowings. In the future Formosa Plastics may consider additional debt financing or additional equity financing, including issuances of convertible securities, depending on market conditions, Formosa Plastics' financial performance and other relevant factors. There can be no assurance that Formosa Plastics will be able to raise additional capital, should that become necessary, on acceptable terms or at all.

Commitments and contingencies

As of March 31, 2004, Formosa Plastics had the following commitments and contingencies:

- Endorsements for other companies or affiliates amounted to NT$12,660.1 million as of March 31, 2004. Formosa Plastics had also issued commitment letters for affiliates' loans from banks amounting to U.S.$85.0 million.

- Formosa Plastics received open-dated checks from certain customers to guarantee the collection of sales and performance of construction contracts. Such guarantee checks amounted to NT$844.8 million as of March 31, 2004.

- Formosa Plastics had outstanding letters of credit of NT$743.6 million as of March 31, 2004.

As of December 31, 2003, Formosa Plastics and its consolidated subsidiaries had the following commitments and contingencies:

- Endorsements for other companies or affiliates amounted to NT$22,437.4 million as of December 31, 2003. As of December 31, 2003, Formosa Plastics and its consolidated subsidiaries had also issued commitment letters for affiliates' loans from banks amounting to U.S.$85.0 million.

- Formosa Plastics and its consolidated subsidiaries received open-dated checks from certain customers to guarantee the collection of sales and performance of construction contracts. Such guarantee checks amounted to NT$864.5 million as of December 31, 2003.

- Formosa Plastics and its consolidated subsidiaries had outstanding letters of credit of NT$1,232.6 million as of December 31, 2003.

In February 2000, Formosa Plastics requested a court to determine whether mercury-polluted waste belonged to Formosa Plastics in response to Ping Tung County ordering it to clean up such mercury-polluted waste. Ping Tung County had also required Formosa Plastics to pay NT$51.7 million as a processing fee. In August 2003, Formosa Plastics reached agreement with Ping Tung County and took responsibility for cleaning up the mercury-polluted waste, but Ping Tung County paid a processing fee amounting to NT$90.0 million. This case had closed as of March 31, 2004.

FPC America operates under extensive environmental protection regulations, labor safety laws, and related regulations. FPC America believes its facilities and articles of incorporation are in compliance in all material respects with the applicable regulations as of December 31, 2003.

The following table set forth the details of outstanding endorsements and guarantees made by Formosa Plastics on behalf of related parties as at December 31, 2001, 2002 and 2003:

	Consolidated			
	December 31,			
	2001	2002	2003	
	NT$ (millions)	NT$ (millions)	NT$ (millions)	U.S.$ (millions)
FPC U.S.A.	10,499.7	10,425.9	—	—
Formosa Petrochemical	3,000.0	3,000.0	3,000.0	88.3
Mailiao Harbor Administration	2,098.4	2,098.4	2,098.5	61.7
Mailiao Power	11,172.5	6,099.5	5,486.0	161.4
Formosa Plastics Marine (Liberia)	1,260.0	1,251.1	1,223.2	36.0
Formosa Daikin Advanced Chemical	505.0	475.0	475.0	14.0
Formosa Plasma Display	—	—	2,000.0	58.8
Formosa Komatsu Silicon Wafer	—	300.0	—	—
Formosa Utility Venture	—	—	8,154.7	239.9
Hangzhou Tai Shin Textile	168.9	—	—	—
Total	**28,704.5**	**23,649.9**	**22,437.4**	**660.1**

The following table sets forth the details of outstanding endorsements and guarantees made by Formosa Plastics on behalf of its related parties as at March 31, 2003 and 2004:

	Non-consolidated		
	March 31,		
	2003	2004	
	NT$ (millions)	NT$ (millions)	U.S.$ (millions)
FPC U.S.A.	10,425.0	—	—
Formosa Petrochemical	3,000.0	3,000.0	90.9
Mailiao Harbor Administration	2,098.4	2,098.4	63.6
Mailiao Power	6,099.5	4,048.0	122.7
Formosa Plastics Marine (Liberia)	1,251.0	1,188.7	36.0
Formosa Daikin Advanced Chemical	475.0	325.0	9.8
Formosa Plasma Display Corporation	—	2,000.0	60.6
Formosa Komatsu Silicon Wafer	300.0	—	—
	23,648.9	**12,660.1**	**383.6**

Quantitative and Qualitative Disclosures about Market Risk

Formosa Plastics' exposure to financial market risk derives primarily from changes in interest rates and foreign exchange rates. To mitigate these risk, Formosa Plastics utilizes derivative financial instruments, the application of which, pursuant to Formosa Plastics' internal guidelines, is primarily for hedging purposes and not for speculative purposes.

Interest rate risk

Formosa Plastics' exposure to interest rate risk relates primarily to Formosa Plastics' long-term debts, which are normally entered into to support Formosa Plastics' corporate activities, primarily for capital expenditures. Formosa Plastics enters into interest rate futures contracts in order to hedge its exposure to interest rate fluctuations.

Formosa Plastics engages in cross currency and interest rate swaps to hedge the risk of interest rate fluctuations on its long-term debt and corporate bonds. As of March 31, 2004, Formosa Plastics had cross currency swaps with Bank of Paris, Chinatrust Commercial Bank, Citibank, N.A. and Deutsche Bank. See Note 16, "Fair value of financial instruments" of Formosa Plastics' Unaudited Non-consolidated Financial Statements as at and for the three months ended March 31, 2003 and 2004 included elsewhere in this Offering Circular for a description of these cross currency swap contracts. As of March 31, 2004, Formosa Plastics also had interest rate swap contracts with ABN-AMRO Bank, Bank of America, Bank of Paris, Taipei Bank and Deutsche Bank.

Formosa Plastics is exposed to substantial interest rate risk on its existing floating rate debt and on additional debt financing that may be periodically needed for the capital expenditures associated with the purchase of property, plant and equipment for capacity expansion. Upward fluctuations in interest rates increase the cost of both existing and new debt. The interest rate that Formosa Plastics will be able to obtain in a new debt financing will depend on market conditions at that time and may differ from the rates Formosa Plastics has secured on its current debt. An increase in interest rates of 1.0 per cent. would increase Formosa Plastics' annual interest charges by approximately NT$344.5 million (U.S.$10.4 million) based on the principal amount of its outstanding indebtedness as of March 31, 2004.

Foreign exchange risk

A substantial portion of Formosa Plastics' operating revenues are traditionally denominated in or referenced to U.S. dollars, with the remaining portion denominated in NT dollars, and a portion of its operating costs were denominated in or referenced to U.S. dollars, with the remaining portion mainly denominated in NT dollars. Formosa Plastics' financial statements are expressed in NT dollars. Formosa Plastics records a foreign currency denominated transaction on the date it occurs in NT dollars using the prevailing exchange rate for such date. The realized gains or losses resulting from the application of a different foreign exchange rate when the transaction is settled and the amount received or paid in settlement is converted into or from NT dollars and credited or charged to income. At the end of each period, Formosa Plastics restates the balances of foreign currency assets and liabilities at the period-end spot rate of exchange and credit or charge to income for such period the resulting foreign exchange gains or losses, as the case may be. See Note 2 to Formosa Plastics' Audited Consolidated Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 and Note 2 to Formosa Plastics' Unaudited Non-consolidated Financial Statements as at and for the three months ended March 31, 2003 and 2004 included elsewhere in this Offering Circular. As a result, changes in the rate of exchange between the NT dollar and the U.S. dollar affect Formosa Plastics' gross and operating profit margins and could result in foreign exchange and operating losses. Formosa Plastics recorded a net foreign exchange loss of NT$306.6 million in 2001 and a net foreign exchange gain of NT$66.6 million in 2002, net foreign exchange gain of NT$120.3 million (U.S.$3.5 million) in 2003, a net foreign exchange gain of NT$21.9 million in the three months ended March 31, 2003 and a net foreign exchange gain of NT$42.6 million (U.S.$1.3 million) in the three months ended March 31, 2004.

Formosa Plastics also enters into forward exchange contracts and exchange rate swaps from time to time in order to hedge exposure to currency rate fluctuations associated with purchases denominated in foreign currencies. As of March 31, 2004, Formosa Plastics had foreign exchange future contracts and exchange rate swap contracts with Citibank, N.A. based on a nominal principal amount of U.S.$36.0 million.

Taxation

Formosa Plastics is subject to a general income tax rate of 25.0 per cent.. Formosa Plastics has enjoyed preferential tax treatment in certain respects under the SUI. Such tax credits resulted in income tax savings of NT$852.0 million, NT$1,336.3 million and NT$2,196.9 million (U.S.$64.6 million) for the years ended December 31, 2001, 2002 and 2003, respectively.

Article 6 of the SUI provides tax credits of up to 35.0 per cent. for certain research and development and employee training expenses. If the amount of expenses exceeds the average of such expenses for the preceding two years, an additional tax credit of 50.0 per cent. of the excess amount may be used. These tax credits for research and development as well as investments in equipment and technology must be utilized within five years from the year such expense or investment was incurred. In addition, the aggregate tax reduction from these tax credits for any year except the final year before expiration cannot, subject to certain exceptions, exceed 50 per cent. of the company's income tax liability for that year. As of March 31, 2004, qualified unused tax credits under Article 6 amounted to NT$186.1 million (U.S.$5.6 million).

Article 7 of the SUI provides tax credits of up to 20 per cent. for certain investment in specific industries of a county or township area with scanty natural resources or with slow development. These tax credits for investment in barren areas must be utilized within five years from the year such investment was incurred. Formosa Plastics received tax credits from Article 7 as a result of its investment in the No. 6 Naphtha Cracker Complex in Mailiao. As of March 31, 2004, qualified unused tax credits under Article 7 amounted to NT$4,518.8 million (U.S.$136.9 million).

Article 8 of the SUI provides tax credits of up to 20 per cent. for subscription to the registered stock issued by a company within the newly emerging, important and strategic industries, and has held such stock for a period of three years or longer. These tax credits for investment must be utilized within five years from the year such investment was incurred. In addition, the aggregate tax reduction from these tax credits for any year except the final year before expiration cannot, subject to certain exceptions, exceed 50 per cent. Formosa Plastics received most of its Article 8 tax credits as a result of its investment in Formosa Petrochemical. However, all of such tax credits were derived prior to December 31, 1999, when Article 8 was amended. The former version of Article 8 included a wider category of industries, investments in which qualified for tax credits and only required a holding period of two years. As of March 31, 2004, qualified unused tax credits under Article 8 amounted to NT$3,780.2 million (U.S.$114.6 million).

In 1997, the ROC Legislative Yuan passed an amendment to the ROC Income Tax Law to integrate corporate income tax and shareholder income tax. Under the amendment, retained earnings of a year, as adjusted, generated after January 1, 1998 and not distributed to shareholders in the following year as dividends for the year in which such retained earnings were generated will be assessed a 10 per cent. tax. For each of the years ended December 31, 2001, 2002 and 2003, such tax payable by Formosa Plastics arising from the amendment amounted to NT$27.1 million, NT$175.5 million and NT$250.8 million (U.S.$7.4 million), respectively, each of which was offset by available tax credits in such year.

FORMOSA PLASTICS CORPORATION

BUSINESS OF FORMOSA PLASTICS CORPORATION

Overview

Formosa Plastics is one of the world's leading manufacturers of PVC resins, one of Asia's leading manufacturers of polyolefins (including HDPE, EVA, LDPE and LLDPE) and caustic soda and Taiwan's leading manufacturer of acrylic acid and esters, acrylic fiber and AN. Formosa Plastics estimates that it supplies approximately 70 per cent. of Taiwan's requirements of PVC resins and is a principal supplier of such raw material to the Formosa Group. Formosa Plastics develops, manufactures and markets products in six product categories: plastics (including PVC resins and related products), polyolefins, acrylic acid and esters and related products, chemicals, polypropylene and carbide. For the year ended December 31, 2003, sales of PVC resins and related products, polyolefins, acrylic acid and esters and related products, chemicals, polypropylene and carbide accounted for 39.0 per cent., 18.9 per cent., 13.6 per cent., 10.1 per cent., 3.7 per cent. and 1.3 per cent., respectively, of Formosa Plastics' total consolidated operating revenues. For the three months ended March 31, 2004, sales of PVC resins and related products, polyolefins, acrylic acid and esters and related products, chemicals, polypropylene and carbide accounted for 41.7 per cent., 21.9 per cent., 14.3 per cent., 10.0 per cent., 9.4 per cent. and 1.3 per cent., respectively, of Formosa Plastics' total non-consolidated operating revenues. For the year ended December 31, 2003, Formosa Plastics' consolidated operating revenues were NT$95,156.5 million (U.S.$2,799.6 million) and its consolidated net income was NT$16,606.1 million (U.S.$488.6 million). For the three months ended March 31, 2004, Formosa Plastics' non-consolidated operating revenues were NT$26,461.0 million (U.S.$801.8 million) and its non-consolidated net income was NT$8,043.7 million (U.S.$243.7 million).

Formosa Plastics also engages in the production and sale of EDC and caustic soda through its wholly-owned U.S. subsidiary, FPC America. For the year ended December 31, 2003, sales revenues from FPC America accounted for 11.9 per cent. of Formosa Plastics' total consolidated operating revenues.

Formosa Plastics operates in-house co-generation power plants which supply electricity and steam to its production facilities. It also sells to affiliates and other third parties excess electricity produced from internal sources which are not required by its own operations. Sales of electricity and steam to affiliates and other third parties outside the Formosa Group accounted for 1.6 per cent. (of which 1.2 per cent is derived from the engineering and construction division and 0.4 per cent. is derived from the polyolefin division) of Formosa Plastics' total consolidated operating revenues for the year ended December 31, 2003 and 0.6 per cent. (of which 0.5 per cent. is derived from the engineering and construction division and 0.1 per cent. is derived from the polyolefin division) of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2004.

Formosa Plastics' products are sold primarily to secondary processors in Taiwan. Domestic sales comprised 46.1 per cent. of Formosa Plastics' total consolidated operating revenues for the year ended December 31, 2003 and 51.9 per cent. of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2004. Sales to affiliates in the Formosa Group, primarily Nan Ya Plastics and Formosa Chemicals & Fibre, accounted for 29.0 per cent. of Formosa Plastics' total consolidated operating revenues for the year ended December 31, 2003 and 26.2 per cent. of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2004. In the export market, Formosa Plastics' products are sold primarily to secondary plastics processors in the PRC. Exports to the PRC accounted for 33.2 per cent. of Formosa Plastics' total consolidated operating revenues for the year ended December 31, 2003 and 37.9 per cent. of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2004.

From its inception, Formosa Plastics has sought to vertically integrate its manufacturing processes and to increase production capacity in order to reduce production costs and enhance its competitive position. In line with that strategy, Formosa Plastics, together with other members of the Formosa Group, founded Formosa Petrochemical, which has constructed two naphtha crackers as the centerpiece of the No. 6 Naphtha Cracker Complex. Formosa Plastics believes that the naphtha crackers have ensured reliable supply and reduced the cost of key raw materials for certain of its principal products, including PVC resins, polyolefins, acrylic acid and esters. As part of its investments under the No. 6 Naptha Cracker Complex, Formosa Plastics had constructed twelve petrochemical plants at Mailiao which Formosa Plastics believes have enabled it to further expand its production capacity, reduce its manufacturing costs and extend the range and diversity of its products.

As at March 31, 2004, Formosa Plastics, on a consolidated basis, employed over 4,700 full-time employees and operated 34 manufacturing plants and seven co-generation power plants on five production sites in Taiwan as well as two manufacturing plants in the United States. Formosa Plastics maintains seven operating business divisions: plastics, Tairylan, polyolefin, carbide, chemicals, polypropylene and engineering and construction. The first six divisions are organized primarily along product lines while the engineering and construction division is principally concerned with installing and operating power supply facilities and designing and constructing Formosa Plastics' production facilities. Formosa Plastics' registered office is at 39 Chung Shan Third Road, Kaohsiung, Taiwan, ROC.

Formosa Plastics was incorporated on October 30, 1954 as a company organized under the laws of the ROC. Formosa Plastics' ordinary shares have been listed on the TSE since 1964. As at June 28, 2004, Formosa Plastics' total market capitalization was NT$235.9 billion.

History

Certain key dates in the history of Formosa Plastics include:

1954 . . . . . Formosa Plastics was incorporated as Taiwan's first manufacturer of PVC resins.

1957 . . . . . Formosa Plastics completed construction of its first PVC resins plant in Kaohsiung, Taiwan.

1965 . . . . . To reduce cost and achieve greater economies of scale, Formosa Plastics began to manufacture calcium carbide and chlorine, the principal raw materials used to produce acetylene, instead of purchasing them from third parties.

1967 . . . . . Formosa Plastics constructed its first acrylic fiber plant at Chienchen, Taiwan.

1972 . . . . . Formosa Plastics began construction of a co-generation power plant to ensure adequate and low-cost supply of electricity for its production operations.

1973 . . . . . Formosa Plastics began construction of a caustic soda plant and VCM plant at its Jenwu Complex.

1974 . . . . . Formosa Plastics began construction of an acrylic fiber plant at its Jenwu Complex.

1975 . . . . . Formosa Plastics commenced production of PVC resins using the more advanced, safer and more cost-effective process which utilizes EDC as raw materials.

1977 . . . . . Formosa Plastics phased out its acetylene production process.

1979	Formosa Plastics started to invest in the U.S.
1982	Formosa Plastics began to produce calcium carbonate, which is used as an additive in the manufacture of plastics, rubber and paint.
1984	Formosa Plastics established its polyolefin business. Its HDPE plant in Linyuan, Taiwan was completed. During the same year, Formosa Plastics also began production of acrylic acid and esters.
1986	Formosa Plastics commenced the planning of its investments in the No. 6 Naphtha Cracker Complex.
1987	In furtherance of its horizontal diversification strategy, Formosa Plastics commenced production of carbon fiber.
1989	Formosa Plastics established its wholly-owned U.S. subsidiary, Formosa Plastics Corp., America, which constructed an EDC plant and a chlor-alkali plant in Point Comfort, Texas.
1993	Formosa Plastics began to manufacture super absorbent polymer (“SAP”) using acrylic acid.
1994	Formosa Plastics Corp., America commenced sales and full scale production.
1994	Formosa Plastics began construction of the No. 6 Naphtha Cracker Complex.
1998	As part of its investments in the No. 6 Naphtha Cracker Complex, Formosa Plastics established a number of additional plants at Mailiao and began manufacturing new polyolefins, including EVA, LDPE and LLDPE.
1999	Formosa Plastics acquired technology for the manufacture of plasma display panel (“PDP”) from a U.S. company and established a pilot PDP plant at Sanhsia. The PDP plant commenced production of PDP in 2001.
2000	In response to the Taiwan government’s call for the development of the chemicals industry, Formosa Plastics began the manufacture of fine chemicals, including AN, methyl tert butyl ether (“MTBE”) and butene-1 (“B-1”).
2001	Formosa Plastics commenced production of methyl methacrylate (“MMA”) and epichlorohydrin (“ECH”).
2002	Formosa Plastics formed a joint venture with Japanese manufacturer, Fujitsu Hitachi Plasma Display Limited, to establish Formosa Plasma Display Corporation. Formosa Plastics held a 77.5 per cent. interest in the joint venture company when it was established in 2002. During the same year, Formosa Plastics began the construction of its PVC resins plant in Ningbo, the PRC.
2003	Formosa Plastics merged Yungchia Chemicals Industries Corporation into its own operations.

Strategy

Formosa Plastics' goal is to continue to improve on its position as one of the world's leading integrated PVC producers and a leading manufacturer of polyolefins, acrylic acid and esters and acrylic fiber in Taiwan. Formosa Plastics will continue to concentrate on producing a large variety of high quality products at competitive prices by taking advantage of its vertically integrated manufacturing processes, efficient manufacturing infrastructure and superior technology and manufacturing process know-how. Formosa Plastics' strategy is to capitalize on these strengths by means of the following:

Continue to pursue full vertical integration

The cost of raw materials comprises a substantial portion of Formosa Plastics' operating costs. To help alleviate its reliance on imports and purchases of raw materials and to lower its production costs, Formosa Plastics has been pursuing vertical integration both internally and with other companies within the Formosa Group. Examples include the following:

- Formosa Plastics produces the raw materials required to produce some of its principal products. Formosa Plastics produces chlorine, EDC and vinyl chloride monomer ("VCM") which are the principal raw materials required to produce PVC resins. Formosa Plastics also produces AN which is primarily used to produce acrylic fiber and acrylic acid which is primarily used to produce acrylic esters for the production of synthetic fibers, paints and adhesives

- Formosa Plastics obtains a large proportion of its raw materials from its affiliates within the Formosa Group. For the year ended December 31, 2003, FPC America supplied 16.6 per cent. of Formosa Plastics' demand of EDC for the production of PVC resins. For the same period, Formosa Plastics obtained 70.1 per cent. of its requirement of ethylene for the production of PVC resins and polyolefins from Formosa Petrochemical. For the period ended December 31, 2003, Formosa Petrochemical also supplied 82.5 per cent. of Formosa Plastics' demand of propylene for the production of AN, acrylic acid and esters, ECH and polypropylene. Formosa Plastics in turn sells the AN it produces to Formosa Chemicals & Fibre for the production of ABS and the ECH it produces to Nan Ya Plastics for the production of epoxy products.

- Formosa Plastics began production of fine chemicals during 2000 and 2001, including AN, MTBE, B-1, MMA and ECH. Most of these chemicals are either utilized internally as raw materials by its downstream manufacturing processes within Formosa Plastics or sold to other companies within the Formosa Group, which help to further alleviate the Formosa Group's reliance on third party suppliers for raw materials and reduce production costs.

Formosa Plastics believes that its vertically integrated operations enable it to provide a more stable and cost-effective supply of raw materials. Formosa Plastics has been gradually reducing its dependence on unaffiliated suppliers for raw materials. Purchases of raw materials from unaffiliated third parties accounted for 40.3 per cent., 16.9 per cent. and 16.6 per cent. of Formosa Plastics' consolidated purchases of raw materials by value for the years ended December 31, 2001, 2002 and 2003, respectively. Formosa Plastics intends to continue to decrease its dependency on unaffiliated suppliers for raw materials by performing further debottlenecking at its existing plants to improve efficiency and increase internal production capacity for certain key raw materials, such as EDC, VCM, caustic soda, acrylic acid and AN, used in making its principal products.

Further diversify

In recent years, Formosa Plastics has focused on expanding its product offerings beyond PVC resins, acrylic acid and esters and related products into high technology industries and industries with higher growth potential. Examples include the following:

- In 1999, Formosa Plastics acquired technology from a U.S. company to establish its pilot PDP plant at Sanhsia. In 2002, Formosa Plastics formed a joint venture with Fujitsu Hitachi Plasma Display Limited to increase its production of PDPs to 120,000 sets per year.

- In 2000 and 2001, Formosa Plastics ventured into the manufacture of fine chemicals, including AN, MTBE, B-1, MMA and ECH, most of which are either utilized internally or sold to its affiliates in the Formosa Group as raw materials for downstream manufacturing processes.

- In 2003, Formosa Plastics' polypropylene division was formed following the merger of its subsidiary, Yungchia Chemical Industries Corporation, into its own operations. Polypropylene is one of the most versatile and low cost polymers in the petrochemical industry, with increasing growth in demand due to its wide ranging applications.

- Formosa Plastics has also diversified into new businesses such as the production of electronic materials and wireless communications.

Formosa Plastics believes that maintaining a diversified production base is essential to its growth. Formosa Plastics plans to continue expanding into higher value added products to be sold to its existing customers and investing in areas which offer significant growth potential.

Expand Formosa Plastics' investments in the PRC

Formosa Plastics believes that the PRC's demand for petrochemical and plastics products will continue to remain strong as a result of continued economic growth and consequential growth in consumption of petrochemical and plastics products. Formosa Plastics' largest export market for its PVC resins, acrylic fiber, acrylic acid and esters, polyolefins (including HDPE, EVA, LLDPE and LDPE) and polypropylene is the PRC. To increase its production capacity in the PRC and to improve its share in the PRC domestic market, Formosa Plastics has invested in several new plants in the PRC, including a new PVC plant at Ningbo, which is expected to be completed in August 2004, an acrylic acid and esters plant which is expected to be completed by the end of 2005 and a polypropylene plant, which is expected to be completed around August 2006.

Reduce production costs

Formosa Plastics competes on the basis of price and quality of its products. To maintain its position as a low cost, high quality manufacturer in the markets of its principal products, Formosa Plastics has focused on and will continue to focus on improving productivity and manufacturing efficiency in each of its manufacturing divisions. Examples include the following:

- Formosa Plastics has completed construction of 12 new petrochemical plants in Mailiao pursuant to its participation in the construction of the No. 6 Naphtha Cracker Complex, and has performed debottlenecking on existing plants to improve efficiency and reduce costs. Formosa Plastics believes that this expansion of production capacity has resulted in economies of scale greater than that enjoyed by its competitors which generally have plants with smaller capacities. Formosa Plastics will continue to expand its production activities both in Taiwan and overseas, in particular in the PRC, to expand its scale of production.

- A significant portion of Formosa Plastics' equipment and machinery is designed and constructed by engineers in Formosa Heavy Industries. In addition, Formosa Plastics' engineering and construction division designs and constructs Formosa Plastics' production facilities. Formosa Plastics believes that the delegation of these responsibilities to professionals within the company and the Formosa Group who are familiar with Formosa Plastics' operations and production facilities improves manufacturing efficiency and accountability and lowers maintenance cost.

- Formosa Plastics has been actively managing the productivity of its plants and operations. Between 2000 to 2003, the utilization rates for most of the key products manufactured by Formosa Plastics have steadily improved as a result of economies of scale derived from continual expansion of production capacity and debottlenecking on existing plants. The utilization rates for PVC resins and HDPE have improved from 86 per cent. and 53 per cent. in 2000 to 93 per cent. and 101 per cent., respectively, in 2003.

- Formosa Plastics generates all of the electrical power it consumes in its manufacturing processes in Taiwan through the operation of seven co-generation power facilities. Formosa Plastics believes that the operation of its in-house co-generation power facilities will further reduce production costs.

Products

Formosa Plastics develops, manufactures and markets products through seven operating business divisions: plastics, polyolefin, Tairylan, chemicals, polypropylene, carbide and engineering and construction. Formosa Plastics also engages in the production and sale of EDC and caustic soda through its wholly-owned U.S. subsidiary, FPC America.

The following table sets forth, for the periods indicated, the contribution of each operating business division and FPC America to Formosa Plastics' total consolidated operating revenues and the percentage breakdown of each operating business division and FPC America to Formosa Plastics' total consolidated operating revenues.

	Consolidated						
	Year ended December 31,						
	2001		2002		2003		
	NT$ (millions)	%	NT$ (millions)	%	NT$ (millions)	U.S.$ (millions)	%
Plastics	29,870.9	43.6	31,522.5	41.3	37,148.7	1,092.9	39.0
Polyolefin	13,714.2	20.0	14,294.6	18.7	18,010.6	529.9	18.9
Tairylan	8,967.9	13.1	10,086.6	13.2	12,920.8	380.1	13.6
Chemicals	3,446.9	5.0	6,115.5	8.0	9,648.8	283.9	10.1
Polypropylene	—	—	—	—	3,493.3	102.8	3.7
Carbide	1,099.2	1.6	1,191.3	1.6	1,222.2	36.0	1.3
Engineering & Construction	1,737.8	2.5	1,573.3	2.1	1,166.4	34.3	1.2
FPC America	9,508.3	13.9	10,987.8	14.4	11,278.8	331.8	11.9
Others[1]	189.9	0.3	563.4	0.7	266.9	7.9	0.3
Total	68,535.1	100.0	76,335.0	100.0	95,156.5	2,799.6	100.0

(1) The principal products under "Others" include DCS and PE bags.

The following table sets forth, for the periods indicated, the contribution of each operating business division to Formosa Plastics' total non-consolidated operating revenues and the percentage breakdown of each operating business division to Formosa Plastics' total non-consolidated operating revenues.

	Non-consolidated				
	Three months ended March 31,				
	2003		2004		
	NT$ (millions)	%	NT$ (millions)	U.S.$ (millions)	%
Plastics	8,468.4	47.5	11,026.4	334.1	41.7
Polyolefin	3,473.8	19.5	5,788.8	175.4	21.9
Tairylan	2,989.3	16.8	3,797.8	115.1	14.3
Chemicals	2,090.4	11.7	2,652.0	80.4	10.0
Polypropylene	—	—	2,488.9	75.4	9.4
Carbide	310.6	1.8	354.4	10.7	1.3
Engineering & Construction	292.3	1.6	123.6	3.8	0.5
Others[1]	187.4	1.1	229.1	6.9	0.9
Total	17,812.2	100.0	26,461.0	801.8	100.0

[1] The principal products under "Others" include DCS and PE bags.

Plastics Division

The principal products manufactured by Formosa Plastics' plastics division are PVC resins and caustic soda. Other products manufactured by the plastics division include VCM, MBS resins, polyoxymethylene ("POM") and hydrochlorofluorocarbons ("HCFCs"). Sales of PVC resins and related products produced by the plastics division accounted for 43.6 per cent., 41.3 per cent. and 39.0 per cent. of Formosa Plastics' total consolidated operating revenues for the years ended December 31, 2001, 2002 and 2003, respectively. The following table sets forth the consolidated sales volume and consolidated sales revenues of each of the key products manufactured by Formosa Plastics' plastics division for the periods indicated and the percentage of consolidated operating revenues of Formosa Plastics' plastics division represented by each such product:

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
PVC resins	1,123,511	20,080.0	67.2	1,192,177	22,757.3	72.2	1,250,980	26,210.1	771.1	70.6
Caustic soda	628,298	4,608.1	15.4	688,322	2,916.8	9.3	782,840	3,984.7	117.3	10.7
VCM	149,148	1,788.1	6.0	149,793	2,177.9	6.9	175,986	2,833.6	83.4	7.6
MBS resin	14,038	760.7	2.6	15,759	851.2	2.7	16,933	901.8	26.5	2.4
POM	18,129	719.2	2.4	19,845	776.4	2.5	17,742	848.1	25.0	2.3
HCFC	11,800	632.0	2.1	10,697	515.8	1.6	10,118	497.0	14.6	1.4
Others	—	1,282.8	4.3	—	1,527.1	4.8	—	1,873.4	55.0	5.0
Total	—	29,870.9	100.0	—	31,522.5	100.0	—	37,148.7	1,092.9	100.0

Sales of PVC resins and related products produced by the plastics division accounted for 47.5 per cent. and 41.7 per cent. of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2003 and 2004, respectively. The following table sets forth the non-consolidated sales volume and non-consolidated sales revenues of each of the key products manufactured by Formosa Plastics' plastics division for the periods indicated and the percentage of non-consolidated operating revenues of Formosa Plastics' plastics division represented by each such product:

	Non-consolidated						
	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
PVC resins	290,644	6,258.2	73.9	321,154	8,214.8	248.9	74.5
Caustic soda	176,151	878.2	10.4	213,684	1,032.7	31.3	9.4
VCM	20,484	333.7	3.9	31,513	715.6	21.7	6.5
MBS resin	4,100	220.8	2.6	4,129	213.6	6.5	1.9
POM	4,950	227.1	2.7	5,158	241.4	7.3	2.2
HCFCs	3,132	144.4	1.7	2,907	143.7	4.4	1.3
Others	—	406.0	4.8	—	464.6	14.0	4.2
Total	—	8,468.4	100.0	—	11,026.4	334.1	100.0

PVC Resins. PVC resins are among the world's most widely used plastics and a popular alternative to traditional materials such as glass, metal and wood because of their versatility, durability and cost competitiveness. Formosa Plastics manufactures and markets a variety of grades of PVC resins, primarily using the suspension and mass processes, to accommodate the needs of a wide range of industries manufacturing PVC products in Taiwan and overseas, particularly in the PRC. PVC resins produced by Formosa Plastics are primarily used in the manufacture of construction products such as pipes, fittings, window frames, doors and floor tiles and other products such as flexible sheeting and synthetic leather, rigid film and packaging. Formosa Plastics is currently the only manufacturer of PVC resins in Taiwan that uses the emulsion and micro-suspension processes to produce a variety of grades of special-purpose PVC resins. Such special-purpose PVC resins are used to manufacture products such as medical gloves, casting leather, wallpaper and toys.

Formosa Plastics believes that it supplied approximately 70 per cent. of Taiwan's domestic requirements of PVC resins for the year ended December 31, 2003. Demand for PVC resins in Taiwan has decreased in recent years primarily due to the fact that secondary plastics processors have relocated their operations out of Taiwan to countries with lower production and labor costs such as the PRC and countries in Southeast Asia. As a result of the relocation of downstream plastics processors, exports of PVC resins to the PRC and Southeast Asia have increased significantly in recent years. Formosa Plastics plans to increase its production capacity of PVC resins over the next few years through process improvements and debottlenecking. In addition, with the construction of three additional plants in the No. 6 Naphtha Cracker Complex at Mailiao for the production of PVC, VCM and caustic soda and a new PVC plant at Ningbo in the PRC, Formosa Plastics believes that it will be able to increase significantly its production of these products.

Caustic Soda. Caustic soda, a by-product of the production of chlorine, is used by Formosa Plastics in the manufacture of PVC resins. Formosa Plastics also sells the caustic soda it produces to processors who use it in the manufacture of synthetic fibers, rayon staple fiber, pulp, dyes and detergents, soaps, leather processing, aluminium hydroxide, sodium sulphate and chemical products and in the treatment of waste water.

VCM. VCM is principally used as a raw material for the production of PVC resins.

MBS Resin. MBS is a graft co-polymer plastics modifier used primarily to improve the impact strength, stress properties or transparency of certain PVC products, such as PVC rigid film, PVC bottles and credit cards. Formosa Plastics manufactures four grades of MBS resin.

POM. POM has outstanding mechanical strength — it is oil, heat and water resistant. Due to its unique properties, POM is commonly used in automotive parts, electrical machinery, transportation equipment and medical instruments.

HCFCs. HCFCs are used in coolants in air conditioners and refrigerators, foaming agents, aerosol propellants and cleaning agents. Due to concerns that HCFCs may deplete the earth's ozone layer, the ROC government has pledged to cease domestic use of HCFCs by 2030 in voluntary compliance with the Montreal Protocol. Formosa Plastics manufactures three types of HCFCs — HCFC-22, HCFC-141b and HCFC-142b, all of which are commonly used chemicals. Formosa Plastics has undertaken research and development activities to develop hydrofluorocarbons ("HFCs") which are expected to replace HCFCs.

Polyolefin Division

The principal products manufactured by Formosa Plastics' polyolefin division include HDPE, EVA, LLDPE and LDPE. The polyolefin division also sells utilities, including electricity and steam, generated by two of Formosa Plastics' co-generation plants. Sales of products produced by the polyolefin division accounted for 20.0 per cent., 18.7 per cent. and 18.9 per cent. of Formosa Plastics' total consolidated operating revenues for the years ended December 31, 2001, 2002 and 2003, respectively. The following table sets forth the consolidated sales volume and consolidated sales revenues of each of the key products manufactured by Formosa Plastics' polyolefin division for the periods indicated and shows the percentage of consolidated operating revenues of Formosa Plastics' polyolefin division represented by each such product:

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
HDPE	409,352	8,343.6	60.8	411,603	8,057.2	56.4	463,632	10,145.9	298.5	56.3
EVA	37,210	1,005.2	7.3	75,677	1,936.8	13.6	112,193	3,111.8	91.6	17.3
LLDPE	81,203	1,561.7	11.4	96,023	1,738.1	12.2	111,552	2,445.6	72.0	13.6
LDPE	111,516	2,328.1	17.0	96,538	2,032.1	14.2	77,771	1,930.5	56.8	10.7
Electricity & Steam	—	432.2	3.2	—	478.9	3.3	—	320.7	9.4	1.8
Others	—	43.4	0.3	—	51.5	0.4	—	56.1	1.6	0.3
Total	—	13,714.2	100.0	—	14,294.6	100.0	—	18,010.6	529.9	100.0

Sales of products produced by the polyolefin division accounted for 19.5 per cent. and 21.9 per cent. of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2003 and 2004, respectively. The following table sets forth the non-consolidated sales volume and non-consolidated sales revenues of each of the key products manufactured by Formosa Plastics' polyolefin division for the periods indicated and the percentage of operating revenues of Formosa Plastics' polyolefin division represented by each such product:

	Non-consolidated						
	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
HDPE	84,423	1,922.1	55.3	97,808	2,813.9	85.3	48.6
EVA	18,736	518.0	14.9	33,608	1,114.8	33.8	19.3
LLDPE	22,381	485.9	14.0	39,883	1,131.7	34.3	19.5
LDPE	16,637	415.8	12.0	21,024	664.9	20.1	11.5
Electricity & Steam	—	120.0	3.5	—	46.8	1.4	0.8
Others	—	12.0	0.3	—	16.7	0.5	0.3
Total	—	3,473.8	100.0	—	5,788.8	175.4	100.0

HDPE. HDPE is a highly versatile polymer. Formosa Plastics produces four major grades of HDPE: film, injection moulding, extrusion moulding and blow moulding. Film grade HDPE is commonly used to manufacture shopping and garbage bags and liners for packing purposes. Injection moulding grade HDPE is used principally in the manufacture of crates, beverage cartons and containers. Extrusion moulding grade HDPE is used to make rope, file folders, fishing nets and woven bags. Blow moulding grade HDPE is used in the making of bottles. Formosa Plastics has also developed coating grade HDPE, which is used to coat steel pipe and cable to prevent corrosion.

EVA. Formosa Plastics produces three major grades of EVA: film, injection/foaming and powder coating. Film grade EVA is used to make general packaging sanitary applications. Injection/foaming grade EVA is used to make flexible items and shoe materials. Powder coating grade EVA is used to make non-woven & fabrics.

LLDPE. Formosa Plastics produces four major grades of LLDPE: injection moulding, rotation moulding, film casting and film-blowing. Injection moulding grade LLDPE is used to manufacture small containers. Rotation moulding grade LLDPE is used to make large size containers. Film casting grade LLDPE is used to make packing film for food use. Film-blowing grade LLDPE is used to make heavy duty packing bags, shopping bags and garbage bags.

LDPE. Formosa Plastics produces three major grades of LDPE: film, injection and coating. Film grade LDPE is used to make agricultural shrink film and transparent film. Injection grade LDPE is used to make houseware, high gloss toys and artificial flowers. Coating grade LDPE is used to make paper substrates and foam material.

Tairylan Division

The principal products manufactured by Formosa Plastics' Tairylan division include acrylic acid and esters, acrylic fiber, SAP and carbon fiber. Formosa Plastics' Tairylan division historically sold products under the Tairylan brand name. Sales of the principal products produced by the Tairylan division accounted for 13.1 per cent., 13.2 per cent. and 13.6 per cent of Formosa Plastics' total consolidated operating revenues for the years ended December 31, 2001, 2002 and 2003, respectively. The following table sets forth the consolidated sales volume and consolidated sales revenues of each of the key products manufactured by Formosa Plastics' Tairylan division for the periods indicated and the percentage of consolidated operating revenues of the Formosa Plastics' Tairylan division represented by each such product:

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Acrylic acid and esters	160,495	4,737.6	52.8	183,504	5,307.6	52.6	203,189	7,193.2	211.6	55.7
Acrylic fiber	78,991	3,146.4	35.1	87,358	3,616.2	35.9	90,511	4,218.0	124.1	32.6
SAP	17,878	762.4	8.5	21,053	878.0	8.7	23,900	999.4	29.4	7.7
Carbon fiber	607	244.9	2.7	695	218.6	2.2	1,285	510.2	15.0	3.9
Others	—	76.6	0.9	—	66.2	0.7	—	—	—	—
Total	—	8,967.9	100.0	—	10,086.6	100.0	—	12,920.8	380.1	100.0

Sales of the principal products produced by the Tairylan division accounted for 16.8 per cent. and 14.4 per cent. of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2003 and 2004, respectively. The following table sets forth the non-consolidated sales volume and non-consolidated sales revenues of each of the key products manufactured by Formosa Plastics' Tairylan division for the periods indicated and the percentage of non-consolidated operating revenues of Formosa Plastics' Tairylan division represented by each such product:

	Non-consolidated						
	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Acrylic acid and esters	47,050	1,609.5	53.8	45,368	1,936.1	58.7	51.0
Acrylic fiber	22,621	1,042.2	34.9	27,849	1,361.1	41.2	35.8
SAP	6,508	271.9	9.1	6,527	273.1	8.3	7.2
Carbon fiber	201	63.0	2.1	424	213.8	6.5	5.6
Others	—	2.7	—	—	13.7	0.4	0.4
Total	—	2,989.3	100.0	—	3,797.8	115.1	100.0

Acrylic Acid and Esters. Formosa Plastics is Taiwan's sole manufacturer of acrylic acid and esters. The acrylic acid produced by Formosa Plastics is used primarily for its production of acrylic esters, which are integral building blocks in the manufacture of synthetic fibers, paints, adhesives, emulsion resins, pastes, acrylic boards, fiber finishing agents and thermosetting industrial finishes. Formosa Plastics produces four types of acrylic esters: methyl acrylate, ethyl acrylate, butyl acrylate and 2-ethyl hexyl acrylate. For the year ended December 31, 2003, Formosa Plastics retained approximately 3 per cent. by weight of the acrylic esters it produced for use in the manufacture of acrylic fibers.

Acrylic Fiber. Formosa Plastics manufactures three principal forms of acrylic fiber: acrylic tow, acrylic staple fiber and acrylic top, each under the Tairylan brand name. Acrylic fiber may be spun, like cotton, into pure and blended yarn, which has a wide variety of applications in the manufacturing of textiles, including sweaters, knitted fabrics, carpets, sportswear and curtains.

Sales of acrylic fiber is influenced by fashion trends and the price and availability of wool and cotton, which compete with acrylic fibers in certain downstream applications. As acrylic fiber is mainly used to manufacture winter clothing, weather patterns also influence demand for acrylic fiber.

SAP. SAP is a resin synthesized by the polymerization of acrylic acid and caustic soda. SAP is insoluble, but can absorb several hundreds of times its own weight of water. Because of its excellent absorption properties, SAP is principally used in the production of disposable diapers, sanitary napkins, soil improvement fluids, sealants and construction materials.

Carbon Fiber. Formosa Plastics believes that it is Taiwan's only manufacturer of carbon fiber. Carbon fiber is a lightweight, high-strength material which is used in the manufacture of tennis and badminton racquets, fishing rods, bicycles, golf clubs and other sporting equipments. The unique properties of carbon fiber make it suitable for a wide range of potential applications, including aeronautical materials and automobile parts.

Chemicals Division

The principal products manufactured by Formosa Plastics' chemicals division include AN, MMA, MTBE, B-1 and ECH. Sales of the principal products produced by the chemicals division accounted for 5.0 per cent., 8.0 per cent. and 10.1 per cent. of Formosa Plastics' total consolidated operating revenues for the years ended December 31, 2001, 2002 and 2003, respectively. The following table sets forth the consolidated sales volume and consolidated sales revenues of each of the key products manufactured by Formosa Plastics' chemicals division for the periods indicated and the percentage of consolidated operating revenues of Formosa Plastics' chemicals division represented by each such product:

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
AN	56,671	1,216.5	35.3	86,187	2,102.6	34.4	90,494	2,539.6	74.7	26.3
ECH	10,509	304.8	8.8	37,592	1,222.2	20.0	63,261	2,366.4	69.6	24.5
MTBE	125,842	1,328.5	38.5	143,155	1,474.8	24.1	158,071	1,836.5	54.0	19.0
MMA	2,808	87.0	2.5	17,646	515.0	8.4	40,335	1,791.1	52.7	18.6
B-1	520	8.0	0.2	9,950	119.5	2.0	13,318	206.9	6.1	2.2
Others	—	502.1	14.6	—	681.4	11.1	—	908.3	26.8	9.4
Total	—	3,446.9	100.0	—	6,115.5	100.0	—	9,648.8	283.9	100.0

Sales of the principal products produced by the chemicals division accounted for 11.7 per cent. and 10.0 per cent. of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2003 and 2004, respectively. The following table sets forth the non-consolidated sales volume and non-consolidated sales revenues of each of the key products manufactured by Formosa Plastics' chemicals division for the periods indicated and shows the percentage of non-consolidated operating revenues of Formosa Plastics' chemical division represented by each such product:

	Non-consolidated						
	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
AN	18,623	564.5	27.0	25,862	795.4	24.1	30.0
ECH	14,325	533.5	25.5	15,956	590.1	17.9	22.3
MTBE	37,258	465.2	22.3	35,156	394.0	20.0	14.9
MMA	5,139	229.8	11.0	12,451	549.5	16.6	20.7
B-1	—	71.2	3.4	2,480	58.4	1.8	2.2
Others	—	226.2	10.8	—	264.6	8.0	10.0
Total	—	2,090.4	100.0	—	2,652.0	80.4	100.0

AN. AN is one of the principal raw materials used in the production of acrylic staple fiber and ABS resin, which Formosa Plastics' chemicals division supplies to Formosa Plastics' acrylic fiber plant and Formosa Chemicals and Fibre's ABS plant. AN is also used in the production of home electrical appliances, automotive parts, safety helmets, luggage cases and sports equipments.

ECH. ECH is used in the production of epoxy for the manufacture of printed circuit board, automobile paint, metal container linings and building reinforcement materials.

MTBE. MTBE is used as an additive in unleaded gasoline.

MMA. MMA is principally used in the production of acrylic plates, grains and pipes. It is also used in plastics modifiers, additives for paints, coatings and adhesives.

B-1. B-1 is an ancillary raw material used in the production of HDPE and LLDPE.

Polypropylene Division

Formosa Plastics has engaged in the production of polypropylene since 1979 through its investments in Yungchia Chemical Industries Corporation. Formosa Plastics' polypropylene division was formed following Formosa Plastics' merger of that company into its own operations in August 2003. Polypropylene is the only product manufactured by Formosa Plastics' polypropylene division. Sales of polypropylene accounted for 3.7 per cent. of Formosa Plastics' total consolidated operating revenues for the year ended December 31, 2003. The following table summarizes the consolidated sales volume and consolidated sales revenues of polypropylene manufactured by Formosa Plastics' polypropylene division for the periods indicated:

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Polypropylene	—	—	—	—	—	—	141,089	3,493.3	102.8	100.0
Total	—	—	—	—	—	—	141,089	3,493.3	102.8	100.0

Sales of polypropylene accounted for 9.4 per cent. of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2004. The following table summarizes the non-consolidated sales volume and non-consolidated sales revenues of polypropylene manufactured by Formosa Plastics' polypropylene division for the periods indicated:

	Non-consolidated						
	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Polypropylene	—	—	—	88,059	2,488.9	75.4	100.0
Total	—	—	—	88,059	2,488.9	75.4	100.0

Polypropylene. Polypropylene is one of the most versatile and low cost polymers in the petrochemicals industry. Formosa Plastics produces three major types of polypropylene: homopolymer polypropylene, random copolymer polypropylene and impact copolymer polypropylene. Homopolymer polypropylene is used in the production of BOPP film, IPP film, CPP film, yarn, woven bags, staple fiber, filter cloth, thermoforming sheet, transparent pressure forming sheet, toys, food containers, housewares and electrical appliances. Random copolymer polypropylene is used in the production of shrink film, heat sealing layers, food packaging, garment packaging, transparency CPP film, transparent containers, housewares and food container. Impact copolymer polypropylene is used for the production of pail, sports appliances, base of luggage, automotive parts, electric appliances, furniture and storage boxes.

Carbide Division

The principal products manufactured by Formosa Plastics' carbide division include calcium carbide and calcium carbonate. Sales of carbide products produced by the carbide division accounted for 1.6 per cent., 1.6 per cent. and 1.3 per cent. of Formosa Plastics' total consolidated operating revenues for the years ended December 31, 2001, 2002 and 2003, respectively. The following table sets forth the consolidated sales volume and consolidated sales revenues of each of the products manufactured by Formosa Plastics' carbide division for the periods indicated and shows the percentage of consolidated operating revenues of Formosa Plastics' carbide division represented by each such product:

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Calcium carbonate	116,953	264.5	24.1	115,337	260.3	21.9	121,168	267.4	7.9	21.9
Calcium carbide	18,318	243.6	22.2	17,233	230.1	19.3	17,077	220.2	6.5	18.0
Other	—	591.1	53.7	—	700.9	58.8	—	734.6	21.6	60.1
Total	—	1,099.2	100.0	—	1,191.3	100.0	—	1,222.2	36.0	100.0

Sales of carbide products produced by the carbide division accounted for 1.7 per cent. and 1.3 per cent. of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2003 and 2004, respectively. The following table sets forth the non-consolidated sales volume and non-consolidated sales revenues of each of the products manufactured by Formosa Plastics' carbide division for the periods indicated and shows the percentage of non-consolidated operating revenues of Formosa Plastics' carbide division represented by each such product:

	Non-consolidated						
	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Calcium carbonate	28,380	66.0	21.2	27,937	58.2	1.8	16.4
Calcium carbide	4,475	60.0	19.3	5,062	69.4	2.1	19.6
Others	—	184.6	59.4	—	226.8	6.8	64.0
Total	—	310.6	100.0	—	354.4	10.7	100.0

Calcium carbide. Calcium carbide is used to produce acetylene, a gas which is used in metal cutting and welding and as a desulphurization agent for steelmaking. Formosa Plastics produces ground calcium carbonate, which is used as an additive in the manufacture of plastics, paper, rubber, paint, toothpaste and dyestuffs. Formosa Plastics also produces quick lime, most of which is sold to stainless steel manufacturers and a portion of which is retained for use in the production of calcium carbide.

Calcium carbonate. Calcium carbonate is used as an additive for plastic, rubber, paint, building materials, paper, neutralizing agents, wire and cables, medicine, toothpaste and cosmetics.

Engineering and Construction Division

Formosa Plastics' engineering and construction division designs and constructs Formosa Plastics' production facilities. The engineering and construction division also operates seven co-generation power plants on two production sites (of which five are coal-fired and two are oil-fired) to provide a stable supply of power and steam in a cost effective manner to Formosa Plastics' production facilities. Under current regulations, it is not possible to transfer excess power from one site to another via the national grid. As a result, the engineering and construction division sells excess power and steam to other companies within the Formosa Group located at such site and to Taiwan Power Company and purchases electricity for use at the other production sites which do not have their own power generating equipment. Sales of electricity, steam and services provided by the engineering and construction division accounted for 2.5 per cent., 2.1 per cent. and 1.2 per cent. of Formosa Plastics' total consolidated operating revenues for the years ended December 31, 2001, 2002 and 2003, respectively. The following table sets forth the consolidated sales revenues of the products and services manufactured and supplied by Formosa Plastics' engineering and construction division for the periods indicated and shows the percentage of consolidated operating revenues of Formosa Plastics' engineering and construction division represented by such product and service:

	Consolidated						
	Year ended December 31,						
	2001		2002		2003		
	NT$ (millions)	%	NT$ (millions)	%	NT$ (millions)	U.S.$ (millions)	%
Electricity & steam	1,687.9	97.1	1,549.2	98.5	1,155.4	34.0	99.1
Others	49.9	2.9	24.1	1.5	11.0	0.3	0.9
Total	1,737.8	100.0	1,573.3	100.0	1,166.4	34.3	100.0

For the year ended December 31, 2003, electricity sold to affiliates within the Formosa Group and to Taiwan Power Company accounted for 32 per cent. of all power generated by the engineering and construction division.

Sales of electricity, steam and services provided by the engineering and construction division accounted for 1.6 per cent. and 0.5 per cent. of Formosa Plastics' total non-consolidated operating revenues for the three months ended March 31, 2003 and 2004, respectively. The following table summarizes the non-consolidated sales volume and non-consolidated sales revenues of the products and services manufactured and supplied by under Formosa Plastics' engineering and construction division for the periods indicated and shows the percentage of non-consolidated operating revenues of Formosa Plastics' engineering and construction division represented by such product and service:

	Non-consolidated				
	Three months ended March 31,				
	2003		2004		
	NT$ (millions)	%	NT$ (millions)	U.S.$ (millions)	%
Electricity & steam	289.8	99.1	122.4	3.8	99.0
Others	2.5	0.9	1.2	—	1.0
Total	292.3	100.0	123.6	3.8	100.0

For the three months ended March 31, 2004, electricity sold to affiliates within the Formosa Group and to Taiwan Power Company accounted for 16 per cent. of all power generated by the engineering and construction division.

FPC America

Formosa Plastics also engages in the production and sale of EDC and caustic soda through its wholly-owned U.S. subsidiary, FPC America.

FPC America is incorporated in Texas, the United States and has one chlor-alkali plant and one EDC plant at the Formosa Group's Point Comfort, Texas complex. The EDC plant has an annual production capacity of 968,000 MT. The chlor-alkali plant can produce 721,000 MT of chlorine and 810,000 MT of caustic soda per year. FPC America commenced sales in January 1994 and full-scale production in April 1994. For the year ended December 31, 2003, FPC America sold 69.1 per cent. of its EDC production in the United States, primarily to Formosa Plastics USA. The remainder of FPC America's EDC production was consumed by Formosa Plastics. FPC America's production of chlorine is used internally in the production of EDC. For the year ended December 31, 2003, FPC America sold 69 per cent. of the caustic soda it produced to producers in the United States, including Formosa Plastics USA, which purchased 6.6 per cent. of such production. The remainder of its caustic soda production was sold outside of the United States. Depending on market conditions, the proportion of caustic soda sold in the United States or exported may change from time to time. Sales revenues from FPC America accounted for 13.9 per cent., 14.4 per cent. and 11.9 per cent. of Formosa Plastics' total consolidated operating revenues for the year ended December 31, 2001, 2002 and 2003, respectively. The following table sets forth the consolidated sale volume and consolidated sales revenues of each of the products produced by FPC America for the periods indicated and shows the percentage of consolidated operating revenues of FPC America represented by each such product:

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
EDC	653,933	3,186.4	33.5	802,357	1,365.1	12.4	697,752	6,658.7	195.9	59.0
Caustic soda	741,322	6,321.9	66.5	883,982	9,622.7	87.6	761,690	4,620.1	135.9	41.0
Total	—	9,508.3	100.0	—	10,987.8	100.0	—	11,278.8	331.8	100.0

Production processes

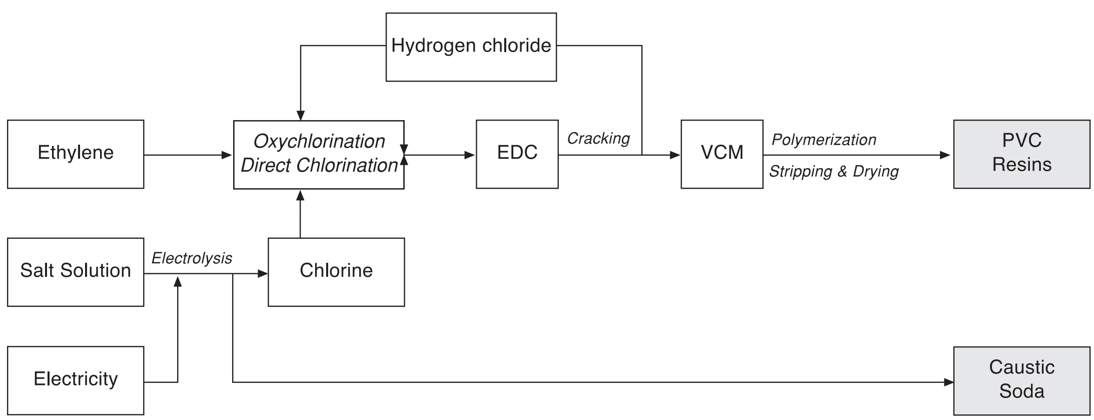
Plastics Division

PVC Resins and Caustic Soda.

PVC resins are produced by the catalytic polymerization of VCM. VCM is obtained by chlorinating ethylene to produce EDC and then cracking EDC. Formosa Plastics utilises four polymerization processes to produce PVC resins with different properties and applications. The most important process used by Formosa Plastics is suspension polymerization, in which the VCM, suspension agents and catalysts are suspended in water and polymerized in batch reactions. Formosa Plastics uses state-of-the-art reactors with large per-batch capacities. Following this, process, unreacted VCM is removed in a “stripper” and most of the water is then removed in a centrifuge, leaving PVC sludge. The remaining water is removed in a dryer to leave PVC resins in powder form. Formosa Plastics also produces PVC resins using mass, emulsion and microsuspension polymerization. Mass polymerization differs from suspension polymerization principally in that no water and no suspension agents are employed. Emulsion and microsuspension polymerization differ from suspension polymerization principally in reaction temperature and in the use of emulsion agents instead of suspension agents.

Formosa Plastics produces chlorine and caustic soda through the electrolysis of salt solution. Formosa Plastics uses the ion exchange membrane process in all of its chlor-alkali plants. Chlorine and caustic soda are produced by this process in approximately a 1 to 1.1 ratio by weight.

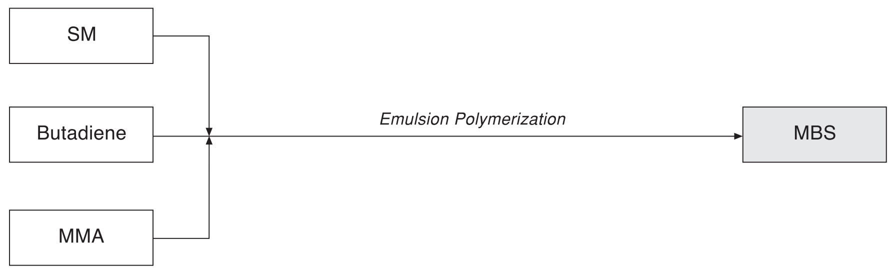
Production Flow Chart for PVC and Caustic Soda



MBS Resin

MBS resin produced by the emulsion polymerization of MMA, butadiene and styrene.

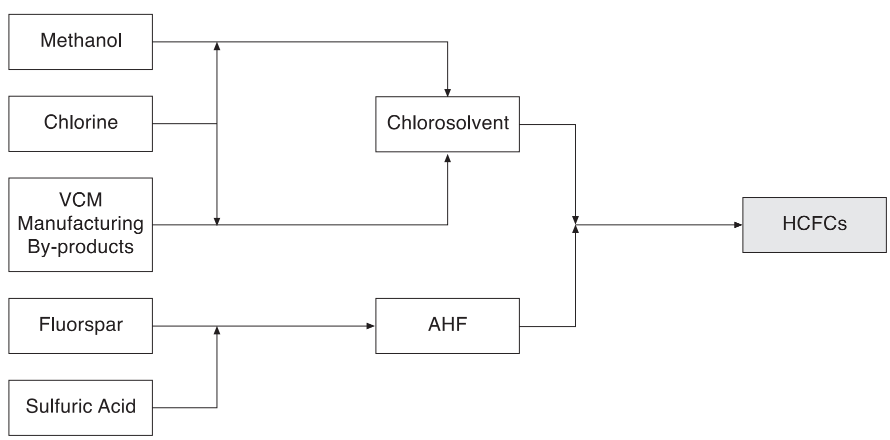
Production Flow Chart for MBS Resin



HCFCs

HCFCs are produced by the reaction of anhydrous hydrogen fluoride and chlorosolvents. Anhydrous hydrogen fluoride is produced by reacting fluorspar and sulphuric acid. The chlorosolvents used by Formosa Plastics are produced from chlorine and methanol, or chlorine and by-products of the process by which Formosa Plastics manufactures VCM.

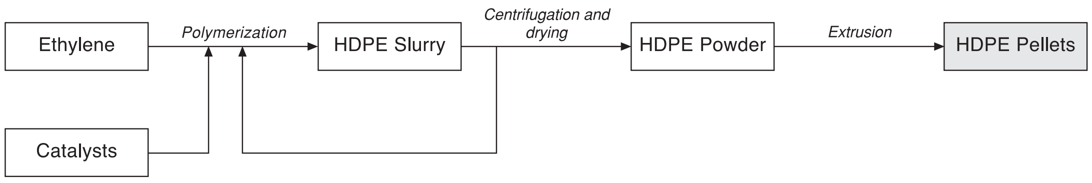
Production Flow Chart for HCFCs



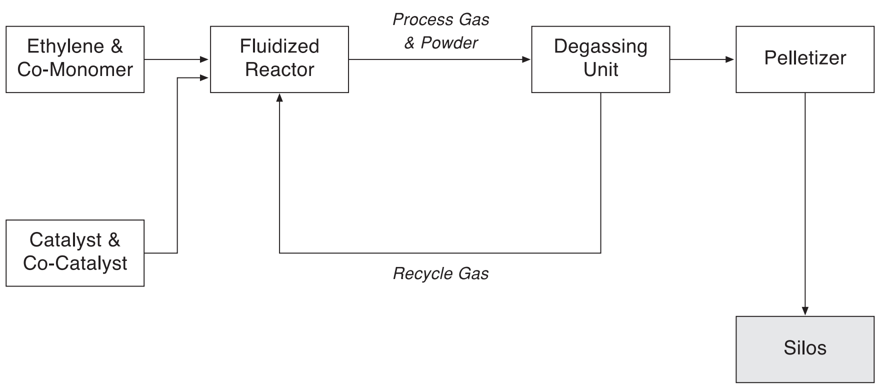
Polyolefin Division

HDPE, LDPE and LLDPE are produced by the polymerization of ethylene. These three resins differ in molecular structure which results in different physical characteristics such as hardness, clarity and melting point. Polymerization takes place in the presence of certain catalysts to produce HDPE slurry. This slurry is passed through a centrifuge and a dryer, from which the solvent is recovered, to form HDPE powder, which is then heated and passed through an extruder to produce HDPE pellets.

Production Flow Chart for HDPE



Production Flow Chart for LLDPE



Tairylan Division

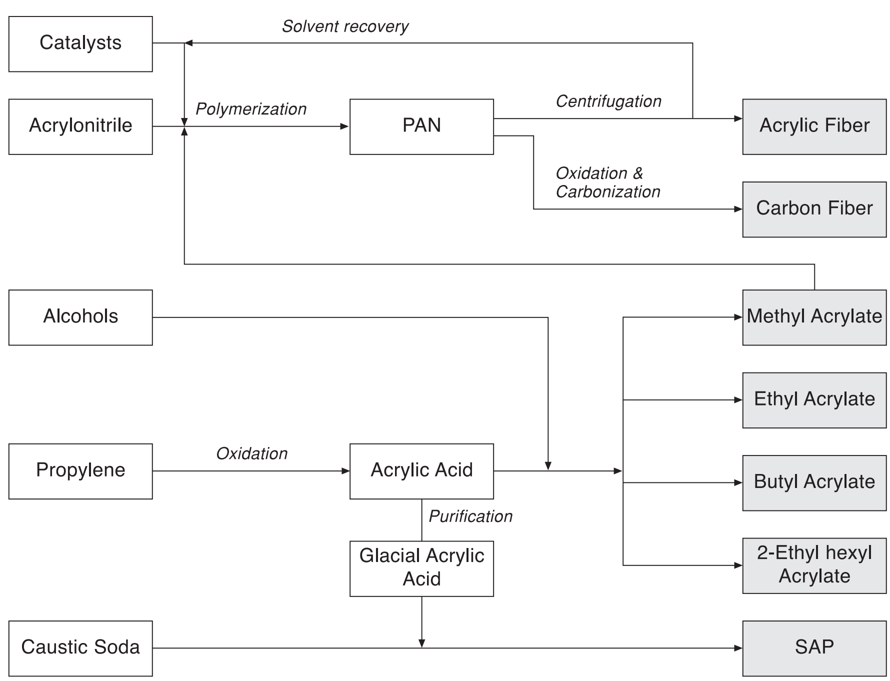
Acrylic Acid and Esters and SAP

Formosa Plastics manufactures crude acrylic acid through the oxidation of propylene. Crude acrylic acid is reacted with a range of alcohols (methanol, ethanol, butanol and 2-ethyl hexanol) to produce acrylic esters or purified to produce glacial acrylic acid. SAP is manufactured by reacting glacial acrylic acid with caustic soda.

Acrylic Fibers and Carbon Fibers

Formosa Plastics manufactures acrylic fibers by polymerizing acrylonitrile and methyl acrylate in solvent in the presence of catalysts to produce polyacrylonitrile ("PAN") in viscous liquid form. PAN is then passed through a centrifuge, where the solvent is recovered, then forced through a spinnerette to yield coarse, thick fibers in water bath. These fibers are then drawn to a required thickness, oiled and dried to produce many parallel, continuous filaments without definite twist which are combined to produce a rope-like form known as tow. To meet customer needs, the tow may be cut into fibers of varying lengths known as staple fiber. Staple fiber may be combed and coiled into a ball form known as top. Carbon fiber is manufactured by oxidizing and carbonizing PAN.

Production Flow Chart for Acrylic Acid and Esters, Acrylic Fiber, SAP and Carbon Fiber

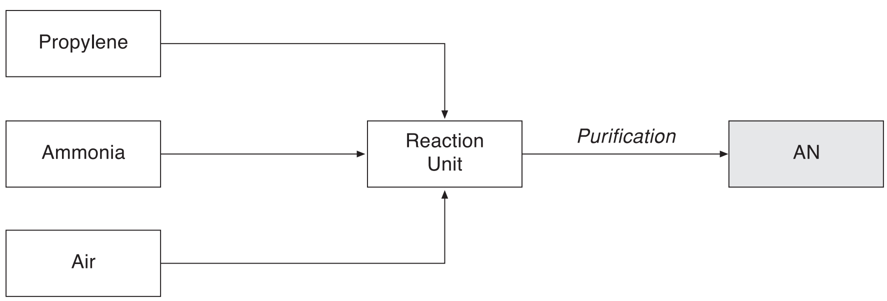


Chemicals Division

AN

AN is produced by mixing propylene and ammonia in a reaction unit where the mixed propylene and ammonia is further reacted with air which enters the reaction unit from a bottom enhance. Gas from the reaction unit will enter into a quencher where sulfuric acid is added and neutralization takes place between the sulfuric acid and ammonia. The gas from the quencher will pass through to an absorbing tower. The liquid at the bottom of the absorbing tower will enter into a recovery tower. The resultant at the top section of the recovery tower exists either in water phase or in oil phase. The oil phase will be passed to the purification process. Purification process occurs in a fluoric acid removal tower which runs in a vacuum. The purified liquid acrylonitrile is discharged from a side outlet of the fluoric acid removal tower to an intermediate storage tank.

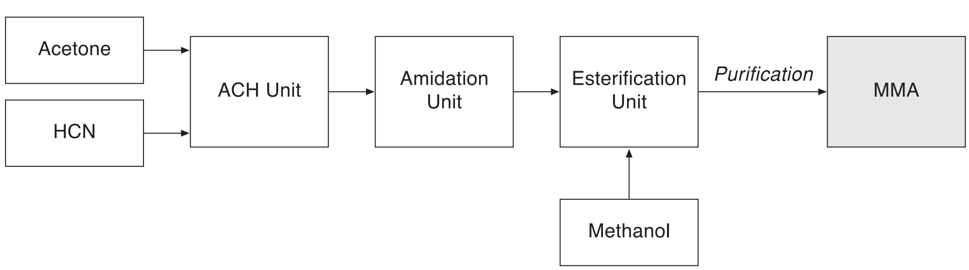
Production Flow Chart for AN



MMA

MMA is produced by depositing raw materials including acetone and HCN into a reaction tank to form acetone cyanohydrin. The resultant will be neutralizer by addition of sulfuric acid. The acetone cyanohydrin and sulfuric acid participate will go through a chemical reaction to form methacrylamide sulphate ("MMAS"). MMAS will then react with methanol to form MMA and ammonium bisulfate. Rough MMA will be purified into MMA after passing through three refining towers.

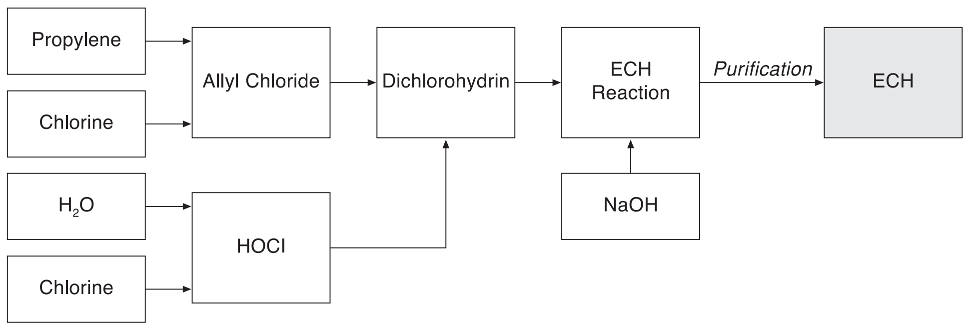
Production Flow Chart for MMA



ECH

ECH is produced via a two-stage process: propylene chloride reaction and epoxy chloropropane purification stage. In the propylene chloride reaction stage, raw materials including propylene and chlorine will go through a chemical reaction to form propylene chloride. Propylene chloride will, after refining, be sent to the epichlorohydrin purification stage. In the epichlorohydrin purification stage, the refined propylene chloride will firstly react with hypochloric acid to form dichloropropanol and then react with liquid alkali to obtain epichlorohydrin after removal of impurities.

Production Flow Chart for ECH



Polypropylene Division

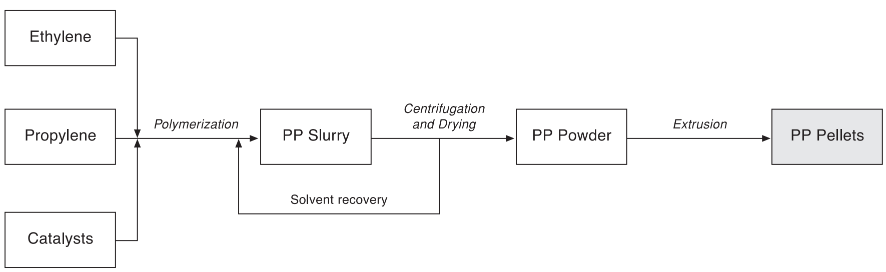
Polypropylene

Polypropylene pellets are produced through polymerization of propylene with ethylene and catalysts. Formosa Plastics employs two production methods to produce polypropylene pellets, namely, the slurry process and the gas phase process.

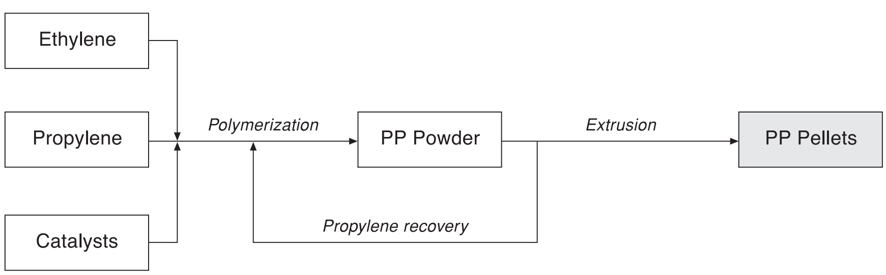
In the slurry process, propylene is dissolved in hexane, a solvent. Catalysts and polymers, such as ethylene, are then fed into a reaction unit for polymerization. The resultant from the polymerization, after recovery of the solvent and residual propylene by separation and drying, is polypropylene powder. The polypropylene powder, together with adequate additives, are subsequently fed into an extrusion machine to produce polypropylene pellets.

In the gas phase process, propylene, catalysts and polymers such as ethylene are directly added into a reaction unit for polymerization. The resultant from the polymerization, after removal of residual propylene, is polypropylene powder. The polypropylene powder, together with adequate additives, are subsequently fed into an extrusion machine to produce polypropylene pellets.

Production Flow Chart for PP (Slurry Process)



Production Flow Chart for PP (Gas Phase Process)

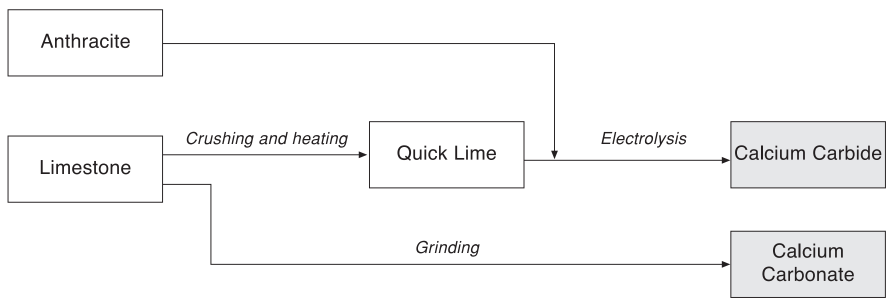


Carbide Division

Calcium Carbide and Calcium Carbonate

Formosa Plastics manufactures calcium carbide through the electrolysis of anthracite and quick lime. Quick lime is produced by heating crushed limestone in a lime kiln. Ground calcium carbonate is produced by grinding limestone.

Production Flow Chart for Calcium Carbide and Calcium Carbonate



Organization

Operating Divisions

Formosa Plastics' PVC resins and related products, polyolefins, acrylic acid and esters and related products, chemicals, polypropylene, carbide products are managed by six operating business divisions, with each of these divisions focusing on a particular product or group of products. The engineering and construction division is principally focused on installing and operating facilities for the supply of utilities and designing and constructing Formosa Plastics' production facilities. The engineering and construction division also sells to affiliates and other third parties excess electricity produced internally which are not required by its own operations. The following table sets forth the principal products of each of Formosa Plastics' product categories and the typical applications of such products, as well as the divisions responsible for the manufacture of such products:

Product Category	Division	Main Products/ Business	Typical Applications
PVC resins and related products	Plastics Division	PVC resins	PVC pipes, PVC film and PVC leather
		Caustic Soda	Rayon fiber, pulp and dyes
		VCM	Raw materials used for production of PVC resins
		MBS resin	Strengthening PVC rigid film and PVC bottles
		POM	Raw materials used for production of automotive parts, electrical machinery, transportation equipment.
		HCFC	Air conditioner and refrigerator coolants
Polyolefins	Polyolefin Division	HDPE	Grocery, merchandise and trash bags; food containers and plastic drink cups; safety equipment and industrial chemicals and motor oil.
		EVA	General packaging sanitary applications, shoe materials, non-woven and fabrics.
		LLDPE	Garbage and lawn-leaf bags; housewares; home plastic storage containers, kitchen trash containers produce bags and pallet stretch wrap.
		LDPE	Agricultural shrink film and transparent film, artificial flowers; food packaging films; plastic bottles; coatings on flexible packaging products.
Acrylic acid and esters and related products	Tairylan Division	Acrylic acid and esters	Acrylic fiber, SAP, paints and adhesives
		Acrylic fiber	Knitted fabrics, sweaters, carpets and sportswear
		SAP	Disposable diapers
		Carbon fiber	Tennis and badminton racquets, fishing rods and bicycles
Chemicals	Chemicals Division	AN	Raw materials used for manufacture of acrylic fibers and ABS resins
		ECH	Production of epoxy for the manufacture of circuit board, automobile paint, building reinforcement materials
		MTBE	gasoline additives
		MMA	Raw materials for acrylic plates, grains and pipes

Product Category	Division	Main Products/ Business	Typical Applications
		B-1	Raw material for production of HDPE and LLDPE
Polypropylene	Polypropylene Division	Polypropylene	Staple fibers for carpets, rugs and upholstery; housewares; food containers; automotive parts; electrical appliances, sports appliances, furniture and storage boxes; BOPP film.
Carbide products	Carbide Division	Calcium carbide	Acetylene, fertilizers and fruit-ripening agents
		Calcium carbonate	Additives to plastic, rubber, paint and paper
Electricity and steam	Engineering and Construction Division	Electricity, steam, design and construction plant and production facilities	Supply of utilities

Raw Materials

Supply and Consumption

Raw materials sourced within and outside the Formosa Group. Cost of raw materials constituted approximately 80 per cent. of Formosa Plastics' operating costs for the year ended December 31, 2003 and for the three months ended March 31, 2004. Some of these raw materials were purchased from Formosa Plastics' affiliates, and all such purchase were made on an arm's length basis at market prices. Such purchases, like Formosa Plastics' other transactions with its affiliates, are conducted on terms that are substantially the same as those for comparable transactions with non-affiliates. See "Related Party Transactions — Formosa Plastics". Purchases from affiliates within the Formosa Group, primarily Formosa Petrochemical, accounted for 69.5 per cent., 60.3 per cent. and 69.8 per cent. of Formosa Plastics' consolidated purchases of raw materials by value for the years ended December 31, 2001, 2002 and 2003, respectively. The table below sets forth certain information regarding the principal raw materials that Formosa Plastics sources from other entities, including other members of the Formosa Group.

Raw Materials	Principal Use	Principal Supplier
Ethylene	PVC resins, polyolefins, EDC, VCM	Formosa Petrochemical, CPC, Formosa Plastics USA
EDC	PVC resins	Formosa Plastic America
Propylene	Acrylic acid and esters, ECH, polypropylene, AN	Formosa Petrochemical, CPC
Salt	Caustic soda	Dampier (Australia), Essa (Mexico)

Raw materials produced internally. As part of Formosa Plastics' vertical integration strategy, Formosa Plastics produces a series of chemical products in the No. 6 Naphtha Cracker Complex for use principally in the production of its own plastics products. The following table sets forth certain information regarding the principal raw materials that Formosa Plastics produces internally.

Raw Materials Produced Internally	Principal Use	Division responsible
VCM	PVC resins	Plastics Division
EDC	PVC resins	Plastics Division
Caustic soda	ECH	Plastics Division
MMA	MBS resins	Chemicals Division
AN	Acrylic fiber	Chemicals Division

Principal raw materials consumed. Formosa Plastics' principal raw materials by value consumed are ethylene, EDC, propylene and salt. The following table sets forth, for the periods indicated, the amount of ethylene, EDC, propylene and salt consumed by Formosa Plastics:

	Year ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
	(KT)	(KT)	(KT)	(KT)	(KT)
Ethylene	1,189.4	1,201.9	1,322.0	266.5	362.3
EDC	1,073.0	1,080.8	1,161.9	263.0	291.8
Propylene	219.8	281.3	471.5	64.6	189.1
Salt	1,159.3	1,251.6	1,413.2	311.4	367.5

Formosa Plastics generally purchases its major raw materials pursuant to agreements with a term of one or more years which do not contain fixed price terms. Under these agreements, prices are adjusted periodically with reference to international market prices. These agreements generally specify minimum and maximum quantities, subject to adjustment in certain circumstances.

Types of Raw Materials

Plastics Division

PVC Resins. The principal raw materials used in the production of PVC resins are ethylene and chlorine. Ethylene is chlorinated to produce EDC, which is then cracked to produce VCM. VCM is polymerized into PVC resins. Ethylene is difficult and expensive to transport and store because it is highly flammable and volatile and must be shipped and stored either under high pressure or at low temperatures in specially constructed containers, making it relatively expensive to import. In response to the overall shortage of ethylene production in Taiwan, Formosa Plastics and other companies in the Formosa Group developed additional facilities, principally the No. 6 Naphtha Cracker Complex, to produce a greater domestic supply of ethylene and other chemical products. Formosa Petrochemical now operates Taiwan's only privately owned petroleum refinery and naphtha cracking plant. For the year ended December 31, 2003, Formosa Petrochemical supplied 57.8 per cent. of Formosa Plastics' plastics division's requirement of ethylene. Formosa Plastics also purchases ethylene from CPC, the only other Taiwanese producer of ethylene. For the year ended December 31, 2003, Formosa Plastics obtained 30.8 per cent. of its plastics division's requirement of ethylene from CPC. Due to shortage of ethylene and high energy costs in Taiwan, as well as the generally lower prices of ethylene, EDC and VCM in the international market, Formosa Plastics also imports a portion of its raw material requirements. For the year ended December 31, 2003, Formosa Plastics imported 11.4 per cent. of its plastics division's requirement of ethylene from overseas suppliers, principally from South Korea, Japan, Singapore, and Qatar. CPC's ethylene crackers are shut down periodically for scheduled inspections and maintenance, which are co-ordinated in advance with the inspection and maintenance schedules of CPC's downstream customers including Formosa Plastics. However, an extended unscheduled shutdown of one or more of CPC's ethylene facilities could have a material adverse effect on Formosa Plastics' operations, particularly its production of PVC resins and polyolefins, which are produced from ethylene.

Formosa Plastics' production equipment enables it to produce PVC resins using ethylene, EDC or VCM as the initial raw material input. This manufacturing flexibility allows Formosa Plastics to respond to volatility in the market price and availability of these three types of raw materials and enables it to adjust the mix of ethylene, EDC or VCM that it purchases to minimize its costs of raw materials.

All of Formosa Plastics' VCM requirements are met with VCM manufactured internally by its plastics division.

Formosa Plastics typically produces 75 per cent. to 80 per cent. of its EDC requirements in Taiwan and imports the balance from suppliers in the United States, Canada and the Middle East. Relative to ethylene and VCM, EDC is comparatively easy to transport. In May 1994, Formosa Plastics began purchasing EDC from FPC America. For the year ended December 31, 2003, Formosa Plastics purchased approximately 16 per cent. of its EDC requirements from FPC America.

Formosa Plastics obtains the chlorine used in its production of PVC resins from salt imported principally from Australia and Mexico.

Caustic soda. Formosa Plastics produces caustic soda as a by-product in the production of chlorine.

MBS resin. The principal raw materials required to produce MBS resin are MMA, butadiene and styrene, which Formosa Plastics either produces itself or purchases from its affiliates within the Formosa Group. All of Formosa Plastics' requirement of MMA is sourced internally from its chemicals division. Formosa Petrochemical supplies Formosa Plastics with all of its requirement of butadiene while Formosa Chemicals & Fibre supplies Formosa Plastics with all of its requirement of styrene.

HCFCs. Formosa Plastics imports fluorspar from the PRC and purchases sulphuric acid from domestic producers in Taiwan.

Polyolefin Division

The principal raw material used to produce HDPE, EVA, LDPE and LLDPE is ethylene, which Formosa Plastics purchases principally from Formosa Petrochemical and CPC. For the year ended December 31, 2003, 80.4 per cent. of Formosa Plastics' polyolefin division's requirement of ethylene was sourced by Formosa Petrochemical and another 15.9 per cent. was sourced from CPC. The balance of the polyolefin division's requirement of ethylene was satisfied by imports.

Tairylan Division

Acrylic Acid and Esters. The principal raw material used in the production of acrylic acid is propylene. For the year ended December 31, 2003, Formosa Plastics' Tairylan division obtained 83.5 per cent. of its propylene requirements for the production of acrylic acid from Formosa Petrochemical and purchased the balance principally from CPC. The principal raw materials used in the production of acrylic esters are acrylic acids and alcohol. Formosa Plastics produces internally all of its requirements of acrylic acid. Formosa Plastics imports most of the alcohols required to manufacture acrylic esters, primarily from North America and Europe.

Acrylic Fibers. The principal raw materials required for the production of acrylic fibers are AN and methyl acrylate. Formosa Plastics obtains all of its AN requirements from its own AN plant. Methyl acrylate required to produce acrylic fibers is derived from acrylic acid. Formosa Plastics currently produces all of its acrylic acid and methyl acrylate requirements internally.

Chemical Division

AN. The principal raw materials used to produce AN are propylene and ammonia. Formosa Petrochemical supplies Formosa Plastics with all of its requirement of propylene for the production of AN while ammonia is imported primarily from suppliers in Southeast Asia and Middle East.

ECH. The principal raw materials used to produce ECH are propylene, chlorine and sodium hydroxide. Formosa Petrochemical supplies Formosa Plastics with all of its requirements of propylene for the production of ECH. Formosa Plastics produces all of its requirement of chlorine and sodium hydroxide internally in its caustic soda plant.

MTBE. The principal raw materials used to produce MTBE are raffinate-1 and methanol. All of Formosa Plastics' requirement of raffinate-1 are sourced by Formosa Petrochemical. Methanol is imported principally from suppliers in the Middle East and South America.

MMA. The principal raw materials used to produce MMA are acetone, HCN and methanol. Formosa Plastics obtains all of its requirements of acetone from Formosa Chemicals & Fibre. All of Formosa Plastics' requirement of HCN is produced in its AN plant and methanol is imported primarily from suppliers in the Middle East and South America.

B-1. The principal raw material used to produce butadiene-1 is raffinate-2. All of Formosa Plastics' requirement of raffinate-2 is produced internally in its MTBE plant.

Polypropylene Division

Polypropylene. The principal raw material required to produce polypropylene is propylene. For the year ended December 31, 2003, Formosa Plastics' polypropylene division obtained 56 per cent. of its propylene requirements from Formosa Petrochemical and purchased the balance from CPC.

Carbide Division

The principal raw material required to produce calcium carbide and calcium carbonate is limestone, some of which Formosa Plastics obtains from its own limestone mining operations in Taiwan, with the balance purchased from other domestic sources. Formosa Plastics also uses anthracite in the production of calcium carbide which is imported primarily from Vietnam.

FPC America

Due to its location in the United States, FPC America has access to raw materials at a relatively lower cost and in larger quantities than those divisions of Formosa Plastics located in Taiwan. In particular, salt (in the form of brine), the principal raw material used in the production of chlorine and caustic soda, is available at a fraction of its cost in Taiwan. Ethylene is also available in the United States in larger quantities and at a significantly lower cost than in Taiwan.

Sales

Geographical Markets

The following table sets forth, for the periods indicated, the percentage breakdown of Formosa Plastics' consolidated operating revenues by geographic segments for each of its products by division:

	Consolidated		
	Year ended December 31,		
	2001	2002	2003
	%	%	%
Plastics Division			
Taiwan	56.4	52.1	48.2
PRC	31.2	37.1	41.9
Southeast Asia	5.8	5.9	4.8
Australia	1.6	2.0	3.0
Middle East	0.9	1.1	0.5
Others	4.2	1.8	1.6
Total	100.0	100.0	100.0
Polyolefin Division			
Taiwan	40.0	43.2	39.9
PRC	50.9	49.4	51.2
Southeast Asia	6.1	4.6	5.3
Australia	0.1	—	—
Middle East	2.0	1.2	2.8
Others	0.9	1.6	0.8
Total	100.0	100.0	100.0
Tairylan Division			
Taiwan	49.0	45.5	45.0
PRC	32.8	35.4	40.2
Southeast Asia	10.7	11.0	9.0
Australia	0.1	0.2	0.1
Middle East	2.5	4.7	3.3
Others	4.9	3.2	2.4
Total	100.0	100.0	100.0
Chemicals Division			
Taiwan	99.0	86.8	88.0
PRC	—	3.3	3.7
Southeast Asia	0.7	6.6	5.3
Australia	—	—	—
Middle East	—	—	0.4
Others	0.3	3.3	2.6
Total	100.0	100.0	100.0
Polypropylene Division			
Taiwan	—	—	56.2
PRC	—	—	34.6
Southeast Asia	—	—	7.4
Australia	—	—	—
Middle East	—	—	—
Others	—	—	1.8
Total	—	—	100.0

	Consolidated		
	Year ended December 31,		
	2001	2002	2003
	%	%	%
Carbide Division			
Taiwan	74.8	77.0	76.7
PRC	2.4	2.6	2.1
Southeast Asia	10.7	9.6	11.1
Australia	0.1	0.2	0.2
Middle East	0.5	1.4	2.1
Others	11.5	9.2	7.8
Total	100.0	100.0	100.0
Engineering and Construction Division			
Taiwan	100.0	100.0	100.0
	100.0	100.0	100.0

The following table sets forth, for the periods indicated, the percentage breakdown of Formosa Plastics' non-consolidated operating revenues by geographic segments for each of its products by division:

	Non-consolidated	
	Three months ended March 31,	
	2003	2004
	%	%
Plastics Division		
Taiwan	53.9	50.3
PRC	35.7	41.1
Southeast Asia	4.7	3.7
Australia	3.4	3.4
Middle East	0.5	0.2
Others	1.8	1.3
Total	100.0	100.0
Polyolefin Division		
Taiwan	47.2	40.4
PRC	42.1	52.7
Southeast Asia	4.5	4.2
Australia	0.1	0.4
Middle East	5.2	1.3
Others	0.9	1.0
Total	100.0	100.0
Tairylan Division		
Taiwan	42.7	45.1
PRC	42.1	37.7
Southeast Asia	7.0	13.1
Australia	0.1	0.1
Middle East	4.6	2.1
Others	3.5	1.9
Total	100.0	100.0

	Non-consolidated	
	Three months ended March 31,	
	2003	2004
	%	%
Chemicals Division		
Taiwan	92.5	89.0
PRC	—	1.5
Southeast Asia	2.0	6.6
Australia	—	—
Middle East	1.0	1.6
Others	4.5	1.3
Total	100.0	100.0
Polypropylene Division		
Taiwan	—	50.6
PRC	—	38.7
Southeast Asia	—	9.1
Australia	—	—
Middle East	—	—
Others	—	1.6
Total	—	100.0
Carbide Division		
Taiwan	74.0	75.7
PRC	1.6	2.0
Southeast Asia	11.3	11.0
Australia	0.3	1.1
Middle East	3.5	2.0
Others	9.3	8.2
Total	100.0	100.0
Engineering and Construction Division		
Taiwan	100.0	100.0
	100.0	100.0

Formosa Plastics conducts its operations in the United States principally through FPC America. As such, sales of products in Formosa Plastics' manufacturing plants in the United States are not reflected in its non-consolidated operating revenues. Most of the products produced in the United States are sold within North America.

Customers

Taiwan is the most important market for Formosa Plastics, accounting for 46.1 per cent. of its total consolidated operating revenues for the year ended December 31, 2003. In the domestic market, Formosa Plastics' principal customers are its affiliates in the Formosa Group, which accounted for approximately 29 per cent. of Formosa Plastics' total consolidated operating revenues for the year ended December 31, 2003. Formosa Plastics' unaffiliated customer base consists primarily of small and medium-size secondary processors and producers of plastics and fiber products in Taiwan. Formosa Plastics has had long-term relationships with many of its customers, which it has established and maintained by providing them with a steady supply of competitively priced products and technical assistance. Formosa Plastics' policy is to sell only to customers with whom it has had or expects to have long-term relationships.

For the year ended December 31, 2003, Formosa Plastic's largest customers were Nan Ya Plastics, Formosa Plastics USA and Formosa Chemicals & Fibre, which accounted for 12.5 per cent., 6.1 per cent. and 3.7 per cent. respectively, of Formosa Plastics' total consolidated operating revenues for the same period. No other customer accounted for more than five per cent. of Formosa Plastics' total consolidated operating revenues for the year ended December 31, 2003.

In the export market, Formosa Plastics' products are sold primarily to secondary plastics processors in the PRC, who collectively accounted for 33.2 per cent. of Formosa Plastics' total consolidated operating revenues for the year ended December 31, 2003.

Plastics Division

Formosa Plastics' principal customers for its plastics products are its affiliates within the Formosa Group. For the year ended December 31, 2003, 40 per cent. of Formosa Plastics' sales of PVC resins were made to Nan Ya Plastics. No other single customer accounted for more than two per cent. of Formosa Plastics' total sales of PVC resins for the year ended December 31, 2003. Exports constituted 51 per cent. of Formosa Plastics' sales of PVC resins for the year ended December 31, 2003, primarily to secondary plastics producers in the PRC. For the year ended December 31, 2003, 16.9 per cent. of Formosa Plastics' sales of caustic soda were made to Formosa Chemicals & Fibre, with no other customer accounting for more than five per cent of Formosa Plastics' total sales for the same period.

Polyolefin Division

Formosa Plastics sells the polyolefins it produces to both domestic and overseas manufacturers. Formosa Plastics' largest HDPE customer is Samsung Co., Ltd. which accounted for 14.4 per cent. of Formosa Plastics' HDPE sales for the year ended December 31, 2003. No other customer accounted for more than five per cent. of Formosa Plastics' sales of HDPE for the year ended December 31, 2003. In the export market, Formosa Plastics sells the HDPE, LDPE, EVA and LLDPE it produces primarily to the PRC, which accounted for 52 per cent., 25 per cent., 73 per cent. and 47 per cent. of Formosa Plastics' sales of HDPE, LDPE, EVA and LLDPE, respectively, for the year ended December 31, 2003.

Tairylan Division

Formosa Plastics sells the acrylic acid and esters it produces primarily to manufacturers of paints, adhesives and textile sizing. For the year ended December 31, 2003, approximately 61 per cent. of Formosa Plastics' sales of acrylic esters were made to domestic customers. Formosa Plastics' largest acrylic esters customer is an unaffiliated domestic adhesive manufacturer which accounted for 21.2 per cent. of Formosa Plastics' sales of acrylic esters for the year ended December 31, 2003.

Formosa Plastics sells the acrylic fibers it produces primarily to textile manufacturers. Exports represented 80 per cent. of Formosa Plastics' total sales of acrylic fibers for the year ended December 31, 2003. For the year ended December 31, 2003, 84 per cent. of Formosa Plastics' exports were made to customers in Southeast Asia, primarily the PRC. In the domestic market, Formosa Chemicals & Fibre accounted for 5 per cent. of Formosa Plastics' acrylic fiber sales for the year ended December 31, 2003. For the same period, the balance of Formosa Plastics' domestic acrylic fiber sales were made to over 50 customers. In recent years, the percentage of Formosa Plastics' acrylic fiber sales represented by exports has increased due in part to the relocation of some of its customers' manufacturing operations to countries with lower labor costs.

Chemicals Division

Formosa Plastics sells the chemical products it produces primarily to its affiliates within the Formosa Group and to domestic manufacturers. For the year ended December 31, 2003, 43 per cent. of the AN produced by Formosa Plastics was sold to Formosa Chemicals & Fibre and its own Tairylan division. All of the MTBE produced by Formosa Plastics was sold to Formosa Petrochemical. For the same period, Formosa Plastics sold 91 per cent. of the ECH it produced to Nan Ya Plastics. The balance of its chemical products was exported to manufacturers in the PRC.

Polypropylene Division

Formosa Plastics sells the polyproylene it produces to both domestic and overseas manufacturers. In the domestic market, Formosa Plastics sold 17 per cent. of its polyproylene production to Nan Ya Plastics and approximately 39 per cent. to third parties outside the Formosa Group for the year ended December 31, 2003. In the export market, Formosa Plastics exported 35 per cent. of its polyproylene production to the PRC during the same period.

Carbide Division

Formosa Plastics primarily sells the calcium carbide it produces directly or through agents to manufacturers of acetylene. Exports accounted for 73 per cent. of Formosa Plastics' sales of calcium carbide for the year ended December 31, 2003. Formosa Plastics primarily sells the calcium carbonate it produces to manufacturers of plastics, paper, paint and rubber. For the year ended December 31, 2003, 32 per cent. of Formosa Plastics' calcium carbonate sales were made to Nan Ya Plastics, with the balance divided approximately evenly between domestic and foreign customers.

FPC America

For the year ended December 31, 2003, Formosa Plastics USA was the largest customer for the EDC produced by FPC America, accounting for approximately 65 per cent of FPC America's operating revenues. In addition, export sales (largely consisting of caustic soda) accounted for 28 per cent. of FPC America's operating revenues for the year ended December 31, 2003.

Competition

Formosa Plastics competes primarily on the basis of price, quality, supply stability and after-sales service. Formosa Plastics believes that it enjoys an advantage over its competitors in its principal product markets because of its significantly larger production capacity which enables it to take advantage of economies of scale. In addition, Formosa Plastics believes that its customers are attracted by the substantial after-sales service and technical support offered by Formosa Plastics. Formosa Plastics' businesses are principally domestic in scope with the exception of PVC resins, acrylic acid and esters, acrylic fibers, polyolefins and polypropylene, which Formosa Plastics exports primarily to the PRC and countries in Southeast Asia.

Product Sector	Principal Geographical Markets	Principal Competitors
Plastics Division		
PVC resins	Taiwan, PRC, Southeast Asia	China General Plastics, Ocean Plastics, Taiyo Vinyl, Kaneka, Shin-Etsu Chemical, LG Chemical, TPI
Caustic soda	Taiwan, Australia, USA	Hanwha, Tosoh, QVC
VCM	PRC, Southeast Asia	Tosoh, QVC, VCMSB, Kaneka, TVCM
Polyolefin Division		
HDPE	Taiwan, PRC, South America	USI, Mitsui, Phillips, KPIC
EVA	Taiwan, PRC, India	USI, APC, TPC, Hyundai
LLDPE	Taiwan, PRC, South America	USI, Exxon, Qamar, Hanwha
LDPE	Taiwan, PRC, South America	USI, APC, Titan, Hanwha
Tairylan Division		
Acrylic acid & esters	Taiwan, PRC, Southeast Asia, Pakistan	BASF, LG Chemical, Nippon Shokubai
Acrylic fiber	Taiwan, PRC, Southeast Asia, India	Mitsubishi Rayon, Japan Exlan, Montefibre
Carbon fiber	Taiwan, PRC, Korea, Japan	Toray Industries, Toho Tenaxs, Mitsubishi Rayon
SAP	Taiwan, PRC, South America, Middle East	Sumitomo Seika, BASF, Kolon Chemical
Chemicals Division		
AN	Taiwan	BP, CPDC, Asahi
ECH	Taiwan, PRC, Thailand	Samsung, DOW
MTBE	Taiwan	SABIC, FPCC, TASCO
MMA	Taiwan, India, PRC	Kaoshiung MMA Co, R&H, Lutice, Asahi, Sumitomo
Polypropylene Division		
PP	Taiwan, Hong Kong, PRC, Indonesia	Taiwan Polypropylene Co, Formosa Chemicals & Fibre, Reliance Industries Limited, Thai Petrochemical Industry Co.
Carbide Division		
Calcium Carbide	Taiwan, Japan, Singapore, India	
Calcium Carbonate	Taiwan, Vietnam, Indonesia, PRC, Philippines	Li Shian, Ho Shan, An Jun, Hwa Tun, Omya, Honail

Plastics Division

Formosa Plastics is Taiwan's leading producer of PVC resins. For the year ended December 31, 2003, Formosa Plastics believes that its share of the domestic PVC resins market was approximately 70 per cent., with the balance split between its only domestic competitors (China General Plastics Corporation and Ocean Plastics Corporation) and imports. As domestic supply of PVC resins has substantially outweighed domestic demand in recent years, most of Taiwan's demand for PVC resins has been satisfied by domestic production. However, due to reasons such as volatility in the price of PVC resins and adaptability and diversity of PVC products in the international market, Taiwan still imports a portion of its PVC requirements. Imports satisfied approximately 7.5 per cent. of Taiwan's demand for PVC resins for the year ended December 31, 2003 according to the Petrochemical Industry Association of Taiwan.

Polyolefin Division

Formosa Plastics is the largest domestic producer of HDPE in Taiwan and believes that it had an approximately 53 per cent. share of the domestic market for the year ended December 31, 2003. The HDPE market is highly competitive. Formosa Plastics believes that its only domestic competitor in the HDPE market held a market share of approximately 16 per cent. for the year ended December 31, 2003, with the remainder of domestic demand satisfied by imports. Accordingly, Formosa Plastics views its primary competitors in the HDPE market as foreign producers selling prime-grade HDPE into Taiwan. These producers are located primarily in Japan, the United States, South Korea and Saudi Arabia.

Tairylan Division

Formosa Plastics is the only manufacturer of acrylic esters in Taiwan and believes that it had an approximately 85 per cent. share of the domestic market for the year ended December 31, 2003, with imports accounting for the remainder.

Formosa Plastics is the largest producer of acrylic fiber in Taiwan and believes that it had a domestic market share of approximately 42 per cent. for the year ended December 31, 2003. Formosa Plastics believes that the only other manufacturer of acrylic fiber in Taiwan had a market share of approximately 39 per cent. for the same period, with imports from a number of manufacturers, primarily from Japan and Italy, accounting for the remainder. In the export market, Formosa Plastics competes principally with manufacturers from Japan, Italy and South Korea. Formosa Plastics believes that it has a competitive advantage because many of its overseas customers are affiliates of its Taiwanese customers or its former Taiwanese customers which have relocated their operations abroad, with whom Formosa Plastics has a long-term relationship. Formosa Plastics also believes that its customer loyalty derives in large part from the fact that its products are tailored to the needs of its customers. In both the domestic and export markets for acrylic fibers, Formosa Plastics competes with other manufacturers of acrylic fibers on the basis of price, product quality and after-sales service.

Chemicals Division

Formosa Plastics is Taiwan's largest domestic manufacturer of AN and believes that it had an approximately 34 per cent. share of the domestic market for the year ended December 31, 2003. Formosa Plastics believes that its main domestic competitor in the AN market held a market share of approximately 35 per cent. of the domestic market for the year ended December 31, 2003, with the remainder of domestic demand satisfied by imports.

Polypropylene Division

Formosa Plastics is second largest manufacturer of polypropylene in Taiwan and believes that it had an approximately 28 per cent. share of the domestic market for the year ended December 31, 2003. Formosa Plastics' two main domestic competitors, namely, Formosa Chemicals & Fibre and Taiwan Polypropylene Co., Ltd., held a market share of approximately 21 per cent. and 32 per cent., respectively, of the domestic market for the same period, with the remainder of domestic demand satisfied by imports.

Carbide Division

Formosa Plastics is Taiwan's only manufacturer of, and supplies most of Taiwan's demand for, calcium carbide. Its principal competitors in the export market are manufacturers in the PRC. For the year ended December 31, 2003, Formosa Plastics believes that it had an approximately 90 per cent. share of the domestic market for ground calcium carbonate and that it competes principally with one other domestic manufacturer.

FPC America

FPC America competes in the United States with a broad range of large and small producers. Formosa Plastics believes that for the year ended December 31, 2003, FPC America had a market share of over six per cent. of caustic soda and approximately eight per cent. of EDC in the United States.

Research and Development; Intellectual Property Rights

Formosa Plastics' research and development activities are conducted at two levels. Each manufacturing facility has its own research and development staff generally devoted to improving production processes and addressing specific technical problems. In addition, Formosa Plastics has a separate research and development department comprised of over 180 researchers responsible for developing new products and assisting the research and development staffs of the manufacturing facilities with respect to specific projects. In addition, Formosa Plastics often lends its research and development expertise to customers seeking to improve product quality or expand into new product lines.

Formosa Plastics has developed or purchased all of the material technology currently being used at its production facilities. For the year ended December 31, 2003 the total amount spent on research and development activities undertaken by Formosa Plastics was NT$787.8 million, including costs for personnel and facilities.

Properties and Facilities

Formosa Plastics operates 34 manufacturing plants in Taiwan located on five production sites and seven power co-generation plants located on two of such sites. FPC America also operates one EDC plant and one chlor alkali plant in the United States.

Formosa Plastics owns all of the plants, property and equipment at each of its production sites with the exception of the Kaohsiung site, where Formosa Plastics leases a 4.92 hectare plot from the Taiwanese provincial authorities. The lease does not provide for a fixed term and the provincial authorities retain discretion to adjust the rental payment at any time to reflect changes in land value.

Production Capacity

The following table sets forth Formosa Plastics' annual production capacity for its principal products and the average utilization rates of its facilities for such products for the periods indicated:

	Year ending December 31,			Three months ending March 31,	
	2001	2002	2003	2003	2004
Plastics Division					
PVC resins					
Capacity (MTY)	1,293,000	1,329,000	1,329,000	1,329,000	1,329,000
Average Utilization Rate	88%	89%	93%	89%	96%
Caustic soda					
Capacity (MTY)	710,000	883,000	983,000	983,000	1,033,333
Average Utilization Rate	105%	93%	95%	94%	94%
VCM					
Capacity (MTY)	1,320,000	1,440,000	1,440,000	1,440,000	1,500,000
Average Utilization Rate	99%	92%	99%	89%	94%
Polyolefin Division					
HDPE					
Capacity (MTY)	450,000	450,000	450,000	450,000	500,000
Average Utilization Rate	96%	93%	101%	78%	98%
EVA/LDPE					
Capacity (MTY)	200,000	200,000	200,000	200,000	212,000
Average Utilization Rate	78%	82%	96%	70%	99%
LLDPE					
Capacity (MTY)	240,000	240,000	240,000	240,000	240,000
Average Utilization Rate	42%	37%	43%	26%	80%
Tairylan Division					
Acrylic acid and esters					
Capacity (MTY)	180,000	198,000	202,000	202,000	202,000
Average Utilization Rate	106%	102%	114%	107%	115%
Acrylic fibers					
Capacity (MTY)	92,000	92,000	92,000	92,000	105,000
Average Utilization Rate	88%	93%	98%	94%	99%
Carbon fiber					
Capacity (MTY)	1,000	1,000	1,440	1,000	1,440
Average Utilization Rate	61%	51%	71%	62%	105%
SAP					
Capacity (MTY)	24,000	24,000	24,000	24,000	24,000
Average Utilization Rate	78%	82%	102%	109%	104%
Chemicals Division					
AN					
Capacity (MTY)	200,000	200,000	200,000	200,000	200,000
Average Utilization Rate	56%	80%	88%	56%	111%
MMA					
Capacity (MTY)	70,000	70,000	70,000	70,000	70,000
Average Utilization Rate	9%	31%	68%	28%	80%
MTBE					
Capacity (MTY)	151,000	151,000	151,000	151,000	151,000
Average Utilization Rate	84%	101%	102%	84%	98%
B-1					
Capacity (MTY)	17,000	17,000	17,000	17,000	26,000
Average Utilization Rate	80%	128%	149%	135%	135%
ECH					
Capacity (MTY)	80,000	80,000	80,000	80,000	80,000
Average Utilization Rate	15%	46%	75%	60%	86%
Polypropylene Division					
PP					
Capacity (MTY)	—	—	350,000	—	350,000
Average Utilization Rate	—	—	98%	—	106%

	Year ending December 31,			Three months ending March 31,	
	2001	2002	2003	2003	2004
Carbide Division					
Calcium Carbide					
Capacity (MTY)	54,000	54,000	54,000	54,000	54,000
Average Utilization Rate	32%	30%	21%	36%	43%
Calcium Carbonate					
Capacity (MTY)	258,000	258,000	258,000	258,000	258,000
Average Utilization Rate	49%	49%	51%	49%	46%
Engineering and Construction Division					
Electricity					
Capacity (KW)	361,000	361,000	361,000	361,000	361,000
Average Utilization Rate	75%	75%	69%	69%	69%
FPC America					
Caustic soda					
Capacity (MTY)	810,000	810,000	810,000	810,000	810,000
Average Utilization Rate	89%	101%	96%	103%	101%
EDC					
Capacity (MTY)	968,000	968,000	968,000	968,000	968,000
Average Utilization Rate	89%	102%	98%	102%	101%

Equipment and Maintenance

A significant portion of the equipment in Formosa Plastics' plants is designed by the staff of its engineering and construction division and is manufactured by Formosa Heavy Industries under the supervision of Formosa Plastics' technicians. Formosa Plastics has developed or refined many of the reactors and much of the processing equipment used in its plants.

Expansion Plans

Formosa Plastics plans to increase its production capacity at several of its manufacturing facilities through plant expansion and debottlenecking on existing plants. The following table shows the anticipated increase in production capacity of Formosa Plastics' principal products over the next few years:

Main Products	Current Capacity (p.a.)	Expansion (MT/p.a.)	Completion Date	Capacity Increase (%)
Plastics Division				
PVC Resins	1,329,000 MT	38,000 MT	9/2004	2.86
VCM	1,500,000 MT	80,000 MT	6/2004	5.33
Caustic Soda	1,033,333 MT	433,333 MT	6/2005	41.94
Polyolefin Division				
HDPE	500,000 MT	30,000 MT	3/2005	6.00
EVA/LDPE	212,000 MT	28,000 MT	12/2005	13.21
LLDPE.	240,000 MT	24,000 MT	12/2004	10.00
Tairylan Division				
SAP	24,000 MT	6,500 MT	10/2004	27.08
Carbon Fiber	1,440 MT	752 MT	12/2004	52.22
Chemicals Division				
AN	200,000 MT	80,000 MT	6/2005	40.00
MTBE	151,000 MT	23,000 MT	11/2004	15.23
ECH	80,000 MT	20,000 MT	3/2005	25.00
MMA	70,000 MT	28,000 MT	6/2005	40.00

Employees

As of March 31, 2004, Formosa Plastics, on a consolidated basis, employed over 4,700 full-time employees. The average employment period for employees as of December 31, 2003 was 15 years and 49 per cent. of these employees belonged to unions. These unions are responsible for providing continuing education and welfare to members. None of Formosa Plastics' employees are employed pursuant to collective bargaining agreements, although the unions are involved in the negotiation of wage disputes. Formosa Plastics considers its employee relations to be good. Formosa Plastics has never experienced a material business disruption as a consequence of a labor dispute. The employees of FPC America are not unionized.

Wage levels increased in Taiwan in recent years such that Taiwan is no longer considered a low wage manufacturing base. The average total annual compensation for the average operator in Formosa Plastics' factories in Taiwan was NT$856,000 (U.S.$25,193) for the year ended December 31, 2003. Many of Formosa Plastics' workers are highly skilled and Formosa Plastics seeks to achieve the appropriate balance between automation of its factories and the use of skilled employees to monitor the production process.

Environmental and Other Regulatory Matters

Formosa Plastics is subject to regulation by the Environmental Protection Agency of the ROC, the Taiwan Provincial Environmental Department, and the county environmental protection bureau in each county where it produces its products. Formosa Plastics believes that it is in substantial compliance with applicable material environmental laws and regulations to which it is subject. In addition to licensing Formosa Plastics' operations these authorities also conduct both scheduled and unscheduled inspections to monitor Formosa Plastics' air and water emissions and solid waste disposal.

Formosa Plastics is committed to maintaining appropriate environmental controls in all of its manufacturing facilities and has consistently endeavored to promote a safe and clean environment for both its workers and the communities in which its facilities are located. Formosa Plastics' capital investment and expenditures relating to environmental protection projects totalled NT$291 million (U.S.$8.6 million), NT$223 million (U.S.$6.4 million) and NT$476 million (U.S.$13.6 million), respectively, for the years ended December 31, 2003, 2002 and 2001. These amounts constituted 0.3 per cent., 0.3 per cent. and 0.5 per cent. of Formosa Plastics' consolidated sales for the years ended December 31, 2003, 2002 and 2001, respectively. Formosa Plastics' budget for such investment and expenditure for 2004 is NT$1,062 million.

Formosa Plastics is seeking, through its research and development efforts, to develop more efficient manufacturing processes that generate less pollution. Although Formosa Plastics believes that the methods of disposing of pollutants it currently employs are in substantial compliance with all applicable ROC government standards, it is continuing to strive for improvements in its emissions performance. Formosa Plastics believes that national, provincial and local environmental authorities will impose new, stricter regulations over the next few years which will necessitate additional expenditures on environmental protection. In anticipation of such regulations, Formosa Plastics has implemented manufacturing process improvements that have reduced pollution to levels that meet or exceed many of the standards expected to be adopted.

Formosa Plastics' wholly-owned U.S. subsidiary, FPC America, is subject to extensive environmental laws and regulations governing, among other things, air emissions, wastewater discharges and the handling, use, storage and disposal of hazardous substances and solid and hazardous wastes. FPC America's EDC unit and ion exchange membrane chlor-alkali unit are located at the Formosa Group's manufacturing complex in Point Comfort, Texas where a number of other Formosa Group entities, including Formosa Plastics USA, conduct their operations. Formosa Plastics USA is the single largest customer for the EDC produced by FPC America. Formosa

Plastics believes that FPC America is in compliance with applicable environmental laws, regulations and permits. While future environmental requirements cannot be predicted with certainty, Formosa Plastics does not believe that future environmental requirements affecting FPC America's facilities or other Formosa Group entities at Point Comfort, Texas are likely to have a material effect on Formosa Plastics' or FPC America's financial position or results of operations.

Legal Proceedings

Formosa Plastics is not involved in any material litigation or proceedings, nor is Formosa Plastics aware that any such proceedings are pending or threatened.

SUBSIDIARIES AND INVESTEE COMPANIES

The following table sets forth certain information as of March 31, 2004 regarding Formosa Plastics' principal subsidiaries and investee companies:

Name	Registered Office	Book Value of Formosa Plastics' Investment	Percentage Interest Held by Formosa Plastics	Principal Business
		NT$ million		
Formosa Plastics Corporation, America	201 Formosa Drive P.O. Box 700 Point Comfort Texas, 77978	5,696.2	100.0%	Caustic soda, EDC
Formosa Teletek Corporation	358 Hwaya 2nd Road Gueishan Taoyuan Taiwan, ROC	146.6	97.7%	Blue tooth products
Formosa Plasma Display Corporation	201 Tung Hwa North Road, Taipei, Taiwan, ROC	1,290.2	75.7%	Plasma display panels
Formosa Asahi Spandex Co Limited	201 Tung Hwa North Road, Taipei, Taiwan, ROC	679.8	50.0%	Spandex fiber and PTMG
Formosa Heavy Industries Corporation	201 Tung Hwa North Road, Taipei, Taiwan, ROC	3,036.7	32.9%	Machinery and construction of chemical equipment
Formosa Petrochemical Corporation	201 Tung Hwa North Road, Taipei, Taiwan, ROC	47,215.2	31.8%	Oil refining, distribution, naphtha cracking and utilities
Mailiao Power Corporation	1-1 Formosa Plastic Group Industrial Zone, Mailiao Shiang, Yunlin Hsien, Taiwan, ROC	8,598.7	24.9%	Power supply
Formosa Komatsu Silicon Corporation	1-1 Formosa Plastics Group Industrial Zone, Mailiao Shiang, Yunlin Hsien, Taiwan, ROC	882.1	23.8%	8" silicon wafer

Name	Registered Office	Book Value of Formosa Plastics' Investment	Percentage Interest Held by Formosa Plastics	Principal Business
		NT$ million		
Mailiao Harbor Administration Corporation	1-1 Formosa Plastics Group Industrial Zone, Mailiao Shiang, Yunlin Hsien, Taiwan, ROC	539.5	18.0%	Harbor administration
Formosa Plastics Marine Corporation (Liberia)	8F, 201–34 Tung Hwa North Road, Taipei, Taiwan, ROC	15.0	15.0%	Transportation

Formosa Plastics Corporation, America engages in the manufacturing and sale of chemicals. As of March 31, 2004, the company had an issued share capital of U.S.$160 million. Formosa Plastics did not receive any dividends from FPC America in 2003. As of March 31, 2004, there was no intercompany debt between Formosa Plastics and FPC America and Formosa Plastics did not provide any guarantee for FPC America. For the year ended December 31, 2003 FPC America made a net loss of U.S.$2,634 million.

Formosa Teletek Corporation ("Formosa Teletek") engages in the manufacturing and sale of Blue Tooth and related products. As of March 31, 2004, the company had an issued share capital of NT$250 million. Formosa Plastics did not receive any dividends from Formosa Teletek in 2003. As of March 31, 2004, Formosa Teletek owed Formosa Plastics NT$452.6 million and Formosa Plastics did not provide any guarantee for Formosa Teletek. For the year ended December 31, 2003 FTC made a net loss of NT$55 million.

Formosa Plasma Display Corporation ("Formosa Plasma Display") engages in the manufacturing and sale of plasma display panels. As of March 31, 2004, the company had an issued share capital of NT$2,800 million. Formosa Plastics did not receive any dividends from Formosa Plasma Display in 2003. As of March 31, 2004, Formosa Plasma Display owed Formosa Plastics NT$1,392.5 million and Formosa Plastics provided a guarantee for an amount of NT$2,000 million for Formosa Plasma Display. For the year ended December 31, 2003 Formosa Plasma Display made a net loss of NT$727 million.

Formosa Asahi Spandex Co., Limited ("Formosa Asahi Spandex") engages in the manufacturing and sale of spandex fiber and PTMG. As of March 31, 2004, the company had an issued share capital of NT$801 million. Formosa Plastics received dividends of NT$3,750 per share from Formosa Asahi Spandex in 2003. As of March 31, 2004, there was no intercompany debt between Formosa Plastics and Formosa Asahi Spandex and Formosa Plastics did not provide any guarantee for Formosa Asahi Spandex. For the year ended December 31, 2003 Formosa Asahi Spandex made a net income of NT$603 million.

Formosa Heavy Industries Corporation ("Formosa Heavy Industries") engages in the sale of machinery. As of March 31, 2004, the company had an issued share capital of NT$6,020 million. Formosa Plastics did not receive any dividends from Formosa Heavy Industries in 2003. As of March 31, 2004, Formosa Heavy Industries owed Formosa Plastics an aggregate amount of NT$508.4 million. Formosa Plastics did not provide any guarantee for Formosa Heavy Industries. For the year ended December 31, 2003 Formosa Heavy Industries made a net income of NT$151 million.

Formosa Petrochemical engages in the manufacturing and sale of petrochemical products. As of March 31, 2004, the company had an issued share capital of NT$78,400 million. Formosa Plastics received dividends of NT$1.2 per share from Formosa Petrochemical in 2003. As of March

31, 2004, there was no intercompany debt between Formosa Plastics and Formosa Petrochemical, and Formosa Plastics provided a guarantee up to an aggregate amount of NT$3,000 million for Formosa Petrochemical. For the year ended December 31, 2003 Formosa Petrochemical made a net income of NT$18,935 million.

Mailiao Power Corporation ("Mailiao Power") engages in the sale of electricity. As of March 31, 2004, the company had an issued share capital of NT$20,000 million. Formosa Plastics received dividends of NT$1.0 per share from Mailiao Power in 2003. As of March 31, 2004, Mailiao Power owed Formosa Plastics NT$1,046.9 million, and Formosa Plastics provided a guarantee up to an aggregate amount of NT$4,048 million for Mailiao Power. For the year ended December 31, 2003, Mailiao Power made a net income of NT$3,509 million.

Formosa Komatsu Silicon Corporation ("Formosa Komatsu Silicon") engages in the manufacturing and sale of 8" silicon wafer. As of March 31, 2004, the company had an issued share capital of NT$4,268 million. Formosa Plastics did not receive any dividends from Formosa Komatsu Silicon in 2003. As of March 31, 2004, FKSC owed Formosa Plastics NT$158.3 million and Formosa Plastics did not provide any guarantee for FKSC. For the year ended December 31, 2003 FKSC made a net income of NT$747 million.

Mailiao Harbor Administration Corporation ("Mailiao Harbor Administration") engages in the administration of harbor facilities. As of March 31, 2004, the company had an issued share capital of NT$2,200 million. Formosa Plastics received dividends of NT$2.0 per share from Mailiao Harbor Administration in 2003. As of March 31, 2004, there was no intercompany debt between Formosa Plastics and Mailiao Harbor Administration, and Formosa Plastics provided a guarantee for an amount of NT$2,098.4 million for Mailiao Harbor Administration. For the year ended December 31, 2003, Mailiao Harbor Administration made a net income of NT$520 million.

Formosa Plastics Marine Corporation engages in transportation. As of March 31, 2004, the company had an issued share capital of U.S.$138 million. Formosa Plastics did not receive any dividends from Formosa Plastics Marine Corporation in 2003. As of March 31, 2004, there was no intercompany debt between Formosa Plastics and Formosa Plastics Marine Corporation, and Formosa Plastics provided a guarantee for an amount of NT$1,188.7 million for Formosa Plastics Marine Corporation. For the year ended December 31, 2003, Formosa Plastics Marine Corporation made a net income of NT$214.0 million.

Formosa Plastics' equity interests in all of the subsidiaries and investee companies listed above have been paid in full.

MANAGEMENT OF FORMOSA PLASTICS CORPORATION

Directors and Supervisors

The ROC Company Law and the Articles of Incorporation of Formosa Plastics provide that the Board of Directors is to be elected by the shareholders of Formosa Plastics for three-year terms in a shareholders' meeting at which a quorum, consisting of a majority of all issued and outstanding shares, is present. The Chairman is a Director elected by the Board. The seventeen-member Board of Directors of Formosa Plastics is responsible for the management of the business of Formosa Plastics.

Formosa Plastics currently has three Supervisors. Supervisors are typically elected at the time that Directors are elected. The Supervisors' duties and powers include, but are not limited to, investigation of Formosa Plastics' condition, inspection of Formosa Plastics' corporate records, attending meetings of the Board of Directors, verification of some statements by the Board of Directors prior to the regular shareholders' meetings, calling of shareholders' meetings, representing Formosa Plastics in negotiations with its Directors and notification, when appropriate, to the Board of Directors to cease acting in contravention of any applicable law or regulation or in contravention of Formosa Plastics' Articles of Incorporation or beyond its scope of business. In accordance with the laws of the ROC relating to corporations, a Supervisor cannot concurrently serve as a Director, managerial officer or other staff member. The ROC Company Law requires at least two Supervisors be appointed at all times.

The term of office for the Directors and Supervisors is three years from the date of election. Directors and Supervisors may serve any number of consecutive terms and may be removed from office at any time by a resolution adopted at a shareholders' meeting. The Director or Supervisor being removed without a reason could claim for damages from Formosa Plastics. Normally, all Directors and Supervisors are elected at the same time.

Of the current Directors and Supervisors, I-Kai Wang was elected in his capacity as a representative of T.S. Investment Co., Limited, Felix Ho was elected in his capacity as a representative of S.I. Enterprise Co., Limited, and Delon Wu was elected in his capacity as a representative of Chang Gung Memorial Hospital. A Director or Supervisor who serves as a representative of a legal entity may be removed or replaced at any time at the discretion of that legal entity, and the replacement Director or Supervisor may serve the remainder of the term of the office of the replaced Director or Supervisor.

The following table sets forth certain information relating to the Directors and Supervisors of Formosa Plastics as of March 16, 2004.

Name	Position	Age	Number of Shares Held Directly[(1)]	Number of Shares Held Through Spouse and Minor Children[(2)]	Percentage of Total Shares Issued and Outstanding[(3)]
Yeong-Ching Wang.	Chairman	87	139,666,926	—	2.91%
C.S. Wang.	Vice Chairman	78	1,840,395	—	*
Yeong-Tsai Wang.	Executive Director	82	191,674,545	—	3.99%
C.T. Lee	Executive Director	69	953,366	607,633	*
Wilfred Wang	Executive Director	52	9,037,017	—	*
Felix Ho[(4)]	Director	29	339,346	—	*
I-Kai Wang[(5)]	Director	42	15,303	—	*
Jason Lin.	Director	61	—	—	*
Biing-Chin Chen	Director	63	174,596	—	*
Tsung-Chang Lee.	Director	40	—	2,318,080	*
Chi-Hsiung Hsiao	Director	64	362,326	—	*
Jerome C.L. Ko	Director	64	395,854	12,476	*
Y.C. Chen	Director	65	71,579	—	*
Guo-Horng Wei	Director	64	2,033	—	*
Uen-Long Young	Director	64	57,841	—	*
Jiann-San Yang	Director	51	23,279	10,584	*
Han-Fu Lin.	Director	60	30,594	7,847	*
Delon Wu[(6)]	Supervisor	62	129,098,288	—	2.69%
Ralph Ho	Supervisor	61	21,010,606	—	*
K.H. Wu	Supervisor	56	144,811	—	*

Notes:

* Less than 1 per cent..

(1) In the case of a Director who is a representative of a legal entity, the number in this column only includes the number of Shares held by the corporate shareholder.

(2) Applies to a Director or Supervisor serving in his or her individual capacity only.

(3) Calculated by dividing the number of Shares held by such person and such person's spouse and minor children as indicated above, by the number of total issued and outstanding shares in each case as of March 16, 2004.

(4) Representative of S.I. Enterprise Co., Ltd

(5) Representative of T.S. Investment Co., Ltd.

(6) Representative of Chang Gung Memorial Hospital

The business address of each Director and Supervisor is the registered office of Formosa Plastics.

Set forth below is a short biography of each of the Directors and Supervisors. All of them were elected for their present term on May 23, 2003.

Mr. Yeong-Ching Wang is the Chairman of the Board of Directors. He is also the Chairman of the Formosa Group and the chairman of many companies in the Formosa Group. He graduated from elementary school in Taiwan during the Japanese occupation era. Mr. Yeong-Ching Wang is the brother of Mr. Yeong-Tsai Wang, the Vice Chairman of Formosa Petrochemical.

Mr. C.S. Wang is the Vice Chairman. He graduated from National Taipei University.

Mr. Yeong-Tsai Wang is an Executive Director. He is also the Vice Chairman of the Formosa Group and the vice chairman of many companies in the Formosa Group. He graduated from high school in Taiwan during the Japanese occupation era. Mr. Yeong-Tsai Wang is the brother of Mr. Yeong-Ching Wang, the Chairman of Formosa Plastics.

Mr. C.T. Lee is an Executive Director. He also serves as President of Formosa Plastics. He graduated from National Cheng Kung University.

Mr. Wilfred Wang is an Executive Director. He also serves as President of Formosa Petrochemical. He is also a director of Formosa Plastics, Formosa Oil (Asia Pacific) Corporation and Formosa Petrochemical Transportation Corporation. He graduated from University of London.

Mr. Felix Ho is a Director. He graduated from MIT Sloan School of Management.

Mr. I-Kai Wang is a Director. He is also the chairman of Title Max Technology Co., Limited. Mr. Wang holds a bachelor's degree from National Cheng Kung University.

Mr. Jason Lin is a Director. He also serves as Senior Vice President of Formosa Plastics. He attained a master's degree from the University of Holland.

Mr. Biing-Chin Chen is a Director. He also serves as Vice President of Formosa Plastics. He graduated from National Cheng Kung University.

Mr. Tsung-Chang Lee is a Director. He graduated from University of Columbia.

Mr. Chi-Hsiung Hsiao is a Director. He also serves as Senior Vice President of Formosa Plastics. He graduated from National Cheng Kung University.

Mr. Jerome C.L. Ko is a Director. He also serves as Senior Vice President of Formosa Plastics. He graduated from National Cheng Kung University.

Mr. Y.C. Chen is a Director. He also serves as Vice President of Formosa Plastics. He graduated from National Cheng Kung University.

Mr. Guo-Horng Wei is a Director. He also serves as Vice President of Formosa Plastics. He graduated from National Taipei University of Technology.

Mr. Uen-Long Young is a Director. He also serves as Vice President of Formosa Plastics. He graduated from Nation Cheng Kung University.

Mr. Jiann-San Yang is a Director. He graduated from National Cheng Kung University.

Mr. Han-Fu Lin is a Director. He also serves as Vice President of Formosa Plastics. He graduated from Chung Yuan Christian University.

Mr. Delon Wu is a Supervisor. He graduated from National Taiwan University.

Mr. Ralph Ho is a Supervisor. He graduated from University of San Francisco.

Mr. K.H. Wu is a Supervisor. He graduated from Chung Yuan Christian University.

Executive Officers

The executive officers of Formosa Plastics are appointed by Formosa Plastics' Board of Directors. The following table sets forth certain information relating to the executive officers as of March 16, 2004.

Name	Position	Age	Number of Shares Held Directly	Number of Shares Held Through Spouse and Minor Children	Percentage of Total Shares Issued and Outstanding(1)
C.T. Lee	President	69	953,366	607,633	*
Jason Lin	Senior Vice President	61	—	—	*
Biing-Chin Chen	Vice President	63	174,596	—	*
Chi-Hsiung Hsiao	Senior Vice President	64	362,326	—	*
Jerome C.L. Ko	Senior Vice President	64	395,854	12,476	*
Y.C. Chen	Vice President	65	71,579	—	*
Guo-Horng Wei	Vice President	64	2,033	—	*
Uen-Long Young	Vice President	64	57,841	—	*
Han-Fu Lin	Vice President	60	30,594	7,847	*
Wen Song Chang	Vice President	57	51,422	—	*
Benny Chang	Vice President	52	—	—	*
Dah Jye Yu	Assistant Vice President	61	710	—	*
Tzong Jing Huang	Senior Vice President and Spokesman	60	65,173	—	*

Notes:

* Less than 1 per cent..

(1) Calculated by dividing the number of Shares held by such person and such person's spouse and minor children as indicated above, by the number of total issued and outstanding shares in each case as of March 16, 2004.

The business address of each executive officer is the registered office of Formosa Plastics.

Set forth below is a short biography of each of Formosa Plastics' executive officers:

Mr. Wen Song Chang is a Vice President. He graduated from National Cheng Kung University.

Mr. Benny Chang is a Vice President. He graduated from National Cheng Chi University.

Mr. Dah Jye Yu is an Assistant Vice President. He graduated from National Cheng Chi University.

Mr. Tzong Jing Huang is a Senior Vice President and Spokesman. He graduated from Tamkang University.

For a short biography of the other executive officers, see "— Directors and Supervisors".

Compensation of Directors and Supervisors

The aggregate remuneration paid to the Directors and Supervisors of Formosa Plastics for the year ended December 31, 2003 was NT$13.6 million. Formosa Plastics does not have a stock option plan.

Interests of Management in Certain Transactions

Certain of the Directors, Supervisors and executive officers of Formosa Plastics also serve as directors, supervisors or executive officers of companies with which Formosa Plastics does business with. These companies include the affiliates of Formosa Plastics. See "— Principal Shareholders of Formosa Plastics Corporation", "Related Party Transactions — Formosa Plastics", Note 17 to Formosa Plastics' Audited Consolidated Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 and Note 20 to Formosa Plastics' Unaudited Non-consolidated Financial Statements as at and for the three months ended March 31, 2003 and 2004 included elsewhere in this Offering Circular. Formosa Plastics conducts these transactions on an arms' length commercial basis. There are no outstanding loans or loan guarantees granted by Formosa Plastics to members of the administrative, management and supervisory bodies.

PRINCIPAL SHAREHOLDERS OF FORMOSA PLASTICS CORPORATION

The following table sets forth certain information as of March 16, 2004 with respect to shares owned by each person who, according to the records of Formosa Plastics, beneficially owned one per cent. or more of the shares of Formosa Plastics and by all Directors, Supervisors and executive officers as a group. Beneficial ownership includes ownership by such person's spouse and minor children.

Name of Shareholder	Number of Shares	Percentage of Total Issued and Outstanding Shares
Merrill Lynch, Pierce, Fenner and Smith Inc.	301,088,316	6.3
Chindwell International Investment Corporation	224,107,604	4.7
Formosa Chemicals & Fibre	209,113,164	4.4
Yeong-Tsai Wang	191,674,545	4.0
Nan Ya Plastics	191,560,718	4.0
Vanson International Investment Corporation	170,908,977	3.6
Yeong-Ching Wang	139,666,926	2.9
Chang Gung Memorial Hospital	129,098,288	2.7
ROC Postal Bureau	91,359,447	1.9
Bureau of Labor Insurance	74,489,014	1.6
Directors, Supervisors and executive officers as a group(1)	37,533,364	0.8

Note:

(1) Includes shares held by Directors and Supervisors serving in their individual capacities and executive officers through their respective spouses and minor children. Excludes shares held by legal entities for which Directors and Supervisors were acting as representatives.

Apart as set out above, no shareholder owned more than one per cent. of the outstanding shares of Formosa Plastics.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF NAN YA PLASTICS CORPORATION

The following discussion should be read in conjunction with "Summary — Summary Financial Information — Nan Ya Plastics" and each of Nan Ya Plastics' Audited Consolidated Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 and Unaudited Non-consolidated Financial Statements as at and for the three months ended March 31, 2003 and 2004 and the notes thereto, included elsewhere in this Offering Circular.

Overview

Nan Ya Plastics develops and produces a broad range of products in the following principal categories: plastics, polyesters, electronics materials and printed circuit boards. Nan Ya Plastics also produces plasticizers, primarily for internal consumption, and engages in the bleaching, dyeing, printing and finishing of cloth. Sales of Nan Ya Plastics' plastics, polyester, electronics materials and printed circuit board products represented 24.9 per cent., 40.7 per cent., 14.0 per cent. and 8.9 per cent., respectively, of Nan Ya Plastics' consolidated operating revenues for the year ended December 31, 2003, with other products and services representing 11.5 per cent. of Nan Ya Sales of plastics' consolidated operating revenues for such period. Domestic sales accounted for 43.2 per cent. of Nan Ya Plastics' consolidated operating revenues for the year ended December 31, 2003. Sales of plastics, polyester and electronics materials products represented 29.4 per cent., 35.8 per cent. and 19.8 per cent., respectively, of Nan Ya Plastics' non-consolidated operating revenues for the three months ended March 31, 2004, with other products and services representing 15.0 per cent. of Nan Ya Plastics' non-consolidated operating revenues for such period. Domestic sales accounted for 60.5 per cent. of Nan Ya Plastics' non-consolidated operating revenues for the three months ended March 31, 2004. Because Nan Ya Plastics conducts its printed circuit board business exclusively through its consolidated subsidiary, Nan Ya PCB, a manufacturer of printed circuit boards and IC substrates, sales of Nan Ya Plastics' printed circuit board products are not reflected in Nan Ya Plastics' non-consolidated operating revenues.

On a non-consolidated basis, Nan Ya Plastics employed over 15,000 full-time employees and operated sixty-four manufacturing plants and four co-generation plants in Taiwan as at March 31, 2004. Nan Ya Plastics also operated ten manufacturing plants in Taiwan, four manufacturing plants in the United States through its subsidiaries and sixteen manufacturing plants in the PRC through subsidiaries and affiliates of its subsidiary, NYPC HK. In addition, Nan Ya Plastics operates one manufacturing plant in Indonesia through its interest in a local joint venture.

Nan Ya Plastics' consolidated operating revenues were NT$171,643.8 million (U.S.$5,049.8 million) in 2003, compared to NT$141,680.7 million in 2002 and NT$131,161.4 million in 2001. Net operating income was NT$13,165.7 million (U.S.$387.3 million) in 2003, compared to NT$9,872.6 million in 2002 and NT$9,534.1 million in 2001. Non-consolidated operating revenues were NT$36,575.8 million (U.S.$1,108.4 million) for the three months ended March 31, 2004, compared to NT$28,583.1 million in the corresponding period in 2003. Non-consolidated operating income was NT$4,820.1 million (U.S.$146.1 million) in the three months ended March 31, 2004, compared to NT$2,620.6 million in the three months ended March 31, 2003.

Nan Ya Plastics sells its products in Taiwan, the United States, the PRC and other countries throughout the world. The prices for most of these products, particularly commodity grades of plastics and polyester products, are based on or influenced by global market prices. These prices tend to fluctuate significantly and are often cyclical. In addition, raw material prices for these products are affected by changes in demand for these products because of the relative inelasticity of raw material supplies, particularly PTA and EG. The selling prices of these products are sensitive to changes in industry capacity and output levels, cyclical changes in regional and global economic conditions, and changes in consumer demand for a particular product. Any of these changes could have a significant impact on Nan Ya Plastics' operating revenues, operating income and results of operations.

Due to the integrated nature of the Formosa Group, a portion of Nan Ya Plastics' net sales are derived from, and net purchases are made to, other companies in the Formosa Group. Sales to Formosa Petrochemical, Formosa Plastics and Formosa Chemicals & Fibre accounted for 0.4 per cent., 0.7 per cent., 1.7 per cent., respectively, of Nan Ya Plastics' net sales for the three months ended March 31, 2004. For the same period, purchases by Nan Ya Plastics from Formosa Petrochemical, Formosa Plastics and Formosa Chemicals & Fibre accounted for 14.0 per cent., 12.7 per cent. and 20.2 per cent., respectively, of Nan Ya Plastics' net purchases.

Operating revenues

Operating revenues consist of net sales, service revenues and other operating revenues. Net sales accounted for 98.6 per cent. of Nan Ya Plastics' consolidated operating revenues for the year ended December 31, 2003 and 98.5 per cent. of Nan Ya Plastics' non-consolidated operating revenues in the three months ended March 31, 2004. Substantially all of Nan Ya Plastics' net sales are derived from sales of plastics, polyester, electronics materials products and, except on a non-consolidated basis, printed circuit board products. Prices of most of these products are based on or influenced by regional and global market prices, which tend to be cyclical and are subject to significant fluctuations. Service revenues are primarily derived from the bleaching, dyeing, printing and finishing of cloth. Nan Ya Plastics offers these services to Taiwan-based textile manufacturers only and is considering phasing out this business in the near future. Other operating revenues consist of sales of utilities and sales of used and unused raw materials to other Formosa Group companies.

The selling prices of Nan Ya Plastics' products are sensitive to changes in industry capacity and output levels, cyclical changes in regional and global economic conditions, and changes in consumer demand for a particular product. Any of these changes could have a significant impact on Nan Ya Plastics' operating revenues, operating income and results of operations.

In 2001, a general decrease in the prices of most of Nan Ya Plastics' products and growing competition affected its results of operations. Nan Ya Plastics responded to these conditions by reducing its material and labor costs and changing its product mix. In 2002, Nan Ya Plastics' overseas sales improved slightly with the slow recovery in the global economy, although demand within Taiwan remained weak and competition remained intense. Because demand for Nan Ya Plastics' specialty chemicals and special fiber products, which typically have higher profit margins, were strong, the operating results of its plastics and polyester businesses improved in 2002. Nevertheless, because the average sales prices of most of Nan Ya Plastics' electronics materials and printed circuit board products continued to decline, the operating results of these businesses remained stagnant in 2002. Due to an economic recovery and a surge in the electronics industry from 2003 through the first quarter of 2004, the average sales prices and sales volumes of electronic materials products have increased. During this same period, due to a worldwide shortage of EG coupled with an increase in Nan Ya Plastics' EG production capacity, the average sales prices and sales volumes of polyester products have increased.

Plastics products revenues

Revenues from the sale of plastics products constituted 29.5 per cent., 28.4 per cent. and 24.9 per cent. of Nan Ya Plastics' consolidated operating revenues for the years ended December 31, 2001, 2002 and 2003 and 33.3 per cent. and 29.4 per cent. of Nan Ya Plastics' non-consolidated operating revenues for the three months ended March 31, 2003 and 2004, respectively. The following tables set forth sales volumes of Nan Ya Plastics' key plastics products, operating revenues generated by sales of such products and the percentage of total operating revenues from plastics products represented by each product for the periods indicated.

	Consolidated										
	Year ended December 31,										
	2001			2002			2003				
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%	
Rigid PVC film	163,986.3 MT	6,522.9	16.9	159,729.4 MT	6,459.7	16.1	158,568.2 MT	6,640.5	195.4	15.6	
Flexible PVC sheeting	123,436.3 MT	5,112.5	13.2	114,259.3 MT	4,890.2	12.2	113,079.4 MT	4,903.5	144.3	11.5	
BOPP film and related products	108,876.3 MT	4,690.3	12.1	115,291.1 MT	5,436.2	13.5	108,676.4 MT	5,183.2	152.5	12.1	
Rigid PVC pipes	125,352.1 MT	3,405.0	8.8	129,267.4 MT	3,534.2	8.8	124,620.3 MT	3,722.3	109.5	8.7	
PVC leather and sponge leather	65,371.3 KY	3,447.2	8.9	54,115.7 KY	3,015.2	7.5	48,985.0 KY	2,707.7	79.6	6.3	
Polyurethane leather	1,507.0 KY	1,517.9	3.9	11,740.8 KY	1,428.5	3.5	9,191.4 KY	1,236.8	36.4	2.9	
Specialty chemicals	66,882.0 MT	2,256.8	5.8	96,978.7 MT	2,859.7	7.1	151,352.2 MT	4,954.5	145.8	11.6	
Others[(1)]	—	11,719.5	30.4	—	12,616.2	31.3	—	13,333.0	392.2	31.3	
Total	—	38,672.1	100.0	—	40,239.9	100.0	—	42,681.5	1,255.7	100.0	

	Non-consolidated						
	Three months ended March 31,						
	2003			2004			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Rigid PVC film	41,012.8 MT	1,653.9	17.4	41,812.4 MT	1,803.2	54.6	16.8
Flexible PVC sheeting	27,454.4 MT	1,171.3	12.3	31,689.4 MT	1,430.4	43.3	13.3
BOPP film and related products	19,164.8 MT	837.0	8.8	25,164.5 MT	1,141.8	34.6	10.6
Rigid PVC pipes	30,969.2 MT	892.0	9.4	33,235.6 MT	1,053.8	31.9	9.8
PVC leather and sponge leather	11,469.7 KY	655.1	6.9	10,033.3 KY	591.0	17.9	5.5
Polyurethane leather	2,559.3 KY	346.5	3.6	1,997.0 KY	287.1	8.7	2.7
Specialty chemicals	25,061.9 MT	787.7	8.3	39,023.7 MT	1,364.8	41.4	12.7
Others[(1)]	—	3,169.0	33.3	—	3,091.9	93.7	28.7
Total	—	9,512.5	100.0	—	10,764.0	326.2	100.0

(1) "Others" include other types of rigid film, CDs, DVDs, engineering plastics and a wide variety of plastics products such as PVC casting leather, PVC window and door frames.

The plastics industry in Taiwan is a developed industry. In order to remain competitive in the global market for plastics products, Nan Ya Plastics has begun to move its plastics business into the PRC and other parts of Asia where labor costs are lower and product margins therefore will be higher. In addition, plastics products, like those produced by Nan Ya Plastics, are often bulky and therefore difficult or expensive to transport. By following its plastics customer base and relocating its operations from Taiwan to the PRC and Vietnam, Nan Ya Plastics believes it can cut transportation costs as well.

Polyester products revenues

Revenues from the sale of polyester products constituted 40.0 per cent., 40.0 per cent. and 40.7 per cent. of Nan Ya Plastics' consolidated operating revenues for the years ended December 31, 2001, 2002 and 2003 and 32.4 per cent. and 35.8 per cent. of Nan Ya Plastics' non-consolidated operating revenues for the three months ended March 31, 2003 and 2004, respectively. The following tables set forth sales volumes of Nan Ya Plastics' key polyester products, operating revenues generated from sales of such products and the percentage of total operating revenues from polyester products represented by each product for the periods indicated.

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Polyester filament	369,469.9 MT	18,357.9	34.9	391,337.2 MT	19,989.2	35.3	384,541.8 MT	20,662.6	607.9	29.6
Polyester chips	407,436.9 MT	13,711.9	26.1	514,266.6 MT	14,795.1	26.1	569,639.9 MT	18,542.2	545.5	26.6
Polyester staple fiber	365,330.1 MT	11,880.2	22.6	388,368.5 MT	12,852.9	22.7	379,605.7 MT	13,686.7	402.7	20.0
EG	377,042.1 MT	5,350.1	10.2	336,964.3 MT	4,639.7	8.2	522,041.3 MT	10,850.0	319.2	15.5
Polyester film	28,452.6 MT	1,668.7	3.2	32,192.0 MT	1,811.4	3.2	34,090.0 MT	2,225.3	65.5	3.2
Others	—	1,575.7	3.0	—	2,565.2	4.5	—	3,816.9	112.3	5.1
Total	—	52,544.5	100.0	—	56,653.5	100.0	—	69,783.7	2,053.1	100.0

	Non-consolidated						
	Three months ended March 31,						
	2003			2004			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Polyester filament	70,236.0 MT	3,977.7	43.0	72,753.5 MT	3,793.3	114.9	28.9
Polyester chips	35,567.7 MT	944.5	10.2	38,465.3 MT	1,209.3	36.6	9.2
Polyester staple fiber	53,790.5 MT	1,810.3	19.6	52,553.7 MT	1,830.6	55.5	14.0
EG	88,639.9 MT	1,778.5	19.2	207,206.6 MT	5,014.1	151.9	38.2
Polyester film	8,198.9 MT	483.9	5.2	8,908.1 MT	598.6	18.1	4.6
Others	—	262.1	2.8	—	665.5	20.2	5.1
Total	—	9,257.0	100.0	—	13,111.4	397.3	100.0

Electronics materials revenues

Revenues from the sale of electronics materials constituted 13.5 per cent., 13.1 per cent. and 14.0 per cent. of Nan Ya Plastics' consolidated operating revenues for the years ended December 31, 2001, 2002 and 2003 and 19.0 per cent. and 19.8 per cent. of Nan Ya Plastics' non-consolidated operating revenues for the three months ended March 31, 2003 and 2004, respectively. The following tables set forth sales volumes of key electronics materials produced by Nan Ya Plastics, operating revenues generated from sales of such electronics materials and the percentage of total operating revenues from electronics materials represented by each type of electronics material for the periods indicated.

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Copper clad laminates and prepreg	38,289.0 KSH	9,027.0	51.0	49,123.1 KSH	9,367.6	50.3	51,263.4 KSH	10,160.6	298.9	42.4
Epoxy resin	76,732.5 MT	4,481.7	25.3	96,791.7 MT	4,795.8	25.8	117,676.4 MT	6,166.2	181.4	25.7
STN/LCD	7,433.6 KM	1,640.7	9.3	9,265.3 KM	2,220.3	11.9	13,191.4 KM	3,746.3	110.2	15.7
Glass fiber cloth	56,666.7 MT	1,565.1	8.9	64,160.9 MT	1,414.4	7.6	117,515.6 MT	2,369.2	69.7	9.9
Copper foil	1,719.0 KPC	249.6	1.4	5,041.2 KPC	553.2	3.0	8,053.4 KPC	1,135.6	33.4	4.7
Others(1)	—	719.6	4.1	—	253.9	1.4	—	369.2	10.9	1.6
Total	—	17,683.7	100.0	—	18,605.2	100.0	—	23,947.1	704.5	100.0

(1) "Others" include LED sales.

	Non-consolidated						
	Three months ended March 31,						
	2003			2004			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Copper clad laminates and prepreg	13,886.7 KSH	2,759.2	50.9	13,331.1 KSH	2,776.3	84.1	38.4
Epoxy resin	28,285.5 MT	1,459.9	26.9	36,519.6 MT	1,775.3	53.8	24.5
STN/LCD	2,696.9 KPC	542.8	10.0	4,543.1 KPC	1,460.2	44.2	20.2
Glass fiber cloth	16,235.6 KM	344.0	6.3	34,889.9 KM	745.0	22.6	10.3
Copper foil	1,745.8 MT	232.1	4.3	1,791.9 MT	297.8	9.0	4.1
Others[1]	—	84.6	1.6	—	178.4	5.4	2.5
Total	—	5,422.6	100.0	—	7,233.0	219.2	100.0

(1) "Others" include LED sales.

Product demand and market price for Nan Ya Plastics' electronics materials products are closely tied to the success of the portable electronics industry in Asia. In 2003 and the three months ended March 31, 2004, Nan Ya Plastics saw an increase in the profitability of its electronics materials products, largely due to a recovery in the portable electronics industry in the region.

Printed circuit board revenues

Revenues generated from the sale of printed circuit boards constituted 7.9 per cent., 8.4 per cent. and 8.9 per cent. of Nan Ya Plastics' consolidated operating revenues for the years ended December 31, 2001, 2002 and 2003, respectively. The following table sets forth sales volumes of printed circuit board products by Nan Ya PCB, operating revenues generated from sales of such products and the percentage of total operating revenues of Nan Ya Plastics' printed circuit board business represented by each printed circuit board product for the periods indicated.

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Printed circuit boards	10,446 KSF	10,311.0	100.0	11,637 KSF	8,011.0	67.3	10,151 KSF	7,979.7	234.8	52.1
IC substrates	—	—	—	1,262 KSF	3,890.1	32.7	2,754 KSF	7,215.8	212.3	47.1
Others	—	—	—	—	—	—	—	123.5	3.6	0.8
Total	—	10,311.0	100.0	—	11,901.1	100.0	—	15,319.0	450.7	100.0

Operating costs

The cost of raw materials comprises a substantial portion of Nan Ya Plastics' operating costs. See "Nan Ya Plastics Corporation — Business of Nan Ya Plastics — Raw materials". Raw material cost accounted for 71.0 per cent. of Nan Ya Plastics' consolidated operating costs for the year ended December 31, 2003 and 71.5 per cent. of Nan Ya Plastics' non-consolidated operating costs for the three months ended March 31, 2004. The prices which Nan Ya Plastics pays for these products are generally based on global commodity prices denominated in U.S. dollars, which tend to be cyclical and subject to significant volatility.

To lower its raw materials costs and achieve certain economies of scale, Nan Ya Plastics has been pursuing vertical integration both internally and with other members of the Formosa Group. Purchases from unaffiliated suppliers accounted for 42.5 per cent., 47.5 per cent. and 46.4 per cent. of Nan Ya Plastics' consolidated purchases of raw materials by value in 2001, 2002 and 2003, respectively. However, such measures do not fully insulate Nan Ya Plastics from price fluctuations caused by changes in global and regional demand. The principal raw material used in the production of Nan Ya Plastics' plastics products is PVC resins. Nan Ya Plastics procures all of its PVC resins requirements from its affiliate, Formosa Plastics. However, the price at which Nan Ya Plastics purchases PVC resins average sales from Formosa Plastics tracks international market prices. In 2003, PVC resins' average sales prices increased substantially. Such increase in average prices was a principal cause of Nan Ya Plastics' operating costs in 2003 increasing 22.3 per cent. over its operating costs in 2002, as compared to a 21.1 per cent. increase in operating revenues over the same period, resulting in a decrease of gross margins from 15.0 per cent. to 14.3 per cent. Any further increases in the price of raw materials consumed by Nan Ya Plastics, including PVC resins, would likely have an adverse affect of Nan Ya Plastics' results of operations.

Nan Ya Plastics' principal raw materials by value consumed are PVC resins, PTA, EG and glass fiber. The following table sets forth, for the periods indicated, the amount of PVC resins, PTA, EG and glass fiber consumed by Nan Ya Plastics in the periods indicated:

	Consolidated			Non-consolidated	
	Year ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
PVC resins	430,137 MT	419,815 MT	411,871 MT	97,043 MT	99,554 MT
PTA	1,008,267 MT	1,164,168 MT	1,158,355 MT	143,980 MT	159,230 MT
EG	429,519 MT	495,096 MT	492,098 MT	65,079 MT	71,922 MT
Glass fiber	46,288 MT	47,647 MT	52,740 MT	10,873 MT	16,492 MT

Other operating costs include labor, depreciation, energy, transportation and other factory overhead. A significant percentage of Nan Ya Plastics' operating costs are fixed. Nan Ya Plastics has achieved a high degree of vertical integration in its operations. Nan Ya Plastics seeks to maintain high capacity utilization rates and to benefit from economies of scale and production efficiencies resulting from the operation of its large and efficient production facilities.

Inventory

The plastics, polyester, electronics materials and printed circuit board industries are generally characterized by prompt delivery by manufacturers and rapid product movement through the distribution and production process. Nan Ya Plastics maintains varying levels of raw material and finished product inventory, depending on lead time and shipping schedules, under Nan Ya Plastics' supply chain management. Nan Ya Plastics seeks to keep its raw material and finished product inventory levels to generally between one and two months.

Consolidation

The Audited Consolidated Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 of Nan Ya Plastics included elsewhere in this Offering Circular have been prepared and presented on a consolidated basis in accordance with ROC GAAP.

Under ROC GAAP, Nan Ya Plastics is required to consolidate the financial statements of a subsidiary if the total assets or net operating revenues of such subsidiary exceeds 10 per cent. of Nan Ya Plastics' non-consolidated total assets or net operating revenues, as the case may be. In addition, under rules promulgated by the ROC SFC, if the total assets or net operating revenues of all of Nan Ya Plastics' non-consolidated subsidiaries exceed 30 per cent. of Nan Ya Plastics' non-consolidated total assets or net operating revenues, as the case may be, Nan Ya Plastics is required to consolidate the financial statements of all non-consolidated subsidiaries whose assets or net operating revenues exceed three per cent. of its non-consolidated total assets or net operating revenues, as the case may be. Nan Ya Plastics conducts its operations in the PRC through subsidiaries and affiliates owned by its subsidiary, NYPC HK. Because Nan Ya Plastics is not required to consolidate its financial statements with those of NYPC HK, Nan Ya Plastics' operating results in the PRC are not reflected in Nan Ya Plastics' operating revenues and income, whether on a consolidated or non-consolidated basis.

In its consolidated financial accounts for the years ended December 31, 2001 and 2002 as originally filed with the ROC SFC and released publicly, the consolidated entities of Nan Ya Plastics included Nan Ya Plastics, Nan Ya Plastics Corp., America ("NYPC America"), Nanya Technology and Nan Ya PCB. In 2003, Nan Ya Plastics' ownership in Nanya Technology decreased from 50.1 per cent. to 45.1 per cent. As a result, Nanya Technology was excluded from the consolidated financial statements for 2003. Pursuant to ROC GAAP, Nan Ya Plastics' 2002 consolidated financial statements were restated so as not to consolidate Nanya Technology. Consistent with the general principle that a change in reporting entity should be reported by restating all prior periods that are presented, and for purposes of comparison, the 2001 consolidated financial statements included elsewhere in this Offering Circular have also been restated to conform to the 2003 consolidated financial statements in accordance with the changes in the consolidated entities. The operating results of Nanya Technology are not, therefore, reflected in the operating revenues or income of Nan Ya Plastics for any of the periods shown. If the results of Nanya Technology had been consolidated, Nan Ya Plastics' would have incurred an operating loss of NT$694.9 million in 2001 and an operating income of NT$13,346.8 million in 2002 rather than an operating income of NT$9,534.1 million in 2001 and an operating income of NT$9,872.5 million in 2002 as set out in Nan Ya Plastics' Audited Consolidated Financial Statements found elsewhere in this Offering Circular.

Furthermore, Nan Ya Plastics is only required to prepare its consolidated financial statements on an annual basis. As a result, the Unaudited Financial Statements as at and for the three months ended March 31, 2003 and 2004 for Nan Ya Plastics included elsewhere in this Offering Circular have been prepared and presented on a non-consolidated basis under ROC GAAP and do not include the results of Nan Ya Plastics' subsidiaries. Because Nan Ya Plastics conducts its printed circuit board business through Nan Ya PCB, the operating results of this business are not reflected in Nan Ya Plastics' non-consolidated operating revenues and income for such periods. Similarly, because Nan Ya Plastics conducts its plastics and polyester businesses in the United States principally through NYPC America, Nan Ya Plastics' operating results in the United States are not reflected in the non-consolidated operating revenues and income for such periods.

Except for the non-consolidated financial and operating data for the three months ended March 31, 2003 and 2004 presented in this Offering Circular and unless otherwise indicated, the financial and operating data contained in this Offering Circular are presented on a consolidated basis.

For the year ended December 31, 2003, Nan Ya Plastics' consolidated operating revenues, gross profit, operating income and net income were NT$171,643.8 million (U.S.$5,049.8 million), NT$24,488.6 million (U.S.$720.5 million), NT$13,165.7 million (U.S.$387.3 million) and NT$17,180.0 million (U.S.$505.4 million), respectively.

Critical Accounting Policies

Accounting estimates are an integral part of the financial statements prepared by Nan Ya Plastics' management and are based upon management's judgement. See Note 2, "Significant accounting policies", to Nan Ya Plastics' Audited Consolidated Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 included elsewhere in this Offering Circular which includes a summary of the significant accounting policies used in the preparation of such financial statements. Critical accounting policies are those that are both most important to the portrayal and understanding of Nan Ya Plastics' financial conditions and results of operations and those that require management's most difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. Nan Ya Plastics' management believes the following accounting policies are critical to the portrayal and understanding of its financial condition and results of operations and/or involve the most significant judgments and estimates used in the preparation of its financial statements.

Nan Ya Plastics believes the following critical accounting policies are affected by management's estimates and assumptions, changes to which could have a significant impact on its consolidated financial statements:

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by using the monthly weighted-average method. Market value represents replacement cost or net realizable value. A provision for inventory devaluation or obsolescence is recorded when management determines that the market values of the inventories are less than their cost basis or based upon the number of months the inventory items remain unsold. Such provision can be reversed in whole or in part if management further determines that the market values of inventories are greater than their cost basis.

Property, plant and equipment

Except for Nan Ya Plastics' equipment that was revalued on December 31, 1974 and 1982, property, plant and equipment are stated at cost. Cost plus revaluation increments less accumulated depreciation is net book value.

Gains on disposal of property, plant and equipment are recorded as non-operating income; and for Nan Ya Plastics and Nan Ya PCB, such gain, net of income tax, was transferred from unappropriated retained earnings to capital surplus in the year of disposal before 2001. In 2001, pursuant to the declaratory statutes of the ROC Company Law, any gain on disposal of property, plant and equipment occurring before 2000 may be transferred to unappropriated earnings from capital surplus upon approval at a general shareholders' meeting. Losses on the disposal of property, plant and equipment are recorded as non-operating expenses. Interest on borrowings obtained to finance the acquisition or construction of property, plant and equipment is capitalized. Maintenance and repairs are expensed when incurred, while major additions, improvements and replacement expenditures are capitalized.

Depreciation of Nan Ya Plastics' copper-clad laminates equipment located in the Shu-lin plant acquired before December 31, 1988, and equipment located in the No. 6 Naphtha Cracker Complex is provided over the estimated useful lives of the equipment by using the straight-line method. Depreciation of property, plant and equipment of Nan Ya Plastics' other divisions and plants is calculated using the fixed-percentage-on-declining-balance method. Assets that are still in service after reaching the end of their estimated useful lives are depreciated over their re-estimated useful lives. The depreciation of NYPC America's assets is based on the straight-line method. The depreciation of Nan Ya PCB's assets is based on the fixed-percentage-on-declining-balance method.

Net deferred tax assets

Under ROC GAAP, Nan Ya Plastics' income tax expense is recorded based on calculations using the statutory tax rate of each entity's jurisdiction of incorporation. As of March 31, 2004, Nan Ya Plastics' deferred tax assets related principally to income tax credits that expire between 2006 and 2008. The realization of these assets is based upon estimates of future taxable income. In preparing estimates of future taxable income, Nan Ya Plastics has used the same assumptions and projections utilized in its internal forecasts. Based on these projections, Nan Ya Plastics estimates that most, if not all of these tax credits will be fully utilized prior to their expiration. However, in the event that Nan Ya Plastics is not able to fully utilize such deferred tax assets, an additional valuation allowance would be required. As of March 31, 2004, Nan Ya Plastics' deferred tax assets exceeded its deferred tax liabilities by NT$7,301.6 million (U.S.$221.3 million).

Results of Operations

The following table sets forth Nan Ya Plastics' results of operations as a percentage of its consolidated and non-consolidated operating revenues for the periods indicated.

	Consolidated			Non-consolidated	
	Year ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
	%	%	%	%	%
Operating revenues	100.0	100.0	100.0	100.0	100.0
Operating costs	86.6	85.0	85.7	82.1	79.5
Gross profit	13.4	15.0	14.3	17.9	20.4
Operating expenses:					
Selling	3.0	3.2	2.8	3.5	3.2
Administrative	3.1	4.9	3.8	5.2	4.0
Total operating expenses	6.1	8.0	6.6	8.7	7.2
Operating income	7.3	7.0	7.7	9.1	13.2
Non-operating income	5.3	7.8	6.1	9.6	14.6
Non-operating expenses	9.2	3.8	3.2	6.2	3.6
Income before income tax	3.4	10.9	10.6	12.5	24.2
Income tax benefit (cost)	2.6	(1.2)	(0.6)	(0.1)	(0.4)
Net income	6.0	9.7	10.0	12.4	23.7

The following table sets forth, for the periods indicated, the contribution of each business division to Nan Ya Plastics' consolidated operating revenues and the percentage each business division contributes to Nan Ya Plastics' consolidated operating revenues.

	Consolidated						
	Year ended December 31,						
	2001		2002		2003		
	NT$ (millions)	%	NT$ (millions)	%	NT$ (millions)	U.S.$ (millions)	%
Plastics	38,672.1	29.5	40,239.9	28.4	42,681.5	1,255.7	24.9
Polyester	52,544.5	40.0	56,653.5	40.0	69,783.7	2,053.1	40.7
Electronics materials	17,683.7	13.5	18,605.2	13.1	23,947.1	704.5	14.0
Printed circuit board	10,311.0	7.9	11,901.1	8.4	15,319.0	450.7	8.9
Others[(1)]	11,950.1	9.1	14,281.0	10.1	19,912.5	585.8	11.5
Total	131,161.4	100.0	141,680.7	100.0	171,643.8	5,049.8	100.0

(1) "Others" include sales of plasticizers, dyeing & finishing and manufacturing of machinery.

The following table sets forth, for the periods indicated, the contribution of each business division to Nan Ya Plastics' non-consolidated operating revenues and the percentage each business division contributes to Nan Ya Plastics' non-consolidated operating revenues.

	Non-consolidated				
	Three months ended March 31,				
	2003		2004		
	NT$ (millions)	%	NT$ (millions)	U.S.$ (millions)	%
Plastics	9,512.5	33.3	10,764.0	326.2	29.4
Polyester	9,257.0	32.4	13,111.4	397.3	35.8
Electronics materials	5,422.6	19.0	7,233.0	219.2	19.8
Others[(1)]	4,391.0	15.3	5,467.4	165.7	15.0
Total	28,583.1	100.0	36,575.8	1,108.4	100.0

(1) "Others" include sales of plasticizers, dyeing & finishing and manufacturing of machinery.

Three months ended March 31, 2004 compared to three months ended March 31, 2003

Non-consolidated operating revenues

Nan Ya Plastics' non-consolidated operating revenues increased 28.0 per cent. to NT$36,575.8 million (U.S.$1,108.4 million) for the three months ended March 31, 2004 from NT$28,583.1 million for the corresponding period in 2003, primarily as a result of increases in the operating revenues of Nan Ya Plastics' polyester and electronics materials business. Sales of Nan Ya Plastics' polyester products accounted for 35.8 per cent. of its non-consolidated operating revenues and sales of electronics materials products accounted for 19.8 per cent. of its non-consolidated operating revenues in the three months ended March 31, 2004, compared with 32.4 per cent. and 19.0 per cent., respectively, in the corresponding period in 2003.

Revenues attributable to sales of polyester increased 41.6 per cent. to NT$13,111.4 million (U.S.$397.3 million) for the three months ended March 31, 2004 from NT$9,257.0 million for the corresponding period in 2003 primarily due to a 181.9 per cent. increase in sales of EG. The average sales price of EG increased sharply due to a worldwide shortage which prompted Nan Ya Plastics to increase its EG production. In addition, Nan Ya Plastics had substantially increased its EG production with the completion of a new EG plant in September 2003.

Revenues attributable to sales of electronics materials increased 33.4 per cent. to NT$7,233.0 million (U.S.$219.2 million) for the three months ended March 31, 2004 from NT$5,422.6 million for the corresponding period in 2003 primarily due to an increase in average sales prices of Nan Ya Plastics' electronics materials products and higher sales volume of certain of its products, particularly STN-LCDs, due to continued improvement of the mobile electronics business in Asia.

Non-consolidated operating costs and non-consolidated gross profit

Nan Ya Plastics' non-consolidated operating costs increased 24.0 per cent. to NT$29,091.1 million (U.S.$881.5 million) for the three months ended March 31, 2004 from NT$23,467.1 million for the corresponding period in 2003, primarily as a result of an increase in the cost of raw materials. Such increase was attributable to the higher market prices of PVC resins and EG. Non-consolidated operating costs as a percentage of Nan Ya Plastics' non-consolidated operating revenues, however, decreased to 79.5 per cent. for the three months ended March 31, 2004 from 82.1 per cent. for the corresponding period in 2003, primarily as a result of increased cost efficiencies realized from increased production and the addition of a more advanced EG manufacturing plant in September 2003. Non-consolidated gross profit increased 46.0 per cent. to NT$7,452.5 million (U.S.$225.8

million) for the three months ended March 31, 2004 from NT$5,103.2 million for the corresponding period in 2003, primarily as a result of the increased profitability of Nan Ya Plastics' polyester business.

Non-consolidated operating expenses and non-consolidated operating income

Non-consolidated operating expenses increased 6.0 per cent. to NT$2,632.4 million (U.S.$79.8 million) in the three months ended March 31, 2004 from NT$2,482.6 million for the corresponding period in 2003, primarily as a result of an 16.4 per cent. increase in selling expenses to NT$1,176.0 million (U.S.$35.6 million) for the three months ended March 31, 2004 from NT$1,009.1 million in the corresponding period in 2003, primarily due to increased sales activities. As a result of the foregoing factors, non-consolidated operating income increased 83.9 per cent. to NT$4,820.1 million (U.S.$146.1 million) for the three months ended March 31, 2004 from NT$2,620.6 million for corresponding period in 2003.

Non-consolidated non-operating income

Non-consolidated non-operating income increased 94.7 per cent. to NT$5,349.2 million (U.S.$162.1 million) for the three months ended March 31, 2004 from NT$2,747.8 million for the corresponding period in 2003, primarily due to a 92.1 per cent. increase in investment income to NT$4,425.4 million (U.S.$134.1 million) for the three months ended March 31, 2004 from NT$2,303.4 million for the corresponding period in 2003, a gain from the disposal of investments of NT$103.0 million (U.S.$3.1 million) for the three months ended March 31, 2004 and a NT$36.4 million (U.S.$1.1 million) gain on the disposal of property, plant and equipment for the three months ended March 31, 2004. The increase in Nan Ya Plastics' investment income was due to an increase for the income from its affiliates Formosa Petrochemical (which increased NT$1,179.3 million to NT$2,319.5 million (U.S.$70.3 million) for the three months ended March 31, 2004 from NT$1,140.2 million for the corresponding period in 2003), and Nanya Technology, (which increased NT$914.4 million to a net income of NT$453.7 million (U.S.$13.7 million) for the three months ended March 31, 2004 from a net loss of NT$460.7 million in the corresponding period in 2003). The gain from disposal of investments for the three months ended March 31, 2004 was due to the sale of a portion of Nan Ya Plastics' holdings in Ours Commercial Banking Ltd.

Non-consolidated non-operating expenses

Non-consolidated non-operating expenses decreased 25.7 per cent. to NT$1,324.3 million (U.S.$40.1 million) for the three months ended March 31, 2004 from NT$1,782.5 million for the corresponding period in 2003.This was due to a 89.5 per cent. decrease in investment loss to NT$73.7 million (U.S.$2.2 million) for the three months ended March 31, 2004 from NT$700.9 million for the corresponding period in 2003 and a 25.2 per cent. decrease in interest expenses to NT$577.7 million (U.S.$17.5 million) for the three months ended March 31, 2004 from NT$772.0 million for the corresponding period in 2003. The decrease in investment loss was principally due to Plastics' investment in Nanya Technology producing an income for the three months ended March 31, 2004 compared to a loss of NT$460.7 million for the corresponding period in 2003. The decrease in interest expenses was due to reduction in interest rates and in the amount of interest bearing debt Nan Ya Plastics had outstanding.

Non-consolidated income before income tax

Non-consolidated income before income tax increased 146.7 per cent. to NT$8,844.9 million (U.S.$268.0 million) for the three months ended March 31, 2004 from NT$3,585.9 million for the corresponding period in 2003, primarily reflecting the foregoing.

Non-consolidated income tax expense

Nan Ya Plastics' non-consolidated income tax expense increased 378.6 per cent. to NT$167.5 million (U.S.$5.1 million) (an effective rate of 1.9 per cent.) in the three months ended March 31, 2004, from NT$35.0 million (an effective rate of 1.0 per cent.) in the corresponding period in 2003 primarily due to an increase in taxable income and a decrease in new tax credits to NT$165.1 million (U.S.$5.0 million) in the three months ended March 31, 2004 from NT$542.4 million in the corresponding period in 2003 partially offset by a reversal of valuation allowance for deferred tax assets of NT$901.9 million (U.S.$27.3 million) in the three months ended March 31, 2004 corresponding to improved projections in future net income.

Non-consolidated net income

As a result of factors discussed above, non-consolidated net income increased 144.4 per cent. to NT$8,677.4 million (U.S.$263.0 million) in the three months ended March 31, 2004 from NT$3,550.9 million in the corresponding period in 2003. Nan Ya Plastics recorded primary earnings per share of NT$1.32 (U.S.$0.04) in the three months ended March 31, 2004, compared to NT$0.54 in the corresponding period in 2003.

Year ended December 31, 2003 compared to year ended December 31, 2002

Operating revenues

Nan Ya Plastics' operating revenues increased 21.1 per cent. to NT$171,643.8 million (U.S.$5,049.8 million) in 2003 from NT$141,680.7 million in 2002, as a result of increases in the operating revenues of all of Nan Ya Plastics' businesses, primarily its polyester business. The increased revenues from Nan Ya Plastics' polyester business was primarily due to increases in production volume and thus sales volumes from a new EG manufacturing facility which began commercial operations in September 2003.

Revenues attributable to sales of plastics products increased 6.1 per cent. to NT$42,681.5 million (U.S.$1,255.7 million) in 2003 from NT$40,239.9 million in 2002, primarily due to increased sales in specialty chemicals (principally BPA and 1.4BG) and other plastics products (principally flexible PVC and rigid PVC film).

Revenues attributable to sales of polyester products increased 23.2 per cent. to NT$69,783.7 million (U.S.$2,053.1 million) in 2003 from NT$56,653.5 million in 2002, primarily due to increases in sales of polyester film and polyester staple fiber attributable to increase production from Nan Ya Plastics' new EG manufacturing facility which began commercial operations in September 2003, and which substantially increased production capacity. In addition, there was a general increase in the average sales prices of Nan Ya Plastics' polyester products.

Revenues attributable to sales of electronics materials increased 28.7 per cent. to NT$23,947.1 million (U.S.$704.5 million) in 2003 from NT$18,605.2 million in 2002 primarily due to a 68.7 per cent. increase in sales of LCD products to NT$3,746.3 million (U.S.$110.2 million) in 2003 from NT$2,220.3 million in 2002, corresponding with sharp increase in the mobile electronics business in Asia. Utilization rates at Nan Ya Plastics' electronics materials factories were near 100.0 per cent. in 2003 compared with approximately 75 per cent in 2002 when manufacturing facilities for CCL and GFC were idle.

Revenues attributable to sales from Nan Ya PCB's printed circuit boards increased 28.7 per cent. in 2003, primarily due to an 85.5 per cent. increase in IC substrates revenues to NT$7,215.8 million (U.S.$212.3 million) in 2003 from NT$3,890.1 million in 2002. This increase corresponded to the sharp improvement in the portable electronics business in Asia. This increase was partially offset by a decrease in PCB sales revenues due to the conversion of PCB production equipment to produce higher margin IC substrates and the process of shifting Nan Ya PCB's PCB production from Taiwan to facilities in the PRC, resulting in decreased production and sales volumes of PCB in 2003.

Operating costs and gross profit

Nan Ya Plastics' operating costs increased 22.3 per cent. to NT$147,186.6 million (U.S.$4,330.3 million) in 2003 from NT$120,377.4 million in 2002, primarily as a result of increased PVC resins costs. Operating costs as a percentage of Nan Ya Plastics' operating revenues increased to 85.8 per cent. in 2003 from 85.0 per cent. in 2002, primarily as a result of increased PVC resins costs partially offset by higher manufacturing efficiency realized through increased production. Gross profit increased 15.3 per cent. to NT$24,488.6 million (U.S.$720.5 million) in 2003 from NT$21,243.0 million in 2002, primarily reflecting increase in Nan Ya Plastics' polyester, electronics materials and printed circuit board businesses.

Operating expenses and operating income

Operating expenses decreased 0.4 per cent. to NT$11,323.0 million (U.S.$333.1 million) in 2003 from NT$11,370.4 million in 2002 due to a decrease in administrative expenses partially offset by an increase in selling expenses. Administrative expenses decreased 6.0 per cent. to NT$6,461.4 million (U.S.$190.1 million) in 2003 from NT$6,874.7 million in 2002, primarily as a result of the inclusion of training, testing and depreciation expenses relating to STN/LCD facilities as part of administrative expenses as such facilities were still under construction. In 2003, such expenses were included in operating costs as the facilities were in operation. Selling expenses increased 8.1 per cent. to NT$4,861.5 million (U.S.$143.0 million) in 2003 from NT$4,495.7 million in 2002, primarily due to increased freight and export insurance/packing expenses due to increased sales.

As a result of the foregoing factors, Nan Ya Plastics' operating income increased 33.4 per cent. to NT$13,165.7 million (U.S.$387.3 million) in 2003 from NT$9,872.6 million in 2002.

Non-operating income

Non-operating income decreased 4.4 per cent. to NT$10,549.3 million (U.S.$310.4 million) in 2003 from NT$11,039.5 million in 2002, primarily due to a decrease in gain on disposal of property, plant and equipment and a decrease in foreign exchange gain partially offset by an increase in investment income. Gain from disposal of property, plant and equipment decreased 88.7 per cent. to NT$103.2 million (U.S.$3.0 million) in 2003 from NT$912.8 million in 2002 due to the sale of unused land owned in Linkou Industrial Park by Nan Ya Plastics to an unrelated corporation in 2002. Foreign exchange gain decreased 38.2 per cent. to NT$650.4 million (U.S.$19.1 million) in 2003 from NT$1,052.4 million in 2002. Investment income increased 12.2 per cent. to NT$6,658.8 million (U.S.$195.9 million) in 2003 from NT$5,936.2 million in 2002 primarily attributable to increased investment income from Formosa Petrochemical.

Non-operating expenses

Non-operating expenses increased 2.9 per cent. to NT$5,583.5 million (U.S.$164.3 million) in 2003 from NT$5,424.2 million in 2002, primarily as a result of a 616.2 per cent. increase in investment loss to NT$832.9 million (U.S.$24.5 million) in 2003 from NT$116.3 million in 2002 which was partially offset by a 7.8 per cent. decrease in foreign exchange loss to NT$824.0 million (U.S.$24.2 million) in 2003 from NT$893.4 million in 2002 and a 14.0 per cent. decrease of interest expenses to NT$3,342.6 million (U.S.$98.3 million) in 2003 from NT$3,885.2 million in 2002. The increase in investment loss was primarily due to losses experienced by Nan Ya Plastics' affiliate, Nanya Technology. Interest expenses decreased as a result of a decrease in interest rates.

Income before income tax

Nan Ya Plastics recorded income before income tax of NT$18,131.5 million (U.S.$533.4 million) in 2003, compared to income before income tax of NT$15,487.8 million in 2002, primarily reflecting the foregoing.

Income tax expense

Income tax expense decreased 45.1 per cent. to NT$924.0 million (U.S.$27.2 million) (an effective rate of 5.1 per cent.) from NT$1,682.6 million (an effective rate of 10.9 per cent.) in 2002. The decrease in income tax expense and effective tax rate in 2003 compared with 2002 was primarily due to an increase in tax credits to NT$2,794.9 million in 2003 from NT$421.0 million in 2002.

Net income

As a result of factors discussed above, Nan Ya Plastics' net income increased 24.5 per cent. to NT$17,180.0 million (U.S.$505.4 million) in 2003 from NT$13,796.5 million in 2002.

Year ended December 31, 2002 compared to year ended December 31, 2001

Operating revenues

Nan Ya Plastics' operating revenues increased 8.0 per cent. to NT$141,680.7 million in 2002 from NT$131,161.4 million in 2001, primarily as a result of increases in the operating revenues of all of Nan Ya Plastics' businesses.

Revenues attributable to sales of plastics products increased 4.1 per cent. to NT$40,239.9 million in 2002 from NT$38,672.1 million in 2001, primarily due to increased sales of specialty chemicals and BOPP film and related products, which was partially offset by decreased sales of most of Nan Ya Plastics' other principal plastics products. Specialty chemicals such as PA and 2-EH are the raw materials used for the production of DOP, a plasticizer. The market price of PA and 2-EH increased due to increased demand worldwide for DOP. The average sales price of BOPP film and related products increased primarily as a result of increased percentage of the sales of such products accounted for by higher value-added products, including A-PET film, ultra-transparent BOPP film and other non-PVC-based products. The average sales price of Nan Ya Plastics' other principal plastics products decreased, reflecting intense competition in the plastics industry and weak demand from the construction industry in Taiwan.

Revenues attributable to sales of polyester products increased 7.8 per cent. to NT$56,653.5 million in 2002 from NT$52,544.5 million in 2001 primarily due to increased sales of most of Nan Ya Plastics' polyester products, partially offset by decreased sales of EG. Both the sales volume and average sales price of most of Nan Ya Plastics' polyester products increased. The increase in sales volume was primarily due to increased demand worldwide for polyester products. The increase in average sales price of Nan Ya Plastics' polyester products resulted primarily from the increased percentage of Nan Ya Plastics' polyester sales accounted for by high-value added products, such as low-melting-point staple fiber, microfiber and fine denier multi-filament yarn. Although Nan Ya Plastics' EG production volume increased in 2002, sales volume of EG decreased as Nan Ya Plastics increased Nan Ya Plastics' internal consumption of the EG Nan Ya Plastics produced.

Revenues attributable to sales of electronics materials products increased 5.2 per cent. to NT$18,605.2 million in 2002 from NT$17,683.7 million in 2001, primarily due to increased sales of epoxy resin, which was partially offset by decreased sales of glass fiber cloth. Both the sales volume and average sales price of epoxy resin increased reflecting increased demand worldwide for epoxy resin. The market price of glass fiber cloth decreased reflecting the continued downturn in end-use markets such as the telecommunication industry. Sales volume of glass fiber cloth remained substantially unchanged.

Revenues attributable to sales of printed circuit boards increased 15.4 per cent. to NT$11,901.1 million in 2002 from NT$10,311.0 million in 2001, primarily due to the commencement of Nan Ya Plastics' commercial production of IC substrates, which was partially offset by decreased sales of printed circuit boards. Both the sales volume and the average sales price of printed circuit boards decreased due to excess capacity in the printed circuit board industry, which had resulted in intense competition.

Operating costs and gross profit

Nan Ya Plastics' operating costs increased 6.0 per cent. to NT$120,377.4 million in 2002 from NT$113,580.0 million in 2001, primarily as a result of an increase in the cost of raw materials and overhead costs, which was partially offset by a decrease in labor costs. Reflecting the increased demand for polyester products worldwide, most of the raw materials used in the production of polyester also increased in price. Nan Ya Plastics' overhead costs increased primarily because Nan Ya Plastics expanded the capacity of Nan Ya Plastics' LCD manufacturing plant and added a new color-filtering LED manufacturing plant. Nan Ya Plastics' labor costs decreased as Nan Ya Plastics continued to shift Nan Ya Plastics' manufacturing operations for commodity plastics products to the PRC, where wages are lower. Operating costs as a percentage of Nan Ya Plastics' operating revenues decreased to 85.0 per cent. in 2002 from 86.6 per cent. in 2001, primarily as a result of the higher manufacturing efficiency realized from increased production. Gross profit increased 20.8 per cent. to NT$21,243.0 million in 2002 from NT$17,581.4 million in 2001, primarily reflecting the increased profitability of Nan Ya Plastics' polyester business and an increase in the sales revenues of Nan Ya Plastics' plastics, electronics materials and printed circuit board products.

Operating expenses and operating income

Operating expenses increased 41.3 per cent. to NT$11,370.4 million in 2002 from NT$8,047.4 million in 2001, due to increases in administrative expenses and selling expenses. Administrative expenses increased 67.9 per cent. to NT$6,874.7 million in 2002 from NT$4,095.7 million in 2001, primarily as a result of increased salary expenses due to increased bonuses paid to Nan Ya Plastics' employees. Selling expenses increased 13.8 per cent. to NT$4,495.7 million in 2002 from NT$3,951.7 million in 2001, primarily due to increases in sales and the percentage of Nan Ya Plastics' sales accounted for by overseas sales, which led to increased transportation expenses, commissions payable to overseas sales agents and fees payable to banks in relation to letters of credit denominated in foreign currencies.

As a result of the foregoing factors, operating income increased 3.6 per cent. to NT$9,872.6 million in 2002 from NT$9,534.1 million in 2001.

Non-operating income

Non-operating income increased 57.8 per cent. to NT$11,039.5 million in 2002 from NT$6,997.0 million in 2001, primarily due to an increase in investment income. Investment income increased 53.1 per cent. to NT$5,936.2 million in 2002 from NT$3,878.4 million in 2001, primarily as a result of capital gains realized from the sale of some of the shares of Nan Ya PCB held by Nan Ya Plastics to China Development Bank and Nan Ya Plastics' equity in the increased income of Formosa Petrochemical.

Non-operating expenses

Non-operating expenses decreased 55.0 per cent. to NT$5,424.2 million in 2002 from NT$12,056.2 million in 2001, primarily as a result of lower foreign exchange loss and lower interest expenses and investment loss. Foreign exchange loss decreased 25.9 per cent. to NT$893.4 million in 2002 from NT$1,205.9 million in 2001, primarily as a result of smaller exchange losses associated with accounts receivable denominated in foreign currencies reflecting the depreciation of the NT dollar. Interest expenses decreased 23.9 per cent. to NT$3,885.2 million in 2002 from NT$5,107.7 million in 2001, primarily as a result of lower interest rates.

Income before income tax

Nan Ya Plastics recorded an income before income tax of NT$15,487.8 million in 2002, compared to NT$4,474.8 million in 2001, primarily reflecting the foregoing.

Income tax expense

Nan Ya Plastics recorded an income tax expense of NT$1,682.6 million in 2002 compared to an income tax benefit of NT$3,418.2 million in 2001. This change was primarily due to an increase in taxable income and a decrease in tax credits to NT$421.0 million in 2002 from NT$5,909.9 million in 2001 partially offset by a reversal in 2002 of the provision for valuation allowance recognized in 2001

Net income

As a result of this and other factors discussed above, Nan Ya Plastics' net income increased 75.2 per cent. to NT$13,769.5 million in 2002 from NT$7,861.4 million in 2001.

Liquidity and Capital Resources

Nan Ya Plastics' principal sources of liquidity are cash flow from operations and financing activities, including short and long-term secured and unsecured borrowings. Nan Ya Plastics' principal uses of cash for the three months ended March 31, 2004 were primarily for the repayment of debt, capital expenditures and additional long-term investments. Nan Ya Plastics' principal uses of cash in 2003 were primarily for capital expenditures, additional short-term and long-term investments and payment of cash dividends.

Cash flow

Non-consolidated cash flow

In the three months ended March 31, 2004, non-consolidated net cash flow was an inflow of NT$2,620.9 million (U.S.$79.4 million) as compared to an outflow of NT$163.6 million in corresponding period in 2003, bringing Nan Ya Plastics' non-consolidated cash and cash equivalents position as of March 31, 2004 to NT$4,159.2 million (U.S.$126.0 million).

Three months ended March 31, 2004. Non-consolidated net cash provided by operating activities was NT$7,245.3 million (U.S.$219.6 million) in the three months ended March 31, 2004. This amount reflected non-consolidated net income of NT$8,677.4 million (U.S.$263.0 million) and non-consolidated depreciation and amortization of NT$2,168.0 million (U.S.$65.7 million). This was partially offset by a NT$4,351.6 million (U.S.$131.9 million) in equity in net earnings of investee companies, NT$627.6 million (U.S.$19.0 million) increase in inventories and a NT$338.6 million (U.S.$10.3 million) decrease in accrued expenses.

Non-consolidated net cash used in investing activities was NT$4,929.2 million (U.S.$149.4 million) in the three months ended March 31, 2004. This amount reflected purchases of property, plant and equipment of NT$2,912.5 million (U.S.$88.3 million), a NT$1,824.4 million (U.S.$55.3 million) increase in amounts due from related parties and an increase in long-term investments of NT$1,433.8 million (U.S.$43.4 million). This was partially offset by NT$1,553.4 million (U.S.$47.1 million) in proceeds from the sale of short-term investments.

Non-consolidated net cash provided by financing activities was NT$359.3 million (U.S.$10.9 million) in the three months ended March 31, 2004. This amount reflected a NT$4,106.1 million (U.S.$124.4 million) increase in bonds payable, a NT$530.9 million (U.S.$16.1 million) increase in guarantee deposits and a NT$274.8 million (U.S.$8.3 million) increase in other liabilities. This was partially offset by a NT$3,176.8 million (U.S.$96.3 million) decrease in long-term debt, a NT$739.9 million (U.S.$22.4 million) decrease in commercial paper payable and a NT$541.4 million (U.S.$16.4 million) decrease in short-term borrowings.

Three months ended March 31, 2003. Non-consolidated net cash provided by operating activities was NT$251.3 million in the three months ended March 31, 2003. This amount reflected net income of NT$3,550.9 million, depreciation and amortization of NT$2,143.8 million and an increase in accounts payable of NT$1,576.2 million. This was partially offset by a NT$2,569.7 million increase in accounts receivable and overdue accounts a NT$1,669.0 million increase in inventories, a NT$1,602.5 million equity in net earnings of investee companies

Non-consolidated net cash used in investing activities was NT$2,196.2 million in the three months ended March 31, 2004. This amount reflected a NT$2,028.1 million increase in long-term investments and NT$1,514.2 million in purchases of property, plant and equipment. This was partially offset by a NT$1,264.1 million decrease in amounts due from related parties.

Non-consolidated net cash provided by financing activities was NT$1,778.0 million in the three months ended March 31, 2004. This amount reflected a NT$2,514.0 million increase in short-term borrowings, a NT$1,868.4 million increase in amounts due to related parties and a NT$839.6 million increase in short-term notes payable. This was partially offset by a NT$2,950.7 million decrease in long-term debt and a NT$1,000.0 million decrease in bonds payable.

Consolidated cash flow

In 2003, net cash flow was an inflow of NT$7,377.4 million (U.S.$217.0 million), compared to an inflow of NT$108.6 million in 2002 and an outflow of NT$4,279.0 million in 2001, bringing Nan Ya Plastics' cash and cash equivalents position as of December 31, 2003 to NT$9,603.0 million (U.S.$282.5 million).

Year ended December 31, 2003. Net cash provided by operating activities was NT$18,444.0 million (U.S.$542.6 million) in 2003. This amount reflected net income of NT$17,180.0 million (U.S.$505.4 million) and depreciation and amortization of NT$13,465.5 million (U.S.$396.2 million). This was partially offset by a NT$6,319.4 million (U.S.$185.9 million) increase in accounts receivable and overdue accounts, NT$5,826.0 million (U.S.$171.4 million) in equity in net earnings of investee companies, a NT$2,595.9 million (U.S.$76.4 million) increase in deferred income tax assets and a NT$2,376.7 million (U.S.$69.9 million) increase in inventories.

Net cash used in investing activities was NT$7,910.4 million (U.S.$232.7 million) in 2003. This amount reflected a NT$10,505.3 million (U.S.$309.1 million) increase in short-term investments, NT$9,270.5 million (U.S.$272.7 million) from the purchase of property, plant and equipment and a NT$4,261.4 million (U.S.$125.4 million) increase in long-term investments. This was partially offset by a NT$7,822.7 million (U.S.$230.1 million) decrease in due from related parties, a NT$6,042.0 million (U.S.$177.8 million) in the sale of short-term investments, and NT$2,256.8 million (U.S.$66.4 million) from the sale of long-term investments.

Net cash used in financing activities was NT$3,150.8 million (U.S.$92.7 million) in 2003. This amount reflected a NT$7,446.7 million (U.S.$219.1 million) cash dividend, a NT$1,441.2 million (U.S.$42.4 million) decrease in due to related parties and a NT$831.3 million (U.S.$24.5 million) decrease in long-term debt. This was partially offset by a NT$5,240.8 million (U.S.$154.2 million) increase in bonds payable, a NT$884.7 million (U.S.$26.0 million) increase in short-term borrowings and a NT$376.1 million (U.S.$11.1 million) increase in other miscellaneous liabilities.

Year ended December 31, 2002. Net cash provided by operating activities was NT$21,508.1 million in 2002. This amount reflected net income of NT$13,796.5 million, depreciation and amortization of NT$13,545.6 million, a NT$1,676.3 million increase in accounts payable, NT$1,590.6 million decrease in deferred income tax assets and a NT$1,449.6 million increase in accrued pension liability. This was partially offset by a NT$5,817.9 million decrease in equity in net earnings of investee companies, a NT$2,612.9 million increase in accounts receivable and overdue accounts, a NT$1,518 million loss on the sale of long-term investments and a NT$1,326.0 million increase in inventories.

Net cash used in investing activities was NT$14,480.6 million in 2002. This amount reflected NT$11,612.7 million from the purchase of property, plant and equipment, a NT$6,404.6 million increase in long-term investments and a NT$3,005.0 million increase in miscellaneous assets. This was partially offset by a NT$3,746.9 million decrease in due from related parties, NT$2,074.3 million from the sale of long-term investments and NT$1,264.5 million from the sale of property, plant and equipment.

Net cash used in financing activities was NT$6,925.8 million in 2002. This amount reflected a NT$13,103.6 million decrease in short-term borrowings, a NT$5,632.6 million decrease in due to related parties, NT$4,058.3 million in cash dividends and a NT$3,656.0 million decrease in commercial paper payable. This was partially offset by NT$15,360.0 million increase in bonds payable and a NT$4,227.6 million increase in long-term debt.

Year ended December 31, 2001. Net cash provided by operating activities was NT$26,459.9 million in 2001. This amount reflected net income of NT$7,861.4 million, depreciation and amortization of NT$13,354.4 million a NT$2,831.4 million decrease in inventories, a NT$2,589.4 million decrease in accounts receivable and overdue accounts and a NT$1,849.6 million decrease in notes receivable. This was partially offset by a NT$3,325.6 million increase in deferred tax assets and a NT$1,579.4 million decrease in accrued expenses and a NT$1,124.8 million decrease in accounts payable.

Net cash used in investing activities in 2001 was NT$36,344.6 million. This amount reflected NT$18,150.2 million used in the purchase of property, plant and equipment, a NT$14,648.4 million increase in long-term investments and a NT$2,498.3 million increase in due from related parties. This was partially offset by NT$753.7 million in proceeds from the sale of property, plant and equipment.

Net cash provided by financing activities in 2001 was NT$5,598.5 million, reflecting a NT$6,863.7 million increase in due to related parties, a NT$6,152.2 million increase in long-term debt and a NT$2,620.0 million increase in bonds payable. This was partially offset by NT$5,774.6 million in cash dividends and a NT$4,383.3 million decrease in short-term borrowings.

Capital resources

Short-term debt

As of March 31, 2004, Nan Ya Plastics had total availability of NT$58,415.8 million (U.S.$1,770.2 million) in short-term credit facilities, NT$224.6 million (U.S.$6.8 million) of which was outstanding. All of Nan Ya Plastics' outstanding short-term debt as of that date was unsecured borrowings and letters of credit. The interest rates for such short-term credit facilities ranged from 1.02 per cent. to 1.05 per cent. Nan Ya Plastics uses short-term financing primarily to fund Nan Ya Plastics' purchase of raw materials. As of March 31, 2004, the current portion of Nan Ya Plastics' long-term debt was NT$8,741.4 million (U.S.$264.9 million). Nan Ya Plastics believes that the amount of available credit under its short-term credit facilities provides sufficient liquidity to serve its short-term debt and otherwise meet working capital requirements.

Long-term debt

As of March 31, 2004, Nan Ya Plastics had long-term debt (net of current portion) outstanding of NT$41,914.0 million (U.S.$1,270.1 million). The following table sets forth the repayment schedule of Nan Ya Plastics' long-term debt obligations as of March 31,2004:

	Non-consolidated
	March 31, 2004
Balances due	**Total long-term debt amounts (including U.S.$ currency loans)**
	NT$ (millions)
April 1, 2004–March 31, 2005	6,221.4
April 1, 2005–March 31, 2006	19,196.4
April 1, 2006–March 31, 2007	8,455.6
April 1, 2007–March 31, 2008	3,462.3
March 31, 2008 and thereafter	10,779.7
Total	48,135.4

The interest rates for Nan Ya Plastics' long-term credit facilities are floating and fixed, and such rates ranged from 1.8 per cent. to 5.725 per cent. in 2003 and from 1.79 per cent. to 5.0 per cent. in the three months ended March 31, 2004.

Long-term debt as of March 31, 2003 and 2004 was as follows:

				2003	2004	
Bank	**Repayment period**	**Nature**	**Interest rate**	**Loan balance**	**Loan balance**	
				NT$ (millions)	**NT$ (millions)**	**U.S.$ (millions)**
Chiao Tung Bank	November 5, 1997~November 5, 2012. Five years after the first appropriation date, pay the first installment; the rest of the principal is to be repaid semiannually in 20 installments after the first repayment.	Machinery loan	2.525%	1,020.2	901.0	27.3
Chiao Tung Bank	December 5, 1997~December 5, 2012. Five years after the first appropriation date, pay the first installment; the rest of the principal is to be repaid semiannually in 20 installments after the first repayment.	Machinery loan	2.525%	1,604.0	1,424.0	43.2

Bank	Repayment period	Nature	Interest rate	2003 Loan balance	2004 Loan balance	
				NT$ (millions)	NT$ (millions)	U.S.$ (millions)
Chiao Tung Bank . . .	December 27, 1996~December 27, 2011. Five years after the first appropriation date, pay the first installment; the rest of the principal is to be repaid semiannually in 20 installments after the first repayment.	Machinery loan	2.525%	2,808.0	2,496.0	75.6
Chiao Tung Bank . . .	September 22, 1997~September 22, 2012. Five years after the first appropriation date, pay the first installment; the rest of the principal is to be repaid semiannually in 20 installments after the first repayment.	Machinery loan	1.9375%	5,266.7	4,448.5	134.8
Chiao Tung Bank . . .	March 24, 1999~March 24, 2014. Five years after the first appropriation date, pay the first installment; the rest of the principal is to be repaid semiannually in 20 installments after the first repayment.	Machinery loan	2.525%	2,623.0	2,498.0	75.7
Chiao Tung Bank . . .	December 22, 2000~December 22, 2010. Principal is to be repaid on every January, April, July and October in 40 installments starting in 2001.	Machinery loan	3.00%	227.9	198.5	6.0
Asia Trust and Investment Corporation	December 29, 2000~January 29, 2004. Principal due on maturity.	Unsecured loan	2.10%	295.0	140.0	4.2
Nan Shan Insurance Company	November 16, 1997~November 27, 2004. Principal due on maturity.	Secured loan	5.00%	5,000.0	—	—
Taishin International Bank	October 15, 2001~October 15, 2003. Principal due on maturity.	Secured loan	1.79%	930.0	930.0	28.2
ShinKong Life Insurance Company	December 27, 2001~December 27, 2004. Principal due on maturity.	Secured loan	2.95%	3,700.0	3,700.0	112.1
Taiwan Cooperative Bank	December 08, 1999~December 08, 2005. Principal due on maturity.	Secured loan	2.625%	4,000.0	4,000.0	121.2
First Commercial Bank	December 15, 1999~December 15, 2005. Principal due on maturity.	Secured loan	2.625%	5,000.0	5,000.0	151.5
Taipei Bank	December 29, 1999~December 29, 2005. Principal due on maturity.	Secured loan	2.75%	3,850.0	3,850.0	116.7

Bank	Repayment period	Nature	Interest rate	2003 Loan balance	2004 Loan balance	
				NT$ (millions)	NT$ (millions)	U.S.$ (millions)
Farmers Bank	August 29, 2001~August 29, 2006. Principal is to be repaid in 6 semi-annual installments starting on August 29, 2003.	Secured loan	2.60%	3,000.0	2,500	75.8
Bank of Taiwan	September 10, 2001~September 10, 2006. Principal is to be repaid in 6 semi-annual installments starting on September 10, 2003.	Secured loan	2.80%	8,000.0	6,616.7	200.5
China Development Industrial Bank . . .	September 10, 2001~September 10, 2004. Principal is to be repaid in 3 semi-annual installments, NT$500,000, NT$500,000, NT$1,000,000 for each installment, starting on September 10, 2003.	Secured loan	2.55%	2,000.0	1,000.0	30.3
Industry Bureau of the Ministry of Economic Affairs. .	September 4, 2001~October 1, 2004. Principal is to be repaid in 8 quarterly installments starting on December 31, 2002.	Development of new products	—	9.0	3.9	0.1
Taiwan Cooperative Bank	August 23, 2004~May 23, 2009. Principal is to be repaid in 20 quarterly Starton May 23, 2004.	Secured loan	2.55%	829.0	829.0	25.1
International Bank of Taipei	December 24, 2002~December 24, 2004. Principal due on maturity.	Secured loan	1.80%	750.0	900.0	27.3
Taiwan Bank	December 29, 2003~December 29, 2008 Principal is to be repaid every year in 2 installments, starting on December 29, 2007	Secured loan	2.1842%	—	3,200.0	97.0
Bank of Overseas Chinese	June 26, 2003~June 26, 2008 Principal due on maturity	Secured loan	2.3158%	—	500.0	15.2
Industrial Bank of Taiwan	June 26, 2003~June 26, 2008 Principal due on maturity	Secured loan	2.3158%	—	2,000.0	60.6
Taiwan Cooperative Bank	June 27, 2003~May 23, 2009 Principal is to be repaid quarterly starting on June 27, 2005	Secured loan	2.55%	—	1,000.0	30.3
				50,912.8	48,135.6	1,458.7
Less: current portion .				(3,229.0)	(6,221.4)	(188.5)
Long-term debt, excluding current portion				**47,683.8**	**41,914.2**	**1,270.2**

Long-term debt as of December 31, 2001, 2002 and 2003 was as follows:

Bank	Nature	Interest rate	2001	2002	2003	
			NT$ (millions)	NT$ (millions)	NT$ (millions)	U.S.$ (millions)
Chiao Tung Bank	Machinery loan	4.00%~2.525%	1,080.0	1,020.2	901.0	26.5
Chiao Tung Bank	Machinery loan	4.00%~2.525%	1,699.0	1,604.0	1,424.0	41.9
Chiao Tung Bank	Machinery loan	4.00%~2.525%	2,784.0	2,808.0	2,496.0	73.4
Chiao Tung Bank	Machinery loan	3.375%~1.9375%	6,194.8	5,559.8	4,863.6	143.1
Chiao Tung Bank	Machinery loan	4.00%~2.525%	2,360.0	2,623.0	2,623.0	77.2
Chiao Tung Bank	Machinery loan	5.725%~4.155%	264.6	235.2	205.8	6.1
Chiao Tung Bank	Machinery loan	2.05%	—	—	11,892.3	349.9
Chiao Tung Bank	Machinery loan	4.3625%~2.48%	6,614.8	4,691.7	—	—
Chiao Tung Bank	Machinery loan	2.25%~7.57%	6,999.8	6,121.7	—	—
Asia Trust and Investment Corporation	Unsecured loans	5.00%~2.1%	295.0	295.0	295.0	8.7
Nan Shan Insurance Company	Secured loan	5%~7%	5,000.0	5,000.0	—	—
Taishin International Bank	Secured loan	4.70%~1.79%	930.0	930.0	930.0	27.4
Shin Kong Life Insurance Company	Secured loan	5.25%~2.95%	3,700.0	3,700.0	3,700.0	108.9
Taiwan Cooperative Bank	Secured loan	2.625%~5.05%	4,000.0	4,000.0	4,000.0	117.7
First Commercial Bank	Secured loan	4.10%~2.625%	5,000.0	5,000.0	5,000.0	147.1
Taipei Bank	Secured loan	5.10%~2.75%	3,850.0	3,850.0	3,850.0	113.3
Farmers Bank	Secured loan	4.05%~2.60%	3,000.0	3,000.0	3,000.0	88.3
Bank of Taiwan	Secured loan	2.70%~5.50%	8,000.0	8,000.0	8,000.0	235.4
China Development Industrial Bank	Secured loan	2.55%~3.505%	2,000.0	2,000.0	1,500.0	44.1
Industrial Development Bureau of the Ministry of Economic Affairs	Development of new products	—	8.0	10.6	5.2	2
Taiwan Cooperative Bank	Secured loan	3.525%~2.55%	—	829.0	829.0	24.4
Taishin International Bank	Secured loan	2.25%	—	400.0	—	—
Hua Nan Bank	Secured loan	3.15%	—	2,248.9	—	—
International Bank of Taipei	Unsecured loan	2.30%~1.80%	—	750.0	900.0	26.5
Taiwan Bank	Secured loan	1.80%	—	—	3,200.0	94.1
Bank of Overseas Chinese	Secured loan	2.3158%	—	—	500.0	14.7
Industrial Bank of Taiwan	Secured loan	2.355%	—	—	2,000.0	58.8
Taiwan Cooperative Bank	Machinery loan	2.55%	—	—	1,000.0	29.4
ABN AMRO Bank (formerly Canadian Imperial Bank of Commerce)	Secured loan	2.025%~2.4475%	—	487.1	849.2	25.0
			63,780.0	65,164.2	63,964.1	1,881.9
Less: current portion . .			(3,592.3)	(4,015.4)	(6,912.4)	(203.4)
Long-term debt, excluding current portion			**60,187.7**	**61,148.8**	**57,051.7**	**1,678.5**

Syndicated loan with Chiao Tung Bank and 31 other banks. In April 28, 1994, Nan Ya Plastics entered into a syndicated loan agreement for the purpose of funding the construction of the No. 6 Naphtha Cracker Complex. The agreement, as subsequently amended in 1999, provides for various credit facilities with a credit line of NT$15,300.0 million (including NT$9,400.0 million and U.S.$227.0 million) and with duration ranging from 10 to 15 years after the initial signing date. The agreement contains certain covenants that require Nan Ya Plastics to maintain its debt ratio below 1.5 and its current ratio above 1.0. Nan Ya Plastics' obligations under the loan agreement are secured by certain equipment and machinery. As of March 31, 2004, NT$48,131.6 million and U.S.$134.7 million of such loans were outstanding and NT$6,709.0 million were available.

Taishin International Bank. On October 15, 1999, Nan Ya Plastics entered into a NT$930.0 million term loan agreement with Taishin International Bank. This facility expires in 2004. The full principal amount was outstanding as of March 31, 2004. The loans are secured by the shares of Formosa Petrochemical held by Nan Ya Plastics.

Shinkong Life Insurance Company. On December 27, 1999, Nan Ya Plastics entered into a NT$3,700.0 million term loan agreement with Shinkong Life Insurance Co., Ltd. This facility expires in 2004. The full principal amount was outstanding as of March 31, 2004. The loans are secured by Nan Ya Plastics' land in Chia Yi.

Taiwan Cooperative Bank. On December 8, 1999, Nan Ya Plastics entered into a NT$4,000.0 million term loan agreement with Taiwan Cooperative Bank. This facility expires in 2005. The full principal amount was outstanding as of March 31, 2004. The loans are secured by the shares of Formosa Petrochemical held by Nan Ya Plastics.

First Commercial Bank. On December 15, 1999, Nan Ya Plastics entered into a NT$5,000.0 million term loan agreement with First Commercial Bank for the purpose of funding Nan Ya Plastics' working capital needs. This facility expires in 2005. The full principal amount was outstanding as of March 31, 2004. The loans are secured by Nan Ya Plastics' land in Shu Lin.

Taipei Bank. On December 29, 1999, Nan Ya Plastics entered into a NT$3,850.0 million term loan agreement with Taipei Bank. This facility expires in 2005. The full principal amount was outstanding as of March 31, 2004. Nan Ya Plastics' obligations under the agreement are secured by Nan Ya Plastics' land in Tai Shan.

Farmers Bank. On August 29, 2001, Nan Ya Plastics entered into a NT$3,000.0 million loan agreement with The Farmers Bank of China. This facility expires in 2006. As of March 31, 2004, NT$2,500.0 million was outstanding. Nan Ya Plastics' obligations under the agreement are secured by Nan Ya Plastics' land in Jing Hsin.

Bank of Taiwan. On September 10, 2001, Nan Ya Plastics gained access to a NT$8,000.0 million term loan facility provided by the Bank of Taiwan. This facility expires in 2006. As of March 31, 2004, NT$6,616.7 million was outstanding. Nan Ya Plastics have agreed in a separate letter of undertaking that Nan Ya Plastics' shareholding in Nanya Technology and Formosa Petrochemical would not fall below 40 per cent. and 20 per cent., respectively, during the term of the loan. Nan Ya Plastics' obligations under the agreement are secured by certain land, equipment and machinery owned by Nan Ya Plastics.

China Development Industrial Bank. On September 10, 2001, Nan Ya Plastics entered into a NT$2,000.0 million loan agreement with China Development Industrial Bank. This facility expires in 2004. As of March 31, 2004, NT$1,000.0 million was outstanding. Nan Ya Plastics' obligations under the agreement are secured by the shares of Formosa Petrochemical held by Na Ya Plastics.

Industry Bureau of the Ministry of Economic Affairs. On September 4, 2001, Nan Ya Plastics entered into a NT$10.3 million loan agreement with the Industry Bureau of the Ministry of Economic affairs for the development of new products. As of March 31, 2004, NT$3.9 million was outstanding.

Taiwan Cooperative Bank. On August 23, 2002, Nan Ya Plastics entered into a NT$829.0 million loan agreement with the Taiwan Cooperative Bank. Nan Ya Plastics' obligations under the agreement are secured by certain of its equipment and machinery. This facility expires in 2009. As of March 31, 2004, NT$829.0 million was outstanding.

International Bank of Taipei. On December 24, 2002, Nan Ya Plastics entered into a NT$900.0 million loan agreement with the International Bank of Taipei. This facility expires in 2004. As of March 31, 2004, NT$900.0 million was outstanding. Nan Ya Plastics' credit loan obligations under the agreement are guaranteed by another bank.

Taiwan Bank. On December 29, 2003, Nan Ya Plastics entered into a NT$3,200.0 million loan agreement with Taiwan Bank. Nan Ya Plastics' obligations under the agreement are secured by certain of its equipment and machinery. This facility expires in 2008. As of March 31, 2004, NT$3,200.0 million was outstanding.

Bank of Overseas Chinese. On June 26, 2003, Nan Ya Plastics entered into a NT$500.0 million loan agreement with the Bank of Overseas Chinese. Nan Ya Plastics' obligations under the agreement are secured by certain of its equipment and machinery. This facility expires in 2008. As of March 31, 2004, NT$500.0 million was outstanding.

Industrial Bank of Taiwan. On June 26, 2003, Nan Ya Plastics entered into a NT$2,000.0 million loan agreement with the Industrial Bank of Taiwan. Nan Ya Plastics' obligations under the agreement are was secured by certain of its equipment and machinery. This facility expires in 2008. As of March 31, 2004, NT$2,000.0 million was outstanding.

Taiwan Cooperative Bank. On July 27, 2003, Nan Ya Plastics entered into a NT$1,000.0 million term loan agreement with Taiwan Cooperative Bank for the purpose of funding Nan Ya Plastics' additional equity investment in Formosa Petrochemical. Nan Ya Plastics' obligations under the agreements are secured by certain of its equipment and machinery. This facility expires in 2009. As of March 31, 2003, NT$1,000.0 million was outstanding.

Summary of corporate bonds. The following is a summary of the corporate bonds issued by Nan Ya Plastics:

Bonds payable as of March 31, 2004, were as follows:

	Non-consolidated March 31, 2004	
	NT$ (millions)	**U.S.$ (millions)**
Domestic unsecured nonconvertible corporate bonds	33,750.0	1,022.7
Domestic secured nonconvertible corporate bonds	1,520.0	46.1
Overseas exchangeable bonds	7,924.8	240.1
Subtotal	43,194.8	1,308.9
Less: current portion	(2,520.0)	(76.4)
Bonds payable, excluding current portion	**40,674.8**	**1,232.5**

In 1997, Nan Ya Plastics issued two series of unsecured non-convertible corporate bonds in the aggregate principal amount of NT$6,000.0 million. These bonds bear annual interest rates ranging from 6.53 per cent. to 6.75 per cent. and have maturity dates in the months ranging from March 2003 to August 2004. As of March 31, 2004, an aggregate principal amount of NT$1,000.0 million of these bonds were outstanding.

In 1999, Nan Ya Plastics issued one series of secured non-convertible corporate bonds in the aggregate principal amount of NT$1,520.0 million. These bonds bear the same annual interest rate of 6.05 per cent. and have the same maturity date in September 2004. As of March 31, 2004, an aggregate principal amount of NT$1,520.0 million of these bonds were outstanding. Nan Ya Plastics' obligations under these bonds are secured by guarantees of several banks.

In 2001, Nan Ya Plastics issued one series of unsecured non-convertible corporate bonds in the aggregate principal amount of NT$6,600.0 million. These bonds bear annual interest rates ranging from 2.82 per cent. to 2.85 per cent. and have maturity dates in the months ranging from December 2006 to December 2008. As of March 31, 2004, an aggregate principal amount of NT$6,600.0 million of these bonds were outstanding.

In 2002, Nan Ya Plastics issued three series of unsecured non-convertible corporate bonds in the aggregate principal amount of NT$15,150.0 million. These bonds bear either floating rates or have interest rates ranging from 2.8793 per cent. to 3.35 per cent. and have maturity dates in the months ranging from April 2005 to December 2007. As of March 31, 2004, an aggregate principal amount of NT$15,150.0 million of these bonds were outstanding.

In 2003, Nan Ya Plastics issued two series of unsecured non-convertible corporate bonds in the aggregate principal amount of NT$11,000.0 million. These bonds bear either floating rates or have interest rates ranging from 1.6928 per cent. to 1.9 per cent. and have maturity dates in the months ranging from May 2007 to May 2010.

On July 17, 2003, Nan Ya Plastics issued U.S.$240.0 million zero coupon exchangeable bonds due 2008. These bonds are exchangeable into common shares or GDRs of Nanya Technology Corporation at any time on or after August 17, 2003, and prior to the close of business on July 2, 2008, except during any closed period. Nan Ya Plastics may redeem all or some of these bonds on or after July 17, 2006 and prior to July 17, 2008, at its principal amount minus 0.75 per cent. per annum through to the redemption date, only when the following conditions are satisfied:

The market price per share of Nanya Technology Corporation's common stock exceeds 130.0 per cent. of the exchange price then in effect, translated into U.S. dollars at a fixed exchange rate of NT$34.38 = U.S.$1.00 for 30 consecutive trading days before the publication date.

At least 90.0 per cent. of the principal amount of the bonds have already been redeemed, repurchased and cancelled, or exchanged.

Changes in ROC taxation would require Nan Ya Plastics to gross up for payment of principal or interest, if any at a rate greater than 20.0 per cent.

On June 14, 2004, Nan Ya Plastics issued one series of unsecured non-convertible corporate bonds in the aggregate principal amount of NT$6,000.0 million. These bonds bear a floating rate of interest linked to the six month LIBOR and mature in 2009.

Capital expenditures

Nan Ya Plastics owns its own manufacturing and power generating facilities and therefore requires significant amounts of capital to build, expand, modernize and maintain its facilities and equipment. Total capital expenditures were NT$18,150.2 million in 2001, NT$11,612.7 million in 2002 and NT$9,270.5 million (U.S.$272.7 million) in 2003. In the three months ended March 31, 2003 and 2004, Nan Ya Plastics' total capital expenditures were NT$1,514.2 million and NT$2,912.5 million (U.S.$88.3 million), respectively. The following table sets forth historical capital expenditures incurred in 2001, 2002, 2003 and the three months ended March 31, 2003 and 2004, respectively, as well as projected capital expenditures for 2004:

	Year ended December 31,					Three months ended March 31,		
	2001	2002	2003		2004 (estimated)	2003	2004	
	NT$ (millions)	NT$ (millions)	NT$ (millions)	U.S.$ (millions)	NT$ (millions)	NT$ (millions)	NT$ (millions)	U.S.$ (millions)
Expansion	15,216.4	6,889.0	6,762.3	198.9	4,728.7	887.7	1,788.8	54.2
Improvements, modification and debottlenecking . . .	2,933.8	2,932.8	2,376.7	69.9	1,645.0	603.4	1,032.8	31.3
Others	—	1,790.9	131.5	3.9	741.3	23.1	90.9	2.8
Total	18,150.2	11,612.7	9,270.5	272.7	7,115.0	1,514.2	2,912.5	88.3

Expansion activities include the purchase of new equipment and facilities. Nan Ya Plastics currently plans to expand its EG, DVD and BPA businesses in 2004 by means of purchasing new equipment and facilities. Improvement, modification and debottlenecking activities involve work done to maintain or improve already existing property, plant and equipment. As of March 31, 2004, Nan Ya Plastics had incurred NT$2,912.5 million in capital expenditures.

Actual capital expenditures may vary from the projected capital expenditures for a variety of reasons, including changes in market conditions and other factors. Nan Ya Plastics expects to meet its capital expenditure requirements through cash and cash equivalents on hand, cash generated from future operations and financing activities, including additional bank borrowings. In the future Nan Ya Plastics may consider additional debt financing or additional equity financing, including issuances of convertible securities, depending on market conditions, its financial performance and other relevant factors. There can be no assurance that Nan Ya Plastics will be able to raise additional capital, should that become necessary, on acceptable terms or at all.

Commitments and Contingencies

As of December 31, 2003, Nan Ya Plastics and its consolidated subsidiaries had the following commitments and contingencies:

- outstanding letters of credit for the importation of raw materials of NT$1,325.6 million.
- endorsements made for other companies or affiliates of NT$36,337.7 million.
- the cost of other companies' inventories consigned to Nan Ya Plastics for dyeing of NT$194.8 million, respectively.
- NYPC America's construction and its future operations are subject to extensive regulation under U.S. federal, state and local environmental laws regarding air emissions, water pollution and the generation, handling, storage, transportation, treatment and disposal of waste and other materials. NYPC America believes the facilities constructed are in compliance in applicable laws and that any additional costs that might be incurred will not significantly affect its financial position.

- NYPC America undertook a U.S.$350.0 million syndicated loan for the construction of its plant. As of December 31, 2003, NYPC, America had utilized the entire amount. Nan Ya Plastics confirmed to the syndicate the following:

  - Nan Ya Plastics agrees and consents to its and NYPC, America's undertakings and obligations.

  - Nan Ya Plastics is, and shall remain, the legal and beneficial owner of 100 per cent. of the issued and outstanding capital stock of NYPC, America, until all of the obligations under the syndicate loan are paid and performed in full.

  - Nan Ya Plastics is, and shall remain, active in the management of NYPCA, until all of the obligations under the syndicated loan are paid and performed in full.

- Nan Ya Plastics obtained a joint bank loan for building a new factory through Nan Ya Plastics Corp. (Hong Kong)'s subsidiaries in the PRC.

The following table sets forth the details of outstanding endorsements and guarantees made by Nan Ya Plastics on behalf of its related parties as at December 31, 2001, 2002 and 2003:

	Consolidated			
	December 31,			
	2001	2002	2003	
	NT$ (millions)	NT$ (millions)	NT$ (millions)	U.S.$ (millions)
Nan Ya Plastics (H.K.) Co., Ltd.	4,530.3	938.3	543.6	16.0
Formosa Industries	—	—	2,757.3	81.3
Indonesia P.T. Nan Ya Indah Plastics Co.	—	556.0	543.6	16.0
Mailiao Power	6,172.5	5,485.0	5,485.0	161.8
Mailiao Harbor Administration	2,098.4	2,098.4	2,098.4	61.9
Nanya Technology	33,237.3	21,000.0	24,400.0	719.8
Total	**46,038.6**	**30,077.7**	**35,827.9**	**1,056.9**

In 2002 and 2003, the short-term loan of Nan Ya Printed Circuit Board (Kunshan) Co., Ltd. from Citic Industrial Bank was guaranteed by Nan Ya Electronic Materials (Kunshan) Co., Ltd., and the guaranteed credit line amounted to U.S.$25.0 million and U.S.$30.0 million, respectively.

The long-term syndicated loan headed by ABN AMRO Bank to Nan Ya Printed Circuit Board (Kunshan) Co., Ltd. was guaranteed by Nan Ya Plastics and Nan Ya Plastics (H.K.) Co., Ltd.'s providing a comfort letter.

As of December 31, 2002, the guarantees provided by Nan Ya Printed Circuit Board (Kunshan) Co., Ltd. to secure loans of related parties amounted to U.S.$25.0 million.

As of March 31, 2004, of Nan Ya Plastics had the following commitments and contingencies:

- outstanding letters of credit for the importation of raw materials amounting to NT$696.9 million.

- endorsements made for other companies or affiliates amounting to NT$46,593.0 million.

- the cost of other companies' inventories consigned to Nan Ya Plastics for dyeing amounted to NT$192.8 million.

The following table sets forth the details of outstanding endorsements and guarantees made by Nan Ya Plastics on behalf of its related parties as at ended March 31, 2003 and 2004:

	(Non-consolidated)		
	March 31,		
	2003	2004	
	NT$ (thousands)	NT$ (thousands)	U.S.$ (thousands)
Nan Ya Plastics (H.K.) Co., Ltd.	556.0	—	—
Formosa Industries	—	2,679.6	81.2
Indonesia P.T. Nan Ya Indah Plastics	556.0	528.3	16.0
Mailiao Power	5,485.0	4,660.0	141.2
Mailiao Harbor Administration	2,098.4	2,098.4	63.6
Nanya Technology	21,000.0	28,900.0	875.8
Inotera Memories	—	7,726.7	234.1
	29,695.4	**46,593.0**	**1,411.9**

Quantitative and Qualitative Disclosures about Market Risks

Nan Ya Plastics' exposure to financial market risks derives primarily from changes in interest rates and foreign exchange rates. To mitigate these risks, Nan Ya Plastics utilizes derivative financial instruments, the application of which is primarily for hedging purposes and not for speculative purposes.

Interest rate risk

Nan Ya Plastics' exposure to interest rate risk relates primarily to its long-term debts, which are normally entered into to support its corporate activities, primarily for capital expenditures. Nan Ya Plastics enters into interest rate futures contracts in order to hedge its exposure to interest rate fluctuations.

Nan Ya Plastics engages in cross-currency and interest rate swap transactions to hedge the risk of fluctuations in the interest rates of long-term debt and corporate bonds. As of March 31, 2004, Nan Ya Plastics had seven unexpired U.S. dollar cross currency swap contracts with ABN-AMRO Bank, with the last settlement date on March 24, 2008. Nan Ya Plastics also had interest rate swap contracts with ABN-AMRO Bank, Bank of America, Banque Paribas, Citibank, N.A and Deutsche Bank. See Note 16, "Fair value of financial instruments", to Nan Ya Plastics' Unaudited Non-consolidated Financial Statements as at and for the three months ended March 31, 2003 and 2004 included elsewhere in this Offering Circular for a description of these cross-currency and interest rate swap contracts.

Na Ya Plastics is exposed to substantial interest rate risk on its existing floating rate debt and on additional debt financing that may be periodically needed for the capital expenditures associated with the purchase of property, plant and equipment for capacity expansion. Upward fluctuations in interest rates increase the cost of both existing and new debt. The interest rate that Nan Ya Plastics will be able to obtain in a new debt financing will depend on market conditions at that time and may differ from the rates it has secured on its current debt. An increase in interest rates of 1 per cent. would increase Nan Ya Plastics' annual interest charges by NT$485.3 million (U.S.$14.7 million) based on the principal amount of its outstanding indebtedness as of March 31, 2004.

Foreign exchange risk

A substantial portion of Nan Ya Plastics' consolidated operating revenues are traditionally denominated in or referenced to U.S. dollars, with the remaining portion denominated in NT dollars, while a portion of its operating costs were denominated in or referenced to U.S. dollars, with the remaining portion denominated in NT dollars. Nan Ya Plastics' financial statements are expressed in NT dollars. Nan Ya Plastics records a foreign currency denominated transaction on the date it occurs in NT dollars using the prevailing exchange rate for such date. The realized gains or losses resulting from the application of a different foreign exchange rate when the transaction is settled and the amount received or paid in settlement is converted into or from NT dollars and credited or charged to income. At the end of each period, Nan Ya Plastics restates the balances of foreign currency assets and liabilities at the period-end spot rate of exchange and credit or charge to income for such period the resulting foreign exchange gains or losses, as the case may be. See Note 2 to Nan Ya Plastics' Audited Consolidated Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 and Note 2 to Nan Ya Plastics' Unaudited Non-consolidated Financial Statements as at and for the three months ended March 31, 2003 and 2004 included in this Offering Circular. As a result, changes in the rate of exchange between NT dollar and U.S. dollar affect Nan Ya Plastics' gross and operating profit margins and could result in foreign exchange and operating losses. Nan Ya Plastics recorded net foreign exchange gains of NT$113.7 million and NT$159.0 million in 2001 and 2002, respectively, and net foreign exchange loss of NT$173.6 million (U.S.$5.1 million) in 2003 and a net foreign exchange loss of NT$56.3 million (U.S.$1.7 million) in the three months ended March 31, 2004.

Nan Ya Plastics enters into forward exchange contracts and exchange rate swaps from time to time in order to hedge exposure to currency rate fluctuations. However, the impact of future exchange rate fluctuations between U.S. dollar and NT dollar on Nan Ya Plastics' results of operations cannot be accurately predicted. As of March 31, 2004, Nan Ya Plastics had forward exchange contracts and a foreign currency put option contract as described below.

In May 2001 and August 2003, Nan Ya Plastics entered into forward exchange contracts to hedge the risk of fluctuations in foreign exchange rates on a long-term U.S. dollar denominated syndicated loan from the Chiao Tung Bank. The balance of unsettled forward exchange contracts amounted to U.S.$83.6 million as of March 31, 2004. The above contracts call for the receipt of U.S.$6.9 million and U.S.$1.8 million every six months starting in March 2002 and August 2003. The last receipt is due on March 24, 2008.

In March 2004, Nan Ya Plastics entered into forward exchange contracts to hedge the risk of fluctuation in foreign exchange rates. The balance of the forward exchange contracts amounted to U.S.$20.0 million and U.S.$12.0 million.

As of March 31, 2004, Nan Ya Plastics had a foreign currency put option contract as follows:

Put: USD/Call: EUR	USD 2,400,000/EUR 2,000,000	2004.3.24~2004.4.26
Put: EUR/Call: USD	EUR 2,000,000/USD 2,400,000	2004.3.24~2004.4.26
Put: USD/Call: EUR	USD 2,400,000/EUR 2,000,000	2004.3.24~2004.6.28
Put: EUR/Call: USD	EUR 2,000,000/USD 2,400,000	2004.3.24~2004.6.28

As of March 31, 2004, no premium had been paid for the put option contract. The unrealized loss of the contract was NT$0.4 million as of March 31, 2004.

Taxation

Since incorporation, Nan Ya Plastics has enjoyed preferential tax treatment in certain respects under the SUI. Such tax credits resulted in income tax savings of NT$1,748.6 million, NT$1,966.6 million and NT$2,652.1 million (U.S.$78.0 million) in 2001, 2002 and 2003, respectively.

Article 6 of the SUI provides tax credits of up to 30 per cent. for certain research and development and employee training expenses. If the amount of expenses exceeds the average of such expenses for the preceding two years, an additional tax credit of 50 per cent. of the excess amount may be used. These tax credits for research and development as well as investments in equipment and technology must be utilized within five years from the year such expense or investment was incurred. In addition, the aggregate tax reduction from these tax credits for any year except the final year before expiration cannot, subject to certain exceptions, exceed 50 per cent. of the company's income tax liability for that year. As of March 31, 2004, qualified unused tax credit under Article 6 amounted to NT$1,009.0 million (U.S.$30.6 million).

Article 7 of the SUI provides tax credits of up to 20 per cent. for certain investment in specific industries of a county or township area with scanty natural resources or with slow development. These tax credits for investment in barren areas must be utilized within five years from the year such investment was incurred. Nan Ya Plastics received tax credits from Article 7 as a result of its investment in the No. 6 Naphtha Cracker Complex in Mailiao. As of March 31, 2004, qualified unused tax credits under Article 7 amounted to NT$2,432.5 million (U.S.$73.7 million).

Article 8 of the SUI provides tax credits of up to 20 per cent. for subscription to the registered stock issued by a company within the newly emerging, important and strategic industries, and has held such stock for a period of three years or longer. These tax credits for investment must be utilized within five years from the year such investment was incurred. In addition, the aggregate tax reduction from these tax credits for any year except the final year before expiration cannot, subject to certain exceptions, exceed 50 per cent. Nan Ya Plastics received most of its Article 8 tax credits as a result of its investment in Formosa Petrochemical and Nanya Technology. However, all of such tax credits were derived prior to December 31, 1999, when Article 8 was amended. The former version of Article 8 included a wider category of industries, investments in which qualified for tax credits and only required a holding period of two years. As of March 31, 2004, qualified unused tax credits under Article 8 amounted to NT$4,395.8 million (U.S.$133.2 million).

In 1997, the ROC Legislative Yuan passed an amendment to the ROC Income Tax Law to integrate corporate income tax and shareholder dividend tax. Under the amendment, retained earnings of a year, as adjusted, generated after January 1, 1998 and not distributed to shareholders in the following year as dividends for the year in which such retained earnings were generated will be assessed a 10 per cent. tax. For each of the years ended December 31, 2001, 2002 and 2003, such tax payable by Nan Ya Plastics arising from the amendment amounted to NT$105.4 million, NT$342.1 million and NT$33.3 million (U.S.$1.0 million), respectively, each of which was offset by available tax credits in such year.

NAN YA PLASTICS CORPORATION

BUSINESS OF NAN YA PLASTICS CORPORATION

Overview

Nan Ya Plastics develops and produces a broad range of products in the following principal categories: plastics, polyesters, electronics materials and printed circuit boards. Nan Ya Plastics believes, based on public information released by its competitors, that it is the world's largest manufacturer of secondary plastics in terms of production capacity and the world's second largest manufacturer of copper clad laminates in terms of production capacity. Nan Ya Plastics is also a leading manufacturer of polyester fiber and printed circuit boards in Taiwan. Nan Ya Plastics' products are sold primarily to distributors and tertiary processors operating in Taiwan, the PRC, the United States and Japan.

Sales of Nan Ya Plastics' plastics, polyester, electronics materials and printed circuit board products represented 24.9 per cent., 40.7 per cent., 14.0 per cent. and 8.9 per cent., respectively, of Nan Ya Plastics' consolidated operating revenues for the year ended December 31, 2003, with other products and services representing 11.5 per cent. of Nan Ya Plastics' consolidated operating revenues for such period. Domestic sales accounted for 43.2 per cent. of Nan Ya Plastics' consolidated operating revenues for the year ended December 31, 2003. Sales of plastics, polyester, electronics materials and other products represented 29.4 per cent., 35.8 per cent. and 19.8 per cent., respectively, of Nan Ya Plastics' non-consolidated operating revenues for the three months ended March 31, 2004, with other products and services representing 15.0 per cent. of Nan Ya Plastics' non-consolidated operating revenues for such period. Domestic sales accounted for 60.5 per cent. of Nan Ya Plastics' non-consolidated operating revenues in the three months ended March 31, 2004. Because Nan Ya Plastics conducts its printed circuit board business exclusively through its consolidated subsidiary, Nan Ya PCB, a manufacturer of printed circuit boards and IC substrates, sales of Nan Ya Plastics' printed circuit board products are not reflected in Nan Ya Plastics' non-consolidated operating revenues. For the year ended December 31, 2003, Nan Ya Plastics' consolidated operating revenues were NT$171,643.8 million (U.S.$5,049.8 million) and its consolidated net income was NT$17,180.0 million (U.S.$505.4 million). For the three months ended March 31, 2004, Nan Ya Plastics' non-consolidated operating revenues were NT$36,575.8 million (U.S.$1,108.4 million) and its non-consolidated net income was NT$8,677.4 million (U.S.$263.0 million).

The principal products of Nan Ya Plastics' plastics business are flexible PVC sheeting, PVC leather, rigid PVC film, BOPP film, rigid PVC pipes and BPA. Nan Ya Plastics principally sells these products, which are known generally as secondary plastics, to tertiary plastics processors near Nan Ya Plastics' manufacturing plants. Nan Ya Plastics' production sites in the PRC focus primarily on the production of commodity plastics, such as rigid PVC film and flexible PVC sheeting, while Nan Ya Plastics' production sites in Taiwan focus primarily on the production of new applications and high value-added products with unique features, such as TPU leather for inflatable products and shoes, EVA sponge sheets for stationery and tablemats and metal-lined PET for solar window film. Nan Ya Plastics started producing DVDs in 2003, with plans to substantially increase its production capacity within the next two years.

The principal products of Nan Ya Plastics' polyester business are polyester filament, polyester fiber and polyester chips. Nan Ya Plastics focuses on the production of specialized, high-quality fibers, such as low-melting-point staple fiber, microfiber and fine denier multi-filament yarn. Nan Ya Plastics also produces EG, a principal raw material for the production of polyester, a majority of which is used internally for the production of Nan Ya Plastics' polyester products.

The principal products of Nan Ya Plastics' electronics materials business are copper clad laminates, glass fiber cloth and epoxy resin, all of which are principal raw materials for the production of printed circuit boards.

Nan Ya Plastics' printed circuit board business includes the production of printed circuit boards and IC substrates by Nan Ya PCB.

As at March 31, 2004, Nan Ya Plastics employed over 15,000 full time employees and operated 64 manufacturing plants and four co-generation plants in Taiwan. In addition, Nan Ya Plastics also operated ten manufacturing plants in Taiwan, four manufacturing plants in the United States through its subsidiaries and sixteen manufacturing plants in the PRC through subsidiaries and affiliates of its subsidiary NYPC HK. In addition, Nan Ya Plastics operates one manufacturing plant in Indonesia through its interest in a local joint venture. Nan Ya Plastics' registered office is at 35-1 Chung Shan Third Road, Kaohsiung, Taiwan, ROC.

Prior to 2003, Nan Ya Plastics owned over 50 per cent. of the outstanding voting shares of Nanya Technology, a producer of DRAM and other memory semiconductors, and had consolidated it for the year ended December 31, 2002 and prior years. However, as of December 31, 2003, Nan Ya Plastics no longer consolidates Nanya Technology into the financial statements of Nan Ya Plastics because its shareholding in Nanya Technology had fallen to 45.1 per cent. In accordance with ROC GAAP, the financial statements for the years ended December 31, 2001 and 2002 have been restated to conform with the change in consolidated entities. Therefore, the operating results of Nanya Technology are not reflected in the consolidated or non-consolidated financial or operating information for any period presented in this Offering Circular. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Nan Ya Plastics — Consolidation."

Nan Ya Plastics was incorporated on August 22, 1958 as a company organized under the laws of the ROC. Nan Ya Plastics' common shares have been listed on the TSE since 1967, and on June 28, 2004, Nan Ya Plastics' total market capitalization was NT$284.5 billion.

History

Certain key dates in the history of the Nan Ya Plastics include:

1958 . . . . . Nan Ya Plastics was established to be the principal downstream plastics manufacturer using PVC resins produced by Formosa Plastics.

1960 . . . . . Nan Ya Plastics expanded into the polyester business and started producing polyester chips and staple fiber.

1969 . . . . . Nan Ya Plastics constructed its first polyester plant and later began to produce polyester filament.

1976 . . . . . Nan Ya Plastics started to integrate horizontally and produce rigid PVC products, polyurethane leather and PVC leather.

1977 . . . . . Nan Ya Plastics started designing and customizing its own manufacturing processes after accumulated the essential proprietary know-how in manufacturing polyester materials.

1984 . . . . . Nan Ya Plastics expanded into the electronics material business and commenced the production of printed circuit boards and copper clad laminates. It also later produced the raw materials of printed circuit boards, glass fiber cloth and epoxy resin.

1987 . . . . . Nan Ya Plastics started to integrate vertically and produce DOP and other plasticizers, which are important raw materials for the production of PVC products.

1989 . . . . . Nan Ya Plastics expanded its plastics business geographically and started producing flexible PVC sheeting in the United States through NYPC America. NYPC America later also produced PET film, polyester filament and stable fiber.

1990 . . . . . Nan Ya Plastics established NYPC HK which, through various subsidiaries and joint ventures, operate plants in the PRC for the production of PVC sheeting, PVC leather, rigid PVC film and rigid PVC pipes.

1994 . . . . . NYPC America began operating an EG manufacturing plant in Texas.

1995 . . . . . Nan Ya Plastics established Nanya Technology for the production of DRAM products and other memory semiconductors.

1998 . . . . . Nan Ya Plastics commenced the production of EG, a principal raw material in the production of polyester.

1998 . . . . . Nan Ya Plastics spun off the printed circuit board operation of Nan Ya Plastics' electronics business by establishing Nan Ya PCB. Nan Ya PCB's production facility in Taiwan is one of the largest of its kind in Taiwan and another production site is situated in Kunshan, the PRC.

2000 . . . . . Nan Ya Plastics began producing consumer electronics such as CDs and DVDs.

Strategy

Nan Ya Plastics' goal is to produce the highest quality products in the most efficient manner by capitalizing on its commanding market share in secondary plastics and polyester fiber manufacturing, its ability to procure most of its raw materials internally or from its affiliates and its efficient manufacturing infrastructure. Nan Ya Plastics' strategy is to capitalize on these strengths by means of the following:

Pursue vertical integration

The cost of raw materials comprises a substantial portion of Nan Ya Plastics' operating costs. To lower its raw materials costs and achieve certain economies of scale, Nan Ya Plastics has been pursuing vertical integration both internally and with other members of the Formosa Group. Examples include the following:

- The principal raw material used in the production of Nan Ya Plastics' plastics products is PVC resins. Nan Ya Plastics procures all of its PVC resins requirements from its affiliate Formosa Plastics, which operates PVC resins plants in Jen Wu, Taiwan, and in the No. 6 Naphtha Cracker Complex.

- One of the principal raw materials used in the production of polyester is EG. Nan Ya Plastics operates three EG manufacturing plants in the No. 6 Naphtha Cracker Complex, two of them directly and one through its 50.0 per cent. owned subsidiary, Nan Chung, to support Nan Ya Plastics' polyester production in Taiwan. A fourth EG manufacturing plant at the same site is being constructed. Nan Ya Plastics' subsidiary, Nan Ya Plastics

(America), operates an EG manufacturing plant in Texas in the United States, primarily in support of Nan Ya Plastics (America)'s polyester fiber plant in South Carolina, United States.

- Nan Ya Plastics' electronics materials division produces copper clad laminates, glass fiber cloth and epoxy resin, some of which are consumed by Nan Ya PCB to produce printed circuit boards.

- Nan Ya Plastics' plastics division produces specialty chemicals such as Bisphenol-A. The bisphenol-A produced is consumed by Nan Ya Plastics' electronics material division for the production of epoxy resin and by Nan Ya Plastics' plastics division for the production of engineering plastics, CDs and DVDs.

In addition, Nan Ya Plastics generates approximately 25 per cent. of the electrical power it uses in its factories in Taiwan through the operation of four coal-fired co-generation power plants and purchases approximately 50 per cent. of its electrical power requirements from its affiliates. Nan Ya Plastics believes that this arrangement enables it to secure a steady supply of electric power and gives it greater flexibility in obtaining power supplies at a lower cost.

Nan Ya Plastics believes that the vertical integration of its operations reduces its manufacturing costs, provides a more stable supply of key raw materials and gives it greater control over the quality of raw materials. Nan Ya Plastics has gradually reduced its dependence on unaffiliated suppliers for raw materials. Purchases from unaffiliated suppliers accounted for 42.5 per cent., 47.5 per cent. and 46.4 per cent. of its consolidated purchases of raw materials by value for the years ended December 31, 2001, 2002 and 2003, respectively.

Diversify product range

The markets in which Nan Ya Plastics operates are characterized by shifting demand. To stay competitive and maintain profitability, Nan Ya Plastics will continue to respond to the needs of its customers in a timely manner. Nan Ya Plastics has developed many new, higher margin products to capture market niches it has identified. Examples include the following:

- To capture the expected growth in the demand for DVDs and to leverage the Formosa Group's expertise in the manufacturing of polycarbonates and other raw materials used in the production of DVDs, Nan Ya Plastics commenced the production of DVDs in 2003.

- To increase its market share in higher-end consumer electronics segments, Nan Ya Plastics commenced the production of LCDs in 1995 and LEDs in 2002. Nan Ya Plastics' LCDs are used in mobile communications devices, and Nan Ya Plastics' LEDs are used in neon lights and automobile brakelights. Although sales of these products currently account for a small portion of the operating revenues of Nan Ya Plastics' electronics business, Nan Ya Plastics believes that the LCD and LED markets have potential for future growth. In anticipation of the gradual replacement of black-and-white display products by color display products, Nan Ya Plastics is developing energy-saving color LCD display for use in PDAs.

- To avoid direct competition with low-end secondary plastics suppliers from the PRC, Nan Ya Plastics has introduced plastics products with new applications or special features, such as TPU leather for inflatable products and shoes and EVA sponge sheet for stationery and tablemats.

- To avoid direct competition with low-priced commodity polyester materials, Nan Ya Plastics has introduced high value-added specialty polyester fibers, such as waterproof PET fiber, low-melting-point staple fiber, microfiber and fine denier multi-filament yarn.

- Nan Ya Plastics produces printed circuit boards and IC substrates through Nan Ya PCB, one of its consolidated subsidiaries. The demand for higher performance semiconductors in smaller packages is expected to spur the development of specialty printed circuit boards and advanced substrates that can support the advancement in circuit design and fabrication. Nan Ya PCB produces ultra-thin, high-density printed circuit boards and substrates, such as those composed of low dielectric constant, halogen-free materials, for use in wireless networks, notebook computers, automobiles and wireless communications devices.

Maintaining a diversified product line is essential to Nan Ya Plastics' growth and assists it in establishing long-term relationships with customers in high-growth markets. Nan Ya Plastics seeks to sell a broader range of products to its existing customers and to increase its sales of existing products in new markets.

Expand Nan Ya Plastics' presence in the PRC

In light of changes in the market landscape and the need to mitigate pressures on margins, Nan Ya Plastics plans to construct additional manufacturing plants in the PRC in order to take advantage of the readily available labor supply and lower overhead costs.

Strengthen research and development capabilities

Nan Ya Plastics believes that research and development and technological innovation are key to its future success. Nan Ya Plastics' research and development efforts are principally directed toward developing technologies for the manufacture of advanced products and upstream materials.

Nan Ya Plastics has recently devoted more of its research and development spending to the development of specialty chemicals and electronics materials for high-end electronics products because it believes that these products will be more important to its future growth.

Improve manufacturing efficiency

To maintain its position as a low cost, high quality producer, Nan Ya Plastics plans to enhance its manufacturing efficiency by strengthening its administrative and control systems. Nan Ya Plastics plans to undertake the following initiatives:

- Nan Ya Plastics plans to continuously upgrade its management systems and make improvements in the automation of its manufacturing facilities with a view to improve productivity.

- A significant portion of Nan Ya Plastics' equipment and machinery is designed and made by its engineering division. These engineers are also responsible for the design and maintenance of Nan Ya Plastics' plants, equipment and machinery. Nan Ya Plastics believes that the delegation of these responsibilities to the same group of professionals improves manufacturing efficiency and accountability and lowers maintenance cost.

- Nan Ya Plastics has introduced a total quality control program and a total productive maintenance program to monitor the quality of the production processes in different manufacturing plants. A substantial majority of its manufacturing plants have received ISO 9000 certifications.

Nan Ya Plastics believes that these efforts will enhance the flow of its manufacturing processes. Nan Ya Plastics' goal is to increase the level of integration of its hardware and software systems to allow it to further enhance production efficiency and lower costs.

Products

Nan Ya Plastics designs and produces products in the following principal categories: plastics, polyester, electronics materials and printed circuit boards. Nan Ya Plastics conducts a substantial majority of its business in the United States through NYPC America, all of its printed circuit board business through Nan Ya PCB. As of December 31, 2003, Nan Ya Plastics also owned 45.1 per cent. of Nanya Technology, a producer of DRAM and other memory semiconductors. Because Nan Ya Plastics (America) and Nan Ya PCB are Nan Ya Plastics' consolidated subsidiaries, Nan Ya Plastics' non-consolidated operating revenues do not reflect sale of products manufactured in the United States or its sale of printed circuit boards and IC substrates products through Nan Ya PCB.

The following table sets forth, for the periods indicated, the contribution of each of Nan Ya Plastics' principal businesses to its consolidated operating revenues and the percentage each business contributes to Nan Ya Plastics' total consolidated operating revenues.

	Consolidated						
	Year ended December 31,						
	2001		2002		2003		
	NT$ (millions)	%	NT$ (millions)	%	NT$ (millions)	U.S.$ (millions)	%
Plastics	38,672.1	29.5	40,239.9	28.4	42,681.5	1,255.7	24.9
Polyester	52,544.5	40.0	56,653.5	40.0	69,783.7	2,053.1	40.7
Electronics materials	17,683.7	13.5	18,605.2	13.1	23,947.1	704.5	14.0
Printed circuit board	10,311.0	7.9	11,901.1	8.4	15,319.0	450.7	8.9
Others(1)	11,950.1	9.1	14,281.0	10.1	19,912.5	585.8	11.5
Total	131,161.4	100.0	141,680.7	100.0	171,643.8	5,049.8	100.0

(1) "Others" include sales of plasticizers and manufacturing of machinery.

The following table sets forth, for the periods indicated, the contribution of each of Nan Ya Plastics' principal businesses to its non-consolidated operating revenues and the percentage each business contributes to Nan Ya Plastics' total non-consolidated operating revenues.

	Non-consolidated				
	Three months ended March 31,				
	2003		2004		
	NT$ (millions)	%	NT$ (millions)	U.S.$ (millions)	%
Plastics	9,512.5	33.3	10,764.0	326.2	29.4
Polyester	9,257.0	32.4	13,111.4	397.3	35.8
Electronics materials	5,422.6	19.0	7,233.0	219.2	19.8
Others(1)	4,391.0	15.3	5,467.4	165.7	15.0
Total	28,583.1	100.0	36,575.8	1,108.4	100.0

(1) "Others" include sales of plasticizers and manufacturing of machinery.

Plastics Products

Nan Ya Plastics' principal plastics products are flexible PVC sheeting, PVC leather and sponge leather, rigid PVC film, rigid PVC pipes, and BOPP film and related products. Sales of all plastics products accounted for 24.9 per cent. of Nan Ya Plastics' consolidated operating revenues for the year ended December 31, 2003. The following table sets forth sales volumes of Nan Ya Plastics' key plastics products, operating revenues generated by sales of such products and the percentage of total operating revenues from plastics products represented by each such product for the periods indicated:

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Rigid PVC film	163,986.3 MT	6,522.9	16.9	159,729.4 MT	6,459.7	16.1	158,568.2 MT	6,640.5	195.4	15.6
Flexible PVC sheeting	123,436.3 MT	5,112.5	13.2	114,259.3 MT	4,890.2	12.2	113,079.4 MT	4,903.5	144.3	11.5
BOPP film and related products	108,876.3 MT	4,690.3	12.1	115,291.1 MT	5,436.2	13.5	108,676.4 MT	5,183.2	152.5	12.1
Rigid PVC pipes	125,352.1 MT	3,405.0	8.8	129,267.4 MT	3,534.2	8.8	124,620.3 MT	3,722.3	109.5	8.7
PVC leather and sponge leather	65,371.3 KY	3,447.2	8.9	54,115.7 KY	3,015.2	7.5	48,985.0 KY	2,707.7	79.6	6.3
Polyurethane leather	1,507.0 KY	1,517.9	3.9	11,740.8 KY	1,428.5	3.5	9,191.4 KY	1,236.8	36.4	2.9
Specialty chemicals	66,882.0 MT	2,256.8	5.8	96,978.7 MT	2,859.7	7.1	151,352.2 MT	4,954.5	145.8	11.6
Others[(1)]	—	11,719.5	30.4	—	12,616.2	31.3	—	13,333.0	392.2	31.3
Total	—	38,672.1	100.0	—	40,239.9	100.0	—	42,681.5	1,255.7	100.0

(1) "Others" include other types of rigid film, CDs, DVDs, engineering plastics and a wide variety of plastics products such as PVC casting leather, PVC window and door frames.

Sales of Nan Ya Plastics' plastics products accounted for 29.4 per cent. of Nan Ya Plastics' non-consolidated revenues for the three months ended March 31, 2004. The following table sets forth the non-consolidated sales volumes and non-consolidated operating revenues from sales of each of Nan Ya Plastics' key plastics products and the percentage of total operating revenues from plastics products represented by each such product for the periods indicated:

	Non-consolidated						
	Three months ended March 31,						
	2003			2004			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Rigid PVC film	41,012.8 MT	1,653.9	17.4	41,812.4 MT	1,803.2	54.6	16.8
Flexible PVC sheeting	27,454.4 MT	1,171.3	12.3	31,689.4 MT	1,430.4	43.3	13.3
BOPP film and related products	19,164.8 MT	837.0	8.8	25,164.5 MT	1,141.8	34.6	10.6
Rigid PVC pipes	30,969.2 MT	892.0	9.4	33,235.6 MT	1,053.8	31.9	9.8
PVC leather and sponge leather	11,469.7 KY	655.1	6.9	10,033.3 KY	591.0	17.9	5.5
Polyurethane leather	2,559.3 KY	346.5	3.6	1,997.0 KY	287.1	8.7	2.7
Specialty chemicals	25,061.9 MT	787.7	8.3	39,023.7 MT	1,364.8	41.4	12.7
Others[(1)]	—	3,169.0	33.3	—	3,091.9	93.7	28.7
Total	—	9,512.5	100.0	—	10,764.0	326.2	100.0

(1) "Others" include other types of rigid film, CDs, DVDs, engineering plastics and a wide variety of plastic products such as PVC casting leather, PVC window and door frames.

Nan Ya Plastics also produces a material portion of its plastics products through operating subsidiaries and investee companies in the PRC. See "— Subsidiaries and Investee Companies". These products include principally rigid PVC pipes and sheeting, flexible PVC sheeting and polyurethane leather. Because Nan Ya Plastics holds its interests in these subsidiaries and investee companies through NYPC HK, which itself is not a consolidated subsidiary of Nan Ya Plastics, sales of Nan Ya Plastics' plastics products manufactured in the PRC are not reflected in its operating revenues, whether on a consolidated or non-consolidated basis. See "Management's discussion and analysis of financial condition and results of operation of Nan Ya Plastics — Overview — Consolidation".

Most of Nan Ya Plastics' plastics products are produced using resins composed of polyvinyl chloride, commonly known as PVC. To address the requirements of Nan Ya Plastics' environmentally conscious customers, Nan Ya Plastics uses ethylene vinyl acetate, commonly known as EVA, as a substitute for PVC resins in the production of some of Nan Ya Plastics' sheeting products with limited applications. Nan Ya Plastics also uses polypropylene and a small amount of polystyrene as substitutes for PVC resins in the production of some of Nan Ya Plastics' rigid film products, such as synthetic paper in writing, printing and packing. Although these substitutes are currently more expensive than PVC resins, Nan Ya Plastics believes that the use of these substitutes will enhance marketability in selected markets because plastics products produced from these raw materials are easier to dispose of in an environmentally safe manner.

Rigid PVC Film. Rigid PVC film is a high tensile, chemically resistant material used to manufacture packaging materials, decorative items and construction materials. Nan Ya Plastics makes both clear and opaque rigid PVC film in a variety of colors. Rigid PVC film can be readily modified for the manufacture of anti-static, UV-resistant, high impact materials with a variety of applications. It may be used in vacuum-formed packaging for food, toys, tools and other items, metallic film for Christmas tree leaves, tinsel and ornaments, folding-formed packaging for products such as cosmetics, toothbrushes and umbrellas, and floor tiles.

Flexible PVC Sheeting. Nan Ya Plastics produces a wide variety of flexible PVC sheeting for many end-user applications. Due to its versatility of form and function, flexible PVC sheeting has many applications in consumer products, household products and construction materials. The major end products produced from PVC sheeting are inflatable products, rainwear, shower curtains, tablecloths, wall coverings, window shades and adhesive tape. Nan Ya Plastics intends to increase its production of specialized, higher quality sheet products and further to upgrade and integrate processes and equipment to reduce production costs. Nan Ya Plastics also seeks to develop environmentally safer sheeting products using EVA as a substitute for PVC resins in certain limited applications.

BOPP Film and Related Products. Biaxially oriented polypropylene ("BOPP") film is principally used in the packaging industry. Its applications include wrapping for cigarette packs, food and stationery.

Rigid PVC Pipes. Because PVC is resistant to acids, bases and corrosion, is lightweight and has a high mechanical strength and smooth finish, the material is widely used to manufacture construction materials. Demand for rigid PVC pipes is generally tied to infrastructure development and construction activity. Because they are bulky and freight costs are high, rigid PVC pipes and fittings are not particularly suitable for export sales in large quantities. In order to supply the growing infrastructure and construction demands in the PRC, Nan Ya Plastics plans to expand its production capacity for rigid PVC pipes in the PRC.

PVC Leather and PVC Sponge Leather. PVC leather is essentially plastic PVC sheeting laminated to a backing cloth. PVC sponge leather is very similar in nature, except that a foaming agent is used in producing PVC sponge leather giving it a sponge-like quality which is useful in a variety of applications such as upholstery. PVC leather and PVC sponge leather are durable and water- and cold-resistant, yet soft, flexible and can be embossed and printed in a wide variety of patterns. As a result of these qualities, PVC leather and PVC sponge leather have a wide range of uses. Major end products using PVC leather and PVC sponge leather are shoes, handbags, sporting goods, suitcases, furniture and upholstery for automobiles. Development of many PVC leather and PVC sponge leather materials is closely tied to developments in the fashion industry.

Polyurethane Leather. Nan Ya Plastics produces wet and dry polyurethane leather for a broad range of applications. In appearance and feel, polyurethane leather resembles, but is generally less expensive than, natural leather. It is air permeable and can be manufactured in a wide variety of colors and grains. Wet polyurethane leather is manufactured using a newer process than the process used for dry polyurethane leather and is more air permeable, making it suitable for such applications as the manufacture of name-brand sports shoes. The principal end product produced from polyurethane leather is shoes. Other important end products are handbags, gloves, furniture, decorative materials and sporting goods. Nan Ya Plastics' focus in this segment has been gradually shifted to wet polyurethane leather products, including microfiber polyurethane leather, which are more like natural leather and are considered higher value-added products than dry polyurethane leather.

Specialty Chemicals. Nan Ya Plastics produces a variety of raw materials, including bisphenol-A, 1.4BG, epoxidized soybean oil, hydrogen peroxide and toulene diisocyanate, commonly known as TDI. A substantial portion of Nan Ya Plastics' bisphenol-A is used in the production of epoxy resin, which is used in the manufacturing of printed circuit boards, and of polycarbonate, which is used in the manufacturing of CDs. 1.4BG is a raw material for the production of polyurethane resins.

Others. Nan Ya Plastics' other plastics products include principally the following:

- *Other Types of Rigid Film.* Nan Ya Plastics also produces other kinds of rigid film such as polypropylene film and A-polyethylene terephthalate, commonly known as A-PET film. Polypropylene film is oil-, heat- and crease-resistant and is suitable for printing. Polypropylene film also has certain environmental advantages compared to PVC rigid film. Its applications include packing material for food and medicine, file folders and covers for office products. A-PET film is a type of polyester film. It is more expensive than rigid PVC film but the end product is attractive for environmental reasons. Nan Ya Plastics also produces metallic film using a portion of the PVC film and PET film it produces.

- *CDs and DVDs.* Nan Ya Plastics commenced commercial production of compact discs, or CDs, in 2001 and digital video discs, or DVDs in January 2003. Nan Ya Plastics' CD products include CD-Rs and CD-RWs. CD-Rs are compact discs that may be used for recording once, while CD-RWs are compact disks that may be rewritten many times. Nan Ya Plastics commenced commercial production of DVD products in 2003. These DVD products include DVD-Rs, DVD+Rs, DVD-RWs and DVD+RWs. DVD-Rs and DVD+Rs may be used for recording once, and DVD-RWs and DVD+RWs may be rewritten many times. DVDs have significantly higher storage capacity than CDs.

- *Engineering Plastics.* Engineering plastics are used as substitutes for glass and metal found typically in the components of motorcycles, automobiles and sporting goods.

In addition to the above, Nan Ya Plastics makes a wide variety of other plastic products, such as PVC casting leather, CPP film, polyethylene film, PVC plate, floor tiles, furniture, wall panels, PVC sponge sheeting and sheet molding. Nan Ya Plastics also manufactures PVC window and door frames and doors from sheet molding compound, which are known as SMC doors.

Polyester Products

Nan Ya Plastics' principal polyester products are polyester filament, polyester staple fiber, polyester chips, polyester film and ethylene glycol, or EG. Sales of all polyester products accounted for 40.7 per cent. of Nan Ya Plastics' consolidated operating revenues for the year ended December 31, 2003. The following table sets forth the consolidated sales volumes and consolidated operating revenues generated from sales of each of Nan Ya Plastics' key polyester products and the percentage of total consolidated operating revenues from polyester products represented by each such product for the periods indicated:

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Polyester filament	369,469.9 MT	18,357.9	34.9	391,337.2 MT	19,989.2	35.3	384,541.8 MT	20,662.6	607.9	29.6
Polyester chips	407,436.9 MT	13,711.9	26.1	514,266.6 MT	14,795.1	26.1	569,639.9 MT	18,542.2	545.5	26.6
Polyester staple fiber	365,330.1 MT	11,880.2	22.6	388,368.5 MT	12,852.9	22.7	379,605.7 MT	13,686.7	402.7	20.0
EG	377,042.1 MT	5,350.1	10.2	336,964.3 MT	4,639.7	8.2	522,041.3 MT	10,850.0	319.2	15.5
Polyester film	28,452.6 MT	1,668.7	3.2	32,192.0 MT	1,811.4	3.2	34,090.0 MT	2,225.3	65.5	3.2
Others	—	1,575.7	3.0	—	2,565.2	4.5	—	3,816.9	112.3	5.1
Total	—	52,544.5	100.0	—	56,653.5	100.0	—	69,783.7	2,053.1	100.0

Sales of Nan Ya Plastics' polyester products accounted for 35.8 per cent. of Nan Ya Plastics' non-consolidated operating revenues for the three months ended March 31, 2004. The following table sets forth the non-consolidated sales volumes and non-consolidated sales revenues generated from sales of each of Nan Ya Plastics' key polyester products and the percentage of total non-consolidated operating revenues from polyester products represented by each such product for the periods indicated:

	Non-consolidated						
	Three months ended March 31,						
	2003			2004			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Polyester filament	70,236.0 MT	3,977.7	43.0	72,753.5 MT	3,793.3	114.9	28.9
Polyester chips	35,567.7 MT	944.5	10.2	38,465.3 MT	1,209.3	36.6	9.2
Polyester staple fiber	53,790.5 MT	1,810.3	19.6	52,553.7 MT	1,830.6	55.5	14.0
EG	88,639.9 MT	1,778.5	19.2	207,206.6 MT	5,014.1	151.9	38.2
Polyester film	8,198.9 MT	483.9	5.2	8,908.1 MT	598.6	18.1	4.6
Others	—	262.1	2.8	—	665.5	20.2	5.1
Total	—	9,257.0	100.0	—	13,111.4	397.3	100.0

Polyester Filament. Polyester filament is a class of polyester material that is more highly processed than polyester staple fiber. It is produced by drawing and orienting a polyester chip into a long thread-like fiber. Nan Ya Plastics manufactures four main polyester filament products: spin-drawn yarn, pre-oriented yarn, filament yarn and textured yarn. Spin-drawn yarn is fully oriented yarn and is more expensive than pre-oriented yarn. Pre-oriented yarn is an intermediate product, a portion of which Nan Ya Plastics sells as is and a portion of which is further processed by Nan Ya Plastics to produce filament yarn and textured yarn. Filament yarn has a texture similar to silk and textured yarn has a texture more like wool. Polyester filament products are immensely strong and are used in the production of fashion fabrics (such as taffeta), artificial flowers, sporting wear and numerous other products. Their major downstream use is as a raw material for woven or knitted fabric. Nan Ya Plastics' most important type of polyester filament is microfiber filament, which is used to produce high-priced textile and apparel products.

Polyester Chips. Polyester polymer chips are the building blocks of major polyester materials, including polyester filament and polyester film. They are also the principal material used in the manufacture of motorcycle windshields, bottles, brushes, polyethylene terephthalate, or PET, bottles and some rigid films. Nan Ya Plastics produces polyester chips with a variety of characteristics suitable for different applications. Nan Ya Plastics consumes most of the polyester chips produced by Nan Ya Plastics for further processing into polyester filament and polyester film.

Polyester Staple Fiber. Polyester staple fiber is a generic commodity produced in various grades and lengths and has a wide range of applications in the textile industry, particularly for apparel and household fabrics where its physical similarities to natural fibers, such as cotton and wool, are important. Polyester staple fiber can be spun into fabric on its own or blended with cotton, wool or flax to produce textiles. Nan Ya Plastics' polyester staple fiber also has a range of non-textile applications such as in the manufacture of carpet pile.

EG. Ethylene glycol, commonly known as EG, is a principal raw material used in the production of polyester. A portion of the EG produced by Nan Ya Plastics is used as a raw material in its production of polyester, and the remainder is sold to other polyester manufacturers. Polyester is widely used to make apparel, carpets and industrial products such as canvas, sacking, nautical rope and fishing nets.

Polyester Film. Nan Ya Plastics produces polyester film for a variety of applications. Because of its tensile strength, electrical non-conductivity, transparency, heat resistance and other characteristics, polyester film manufactured by Nan Ya Plastics is used by its customers in the production of food packaging, video tapes, audio recording tapes and electrical insulators.

Other Polyester Products. Nan Ya Plastics focuses on the development and production of a variety of high-quality specialty fibers. Polyester specialty fiber is used in the manufacture of toys, upholstery, sleeping bags, sport shoes, diapers and insulation material for construction. Its most important types of polyester specialty fiber are conjugated staple fiber, which is used as filler, and "low-melting" staple fiber (so-called because it melts at a low temperature), which is used to make non-woven fabrics and diapers.

Electronics Materials

Nan Ya Plastics' principal electronics materials products are copper clad laminates, epoxy resin, glass fiber cloth and copper foil. Sales of electronics materials products accounted for 14.0 per cent. of Nan Ya Plastics' consolidated operating revenues for the year ended December 31, 2003. The following table sets forth consolidated sales volumes and consolidated operating revenues generated from sales of each of Nan Ya Plastics' key electronics materials products and the percentage of total consolidated operating revenues from Nan Ya Plastics' electronics materials products represented by each such product for the periods indicated:

	Consolidated										
	Year ended December 31,										
	2001			2002			2003				
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Copper clad laminates and prepreg	38,289.0 KSH	9,027.0	51.0	49,123.1 KSH	9,367.6	50.3	51,263.4 KSH	10,160.6	298.9	42.4
Epoxy resin	76,732.5 MT	4,481.7	25.3	96,791.7 MT	4,795.8	25.8	117,676.4 MT	6,166.2	181.4	25.7
STN LCDs	7,433.6 KM	1,640.7	9.3	9,265.3 KM	2,220.3	11.9	13,191.4 KM	3,746.3	110.2	15.7
Glass fiber cloth	56,666.7 MT	1,565.1	8.9	64,160.9 MT	1,414.4	7.6	117,515.6 MT	2,369.2	69.7	9.9
Copper foil	1,719.0 KPC	249.6	1.4	5,041.2 KPC	553.2	3.0	8,053.4 KPC	1,135.6	33.4	4.7
Others[(1)]	—	719.6	4.1	—	253.9	1.4	—	369.2	10.9	1.6
Total	—	17,683.7	100.0	—	18,605.2	100.0	—	23,947.1	704.5	100.0

(1) "Others" include LED sales.

Sales of electronics materials accounted for 19.8 per cent. of Nan Ya Plastics' non-consolidated operating revenues for the three months ended March 31, 2004. The following table sets forth the non-consolidated sales volumes and non-consolidated sales revenues generated from sales of each of Nan Ya Plastics' key electronics materials products and the percentage of total non-consolidated operating revenues from Nan Ya Plastics' electronics materials products represented by each such product for the periods indicated:

	Non-consolidated						
	Three Months ended March 31,						
	2003			2004			
	Volume	**NT$ (millions)**	**%**	**Volume**	**NT$ (millions)**	**U.S.$ (millions)**	**%**
Copper clad laminates and prepreg	13,886.7 KSH	2,759.2	50.9	13,331.1 KSH	2,776.3	84.1	38.4
Epoxy resin	28,285.5 MT	1,459.9	26.9	36,519.6 MT	1,775.3	53.8	24.5
STN LCDs	2,696.9 KPC	542.8	10.0	4,543.1 KPC	1,460.2	44.2	20.2
Glass fiber cloth	16,235.6 KM	344.0	6.3	34,889.9 KM	745.0	22.6	10.3
Copper foil	1,745.8 MT	232.1	4.3	1,791.9 MT	297.8	9.0	4.1
Others[(1)]	—	84.6	1.6	—	178.4	5.4	2.5
Total	—	5,422.6	100.0	—	7,233.0	219.2	100.0

(1) "Others" include LED sales.

Copper Clad Laminates and Prepreg. Copper clad laminates are the base material used in the production of printed circuit boards. Prepreg is an intermediate product used to manufacture copper clad laminates and as an adhesive in the manufacture of multi-layer printed circuit boards. Nan Ya Plastics produces all major specifications of copper clad laminates and prepreg. Approximately 18.2 per cent. of Nan Ya Plastics' CCL production is sold to Nan Ya PCB for the production of printed circuit boards.

Epoxy Resin. Epoxy resin is a type of synthetic resin that is principally used as a paint and insulation material. Approximately half of the epoxy resin produced by Nan Ya Plastics is used internally to produce CCL while the other half is sold to customers.

STN-LCDs and LEDs. Nan Ya Plastics also produces liquid crystal displays and light emitting diodes. Liquid crystal displays, commonly known as LCDs, are key components of notebook and palmtop personal computers, control panels and electronic dictionaries. Nan Ya Plastics focuses on the development of color-STN and monochrome-STN displays for cellular phones, industrial instruments and point-of-sale systems. Light emitting diodes, commonly known as LEDs, come in varying degrees of brightness, power and wavelength. Nan Ya Plastics produces LEDs emitting red and blue lights. LEDs enjoy significant advantages over conventional incandescent light bulbs, including longer life, energy efficiency, durability, speed and miniaturization. Demand for LEDs are generally dependent upon the electronics industry.

Glass Fiber Cloth and Copper Foil. Glass fiber cloth and copper foil are principal components of copper clad laminates. A majority of the glass fiber cloth and copper foil produced by Nan Ya Plastics is consumed internally for the production of copper clad laminates.

Printed Circuit Board Products

Nan Ya Plastics operates its printed circuit board business through its subsidiary Nan Ya PCB. Sales of printed circuit board products accounted for 8.9 per cent. of Nan Ya Plastics' consolidated operating revenues for the year ended December 31, 2003 but are not reflected in Nan Ya Plastics' non-consolidated operating revenues. The principal products of Nan Ya PCB are printed circuit boards and substrates for integrated chips, or IC substrates. The following table sets forth the sales volumes and consolidated sales revenues of each of Nan Ya PCB's key products and the percentage of consolidated operating revenues of Nan Ya PCB represented by each such product for the periods indicated:

	Consolidated									
	Year ended December 31,									
	2001			2002			2003			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Printed circuit boards	10,446 KSF	10,311.0	100.0	11,637 KSF	8,011.0	67.3	10,151 KSF	7,979.7	234.8	52.1
IC substrates	—	—	—	1,262 KSF	3,890.1	32.7	2,754 KSF	7,215.8	212.3	47.1
Others	—	—	—	—	—	—	—	123.5	3.6	0.8
Total	—	10,311.0	100.0	—	11,901.1	100.0	—	15,319.0	450.7	100.0

Printed Circuit Boards. Sales of printed circuit boards accounted for 52.1 per cent. of Nan Ya PCB's operating revenues for the year ended December 31, 2003. Printed circuit boards, commonly known as PCBs, are the basic platforms used to interconnect electronic components and can be found in virtually all electronic products, including consumer electronic products, computers and automotive, telecommunications, industrial, medical, military and aerospace equipment. Printed circuit boards consist of metallic interconnecting paths on a non-conductive material, typically laminated epoxy glass. Printed circuit boards can be divided into single-sided, double-sided and multi-layer boards. Generally speaking, single-sided boards are used in general consumer electronics such as calculators and heaters while multi-layer boards are used in technologically sophisticated equipment such as networking products. Nan Ya PCB produces double-sided and multi-layer printed circuit boards of up to 22 layers in a wide range of specifications and focuses on the development of ultra-thin, high-density printed circuit boards which are principally used in computers and computer peripherals and telecommunications equipment.

IC Substrates. Sales of IC substrates accounted for 47.1 per cent. of Nan Ya PCB's operating revenues for the year ended December 31, 2003. IC substrates are multi-layer miniature printed circuit boards. They are a type of interconnecting material that connect the input/output on the semiconductor dies to the printed circuit board. Interconnect materials are an important element of the electrical characteristics and overall performance of semiconductors. Nan Ya PCB works with semiconductor packaging service providers and its customers in developing substrate packages based on the ball grid array, or BGA design. Its products include plastic BGA and flip-chip BGA substrate packages. The former type is used in wireless products and notebook computers and the latter type is used in high-performance networking, graphics and processing systems.

Other Products and Services

Plasticizers. Nan Ya Plastics produces plasticizers, which are additives used principally in the production of PVC to produce flexible, soft plastics products. The most important plasticizer Nan Ya Plastics produces is dioctyl phthalate, commonly known as DOP, substantially all of which is consumed internally. See "— Raw Materials".

Manufacturing of Machinery. Nan Ya Plastics also produces rollers, molding or extrusion devices and factory machinery, including electro-mechanical switchgears and control panels. Nan Ya Plastics sells a portion of the machinery it produces to its affiliates, and uses the remainder internally. See "Related Party Transactions — Nan Ya Plastics".

Nanya Technology's DRAM products

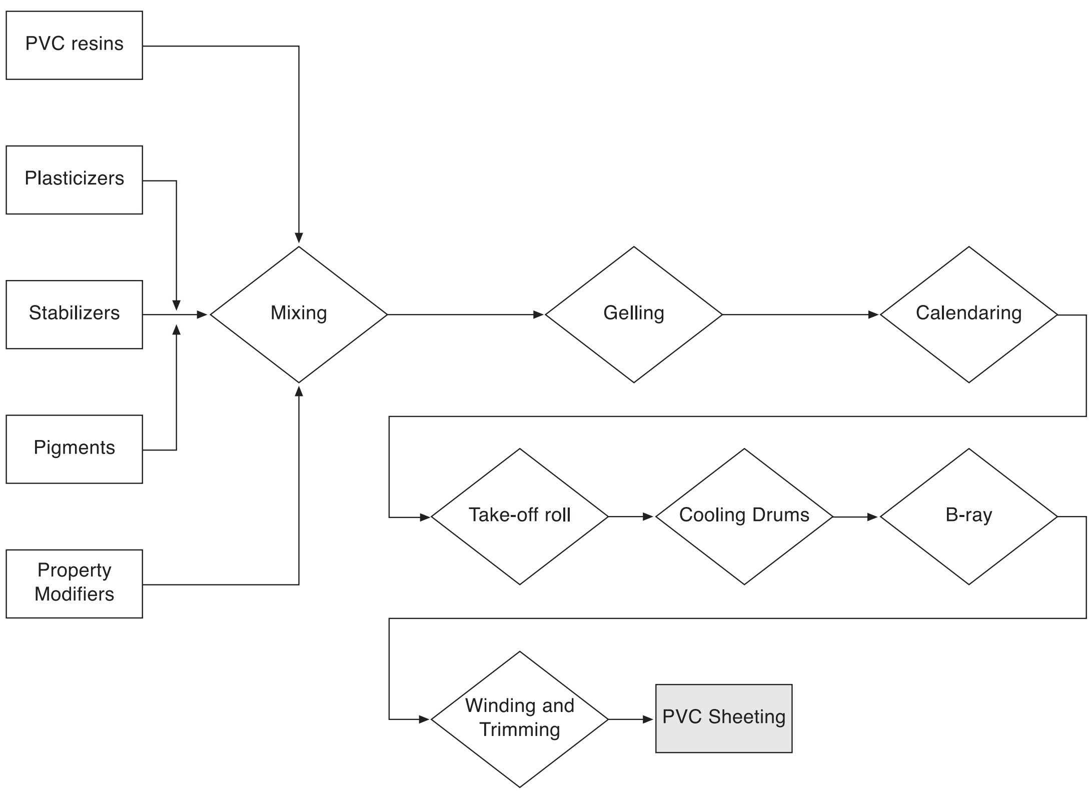
Nan Ya Plastics is the largest shareholder (44.9 per cent. as of March 31, 2004) of Nanya Technology which engages in the production and sale of DRAM and other memory semiconductors. Nanya Technology used to be one of Nan Ya Plastics' consolidated subsidiaries. However, in 2003 Nan Ya Plastics' holding of Nanya Technology fell below 50 per cent., and thus Nan Ya Plastics no longer consolidates Nanya Technology's financials into its own.

Production processes

Plastics Products

Flexible PVC Sheeting; PVC Leather and Sponge Leather; Rigid PVC Film; Rigid PVC Pipes; PVC Windows and Doors. The production processes used for flexible PVC sheeting, PVC leather and sponge leather, rigid films, and PVC windows and pipes are similar. In general the production process starts with the mixing and often heating of the PVC resins, plasticizers, stabilizers, pigments, property modifiers, calcium carbonate and, in the case of PVC sponge leather, a foaming agent. The mixture then passes through a series of processes involving gelling, rolling, calendaring, cooling, winding, heating to activate the foaming agent (if any), embossing by rollers and winding the finished product. The production of rigid PVC film uses a similar process, although the mix of raw materials does not include plasticizers. Rigid PVC pipe and PVC window and door frame products are produced with the same raw materials but the process involves extrusion, takeoff and sawing. Window and door frames require further assembly, a substantial portion of which is done by automated machines.

Production Flow Chart for PVC Sheeting

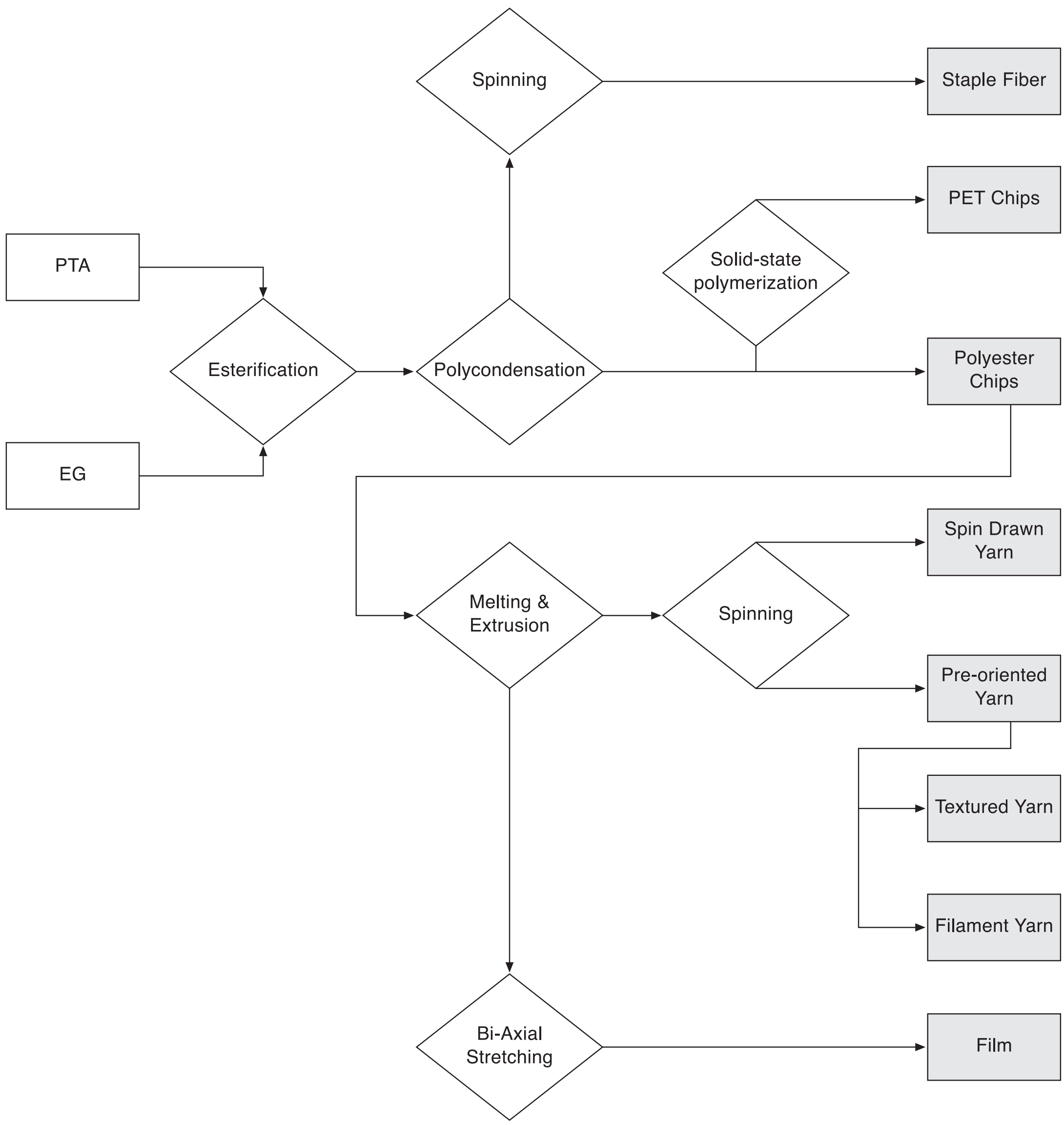


Wet and Dry Polyurethane Leather. Wet polyurethane leather is made from polyurethane resin, dimethyl formamide, or DMF, and pigments which are mixed and then laminated onto fabric. The product is dried by heating and embossed with pattern rollers, buffed and wound. Dry polyurethane leather is made by mixing polyurethane resin, methy ethyl ketone, or MEK, toluene, ethyl acetate and DMF, which is coated onto reusable release paper. The coated cloth is immersed in water which causes the coating to gel and washes out the solvent. The release paper is removed, leaving a grain-like pattern on the surface.

Polyester Products

The principal raw materials of polyester materials are pure PTA and EG. See "— Raw Materials". The mixture of these two materials undergoes esterification and polymerization to become a polymer, which can be processed into staple fibers or polyester chips. If the polymer undergoes direct spinning and stretching processes in certain conditions, it can be cut into shorter threads called staple fibers. When the polymer is processed into polyester chips, it undergoes further crystallization, drying, melting and extrusion. When the extruded material is spun, it will become pre-oriented yarn if pre-oriented or spin-drawn yarn if fully oriented. Pre-oriented yarn processed by a texturizing machine becomes textured yarn, while pre-oriented yarn fully-oriented by a draw-twist machine becomes filament yarn. When the extruded material undergoes bi-axial orientation, it becomes polyester film.

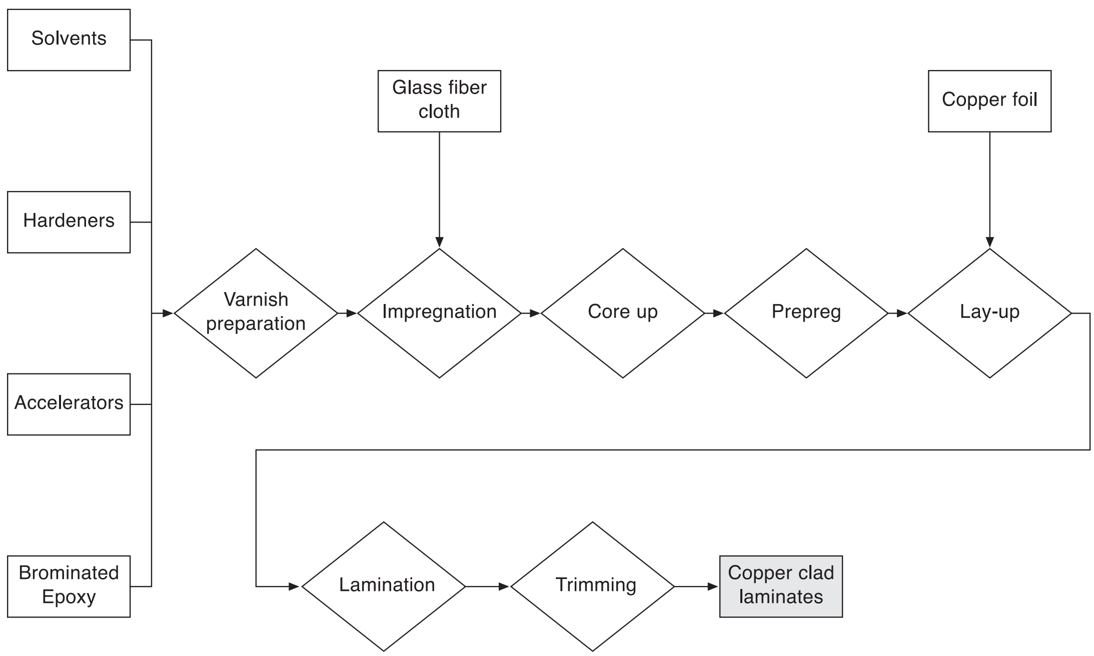
Production Flow Chart for Polyester Products



Electronics Materials

Copper Clad Laminates. The production of copper clad laminates starts with the mixing of solvents, brominated-epoxy, hardeners and catalysts. Glass fiber cloth is impregnated with the resin mixture and then dried with heat and cut into pieces. The resulting semi-finished product is known as prepreg. Copper foil is laminated to the prepreg by pressing and heating, and the copper clad laminate is cooled, trimmed and packed.

Production Flow Chart for Copper Clad Laminates



PCB Products

Printed Circuit Boards. The production of multi-layer printed circuit boards involves in excess of 500 different steps, starting with the copper clad laminate board which is initially cleaned and etched with computer generated circuit patterns. This is then bonded, by pressing and heating, to prepreg and copper foil with epoxy resin. The board then is prepared for the programmed drilling of thousands of holes which are later copper-plated prior to receiving approximately 30 different chemical baths. Images are then transferred to the outside of the board, which is then electroplated with copper and solder. The prefinished product is coated with solder mask after which solder is applied to the exposed copper in the drilled holes. Nan Ya PCB produces some of its printed circuit boards using high-density interconnection technology, which allows boards to be produced with more layers and higher density.

Organization

Operating Divisions

Nan Ya Plastics' plastics, polyester and electronics materials businesses in Taiwan are managed by nine operating divisions, and each of these divisions focuses on a particular product or group of products (with the exception of one division which makes products in both the plastics and electronics categories). The following table sets forth the principal products of each of Nan Ya Plastics' product categories and the typical applications of such products, as well as the divisions responsible for the manufacture of such products:

Product Category	Division	Main Products/Business	Typical Applications
Plastics Products .	Plastics 1	PVC sheeting	Inflatable products, rainwear, shower curtains, tablecloths, adhesive tape
		PVC leather and PVC sponge leather	Shoes, handbags, suitcases, furniture
	Plastics 2	Rigid PVC film, polypropylene film and A-PET film	Vacuum-forming food packaging, stationery, Christmas tree leaves, floppy disk jackets
		Metallic film	Christmas decorations
	Plastics 3	Rigid PVC pipes and fittings	Pipes for water and electric wiring
		BOPP film and related products	Wrapping materials and stationery
		Extruded and injected products	Decorative and construction materials
		Vinyl tiles	Tiles for construction purposes
		CDs and DVDs	Recording
	Plastics 4	Polyurethane leather	Shoes, handbags, gloves, furniture, sporting goods
		Engineering plastics	Automobile parts, electronic components
		PVC sponge sheet	Bags, plates, table mats
		PVC casting leather	Bags and shoes
		Bisphenol-A	Epoxy resin and polycarbonates
		1.4BG	Raw materials for the manufacturing of polyurethane resin
		Epoxidized soybean oil	PVC stabilizer
		Hydrogen peroxide	Epoxidized soybean oil
		TDI	Polyurethane foam, coating
	Window & Door Frames	PVC window and door frames and SMC doors	Construction
Polyester Products	Polyester Fibers	Polyester filaments	Fabrics and knits, thread
		Polyester staple fiber and specialty fiber	Cloth, stuffing for toys
		Polyester chips	Filament, windshields, bottles, brushes
		Polyester film	Food packaging, video tape
		EG	Polyester
		Dyeing, printing, finishing	Bleaching, dyeing, printing and finishing of cloth and fabric
Electronics Products	Electronic Materials	Copper clad laminates and prepreg	Intermediate products used in making printed circuit boards
		Glass fiber cloth and copper foil	Raw materials used in making copper clad laminates
		Liquid crystal displays (STN-LCD)	Information systems
		Epoxy resin	Paint and insulation material
Other Products and Services	Plasticizer	DOP and other plasticizers	Additives principally used in the production of flexible, soft PVC products
		PA and 2-EH	DOP

Product Category	Division	Main Products/Business	Typical Applications
		Isononyl alcohol	Diisononyl phthalate, diisononyl adipate
		Chlorinated polyethylene	Flame retardants
		Antioxidants	Anti-oxidation agent
	Engineering	Rollers, moulding tools, factory machines	Rolling and moulding equipment, production machinery
		Switching gears	High voltage and low voltage switchgears and control panels

PCB and DRAM

Nan Ya Plastics conducts its PCB business exclusively through Nan Ya PCB, one of its consolidated subsidiaries. Nan Ya PCB conducts its business independently from Nan Ya Plastics.

Nan Ya Plastics is also the largest shareholder (44.9 per cent. as of March 31, 2004) of Nanya Technology, which engages in the production and sale of DRAM and other memory semiconductors. Nanya Technology used to be one of Nan Ya Plastics' consolidated subsidiaries. However, since 2003, Nan Ya Plastics' holding of Nanya Technology fell below 50.0 per cent. and no longer consolidates Nanya Technology's financials into its own. Pursuant to ROC GAAP, Nan Ya Plastics restated its 2002 and 2001 financials such that Nanya Technology would not be consolidated in those periods. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Nan Ya Plastics — Consolidation".

Overseas Operations

Nan Ya Plastics conducts its overseas operations through direct and indirect subsidiaries and joint ventures. Nan Ya Plastics' operations in the PRC are conducted through joint ventures and subsidiaries of Nan Ya Plastics Hong Kong, and Nan Ya Plastics' operations in the United States are conducted principally through NYPC America. Notwithstanding the foregoing, with the exception of plants operated by joint ventures in which Nan Ya Plastics has a minority interest only, Nan Ya Plastics' manufacturing plants overseas also report regularly to their corresponding divisions in Taiwan and adhere to similar management principles and production techniques adopted by Nan Ya Plastics' manufacturing plants in Taiwan. Management staff from Nan Ya Plastics' Taiwanese headquarters are seconded to these subsidiaries and joint ventures to assist the operation of Nan Ya Plastics' manufacturing plants overseas. Sales orders are coordinated by the corresponding divisions in Taiwan. Nan Ya Plastics' goal is to maintain similar operating procedures for all of Nan Ya Plastics' manufacturing plants.

General Administrative Office of the Formosa Group

As a member of the Formosa Group, Nan Ya Plastics shares in the expenses of the Formosa Group's General Administrative Office, or GAO. The GAO maintains facilities and personnel for the performance of some financing, stock transfer and other administrative functions and procurements on a pooled basis for members of the Formosa Group. See "The Formosa Group — General Administration Office of the Formosa Group". Each Formosa Group company contributes a small sum towards the expenses and administrative costs of the GAO.

Raw Materials

Supply and Consumption

Raw Materials sourced within and outside the Formosa Group. Cost of raw materials constituted 71.0 per cent. of Nan Ya Plastics' consolidated operating costs for the year ended December 31, 2003 and 71.5 per cent. of Nan Ya Plastics' non-consolidated operating costs in the three months ended March 31, 2004. Some of these raw materials were purchased from Nan Ya

Plastics' affiliates, and all such purchases were made on an arm's length basis at market prices. Such purchases, like Nan Ya Plastics' other transactions with its affiliates, are conducted on terms that are substantially the same as those for comparable transactions with non-affiliates. See "Related Party Transactions — Nan Ya Plastics". Purchases from unaffiliated suppliers accounted for 42.5 per cent., 47.5 per cent. and 46.4 per cent. of Nan Ya Plastics' consolidated purchases of raw materials by value for the years ended December 31 2001, 2002 and 2003, respectively. The table below sets forth certain information regarding the principal raw materials that Nan Ya Plastics sources from other entities, including other members of the Formosa Group.

Raw Materials	Principal Use	Principal Supplier
PVC resins	All plastics products	Formosa Plastics
Pure terephthalic acid ("PTA")	Polyester products	Formosa Chemicals & Fibre
Glass fiber	Glass fiber cloth	PFG Fiber Glass
Epichlorohydrin ("ECH")	Epoxy Resin, Electronics materials products	Formosa Chemicals & Fibre
Pigments	All plastics products	Dupont Chemical

Raw Materials produced internally. As part of Nan Ya Plastics' vertical integration strategy, Nan Ya Plastics produces a series of chemical products in the No. 6 Naphtha Cracker Complex for use principally in the production of its own plastics products. The following table sets forth certain information regarding the principal raw materials that Nan Ya Plastics produces internally.

Raw Materials Produced Internally	Principal Use	Division responsible
Specialty chemicals(1)	All plastic products	Plastics divisions
Ethylene glycol ("EG")	Polyester	Polyester division
Epoxy resin	Copper clad laminates	Electronics materials division
Plasticizers(2)	All plastics products	Other products and services division
Phthalic anhydride ("PA")	DOP	Other products and services division
2-ethyl hexanol ("2-EH")	DOP	Other products and services division

Notes:

(1) Includes principally bisphenol-A, 1.4BG, epoxidized soybean oil, hydrogen peroxide and TDI.

(2) Includes principally DOP.

Principal Raw Materials consumed. Nan Ya Plastics' principal raw materials by value are PVC resins, PTA, EG and glass fiber. The following table sets forth, for the periods indicated, the amount of PTA, PVC resins, EG and glass fiber consumed by Nan Ya Plastics:

	Consolidated			Non-consolidated	
	Year ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
PVC resins					
Amount consumed	430,137 MT	419,815 MT	411,871 MT	97,043 MT	99,554 MT
PTA					
Amount consumed	1,008,267 MT	1,164,168 MT	1,158,355 MT	143,980 MT	159,230 MT
EG					
Amount consumed	429,519 MT	495,096 MT	492,098 MT	65,079 MT	71,922 MT
Glass fiber					
Amount consumed	46,288 MT	47,647 MT	52,740 MT	10,873 MT	16,492 MT

- *PVC resins.* Nan Ya Plastics procured substantially all of its PVC resins requirements from its affiliate Formosa Plastics.

- *PTA.* Nan Ya Plastics procured substantially all of its PTA requirements from its affiliate Formosa Chemicals & Fibre.

- *EG.* Nan Ya Plastics currently operates three EG manufacturing plants in Taiwan, two of them directly and one through its 50 per cent. owned affiliate Nan Chung. All three EG plants are located in the No. 6 Naphtha Cracker Complex. Nan Ya Plastics manufactured a majority of the EG it requires from its own operations, with the remaining portion sourced from Nan Chung. Nan Ya Plastics' consolidated subsidiary Nan Ya Plastics America also operates an EG manufacturing plant in Texas in the United States, primarily in support of Nan Ya Plastics America's polyester fiber plant in South Carolina in the United States.

Of the EG that Nan Ya Plastics produces, including that supplied by Nan Chung, 40.8 per cent., 53.9 per cent. and 29.3 per cent. by volume was consumed internally in 2001, 2002 and 2003, respectively, with the remainder sold externally. 43.8 per cent. and 25.3 per cent. of EG produced by Nan Ya Plastics was consumed internally in the three months ended March 31, 2003 and 2004, respectively.

- *Glass Fiber.* Nan Ya Plastics procures substantially all of its glass fiber requirements from its affiliate PFG Fiber Glass Corporation.

Types of Raw Materials

Plastics Products. The principal raw material used in the production of Nan Ya Plastics' plastics products is PVC resins. Nan Ya Plastics procures substantially all of its PVC resins requirements in Taiwan from its affiliate Formosa Plastics. In contrast, Nan Ya Plastics procures all of its PVC resins requirements in the PRC from unaffiliated suppliers in the PRC. Although on a worldwide basis the supply of PVC resins exceeds demand, the production of PVC resins in Taiwan currently does not meet all of domestic demand. For this reason, the Formosa Group has developed additional facilities, principally the No. 6 Naphtha Cracker Complex for the production of PVC resins. Nan Ya Plastics also requires other types of raw materials, depending on the nature of the plastics product, for example:

- *Flexible Plastics.* Another principal raw material used in the production of flexible plastics like PVC sheeting and PVC leather is plasticizer. The principal plasticizer used by Nan Ya Plastics is DOP, substantially all of which is produced by Nan Ya Plastics internally. The key raw materials for the production of DOP are PA and 2-EH, both of which are produced in Nan Ya Plastics' plants in the No. 6 Naphtha Cracker Complex. Another raw material for PVC leather is cloth, substantially all of which is procured from Formosa Chemicals & Fibre. A small portion of Nan Ya Plastics' plastics products use EVA, a substitute for PVC.

- *Polyurethane Leather.* Other principal raw materials used in the production of polyurethane leather are polyurethane resin, release paper, solvents like dimethoxyphenol, commonly known as DMP, pigments and cloth. Polyurethane resin is principally produced from the chemicals methylene disphenyl diisocyanate, commonly known as MDI, TDI and adipic acid. Nan Ya Plastics operates manufacturing plants in the No. 6 Naphtha Cracker Complex for the production of TDI and adipic acid, and procures the remaining requirements from international and domestic petrochemical suppliers. Release paper and solvents are imported largely from Japan, Hong Kong or Europe. Cloth used in the production of polyurethane leather is obtained primarily from Formosa Chemicals & Fibre.

- *CDs and DVDs.* The principal raw material used in the production of CDs and DVDs is polycarbonate. Nan Ya Plastics procures substantially all of its polycarbonate requirements from Formosa Chemicals & Fibre.

Polyester Products. The principal raw materials used in the production of polyester materials are PTA and EG. Nan Ya Plastics procures substantially all of Nan Ya Plastics' PTA requirements from Formosa Chemicals & Fibre, with the remaining portion sourced from unaffiliated suppliers such as DuPont Far Eastern Petrochemicals Ltd. For information regarding Nan Ya Plastics' EG supply and consumption, see "— Supply and Consumption" above.

Electronics Materials and PCB. Nan Ya Plastics' electronics materials and printed circuit board businesses are vertically integrated to a large extent.

- *Copper Clad Laminates.* The principal raw materials for copper clad laminates are copper foil, glass fiber cloth and epoxy resin. Nan Ya Plastics produces a portion of the copper foil in its plants and the remainder is procured from different suppliers in the domestic market. Nan Ya Plastics also produce substantially all of its requirements for glass fiber cloth and epoxy resin. Glass fiber used in the production of glass fiber cloth is purchased from its affiliate PFG Fiber Glass Corporation.

- *Printed Circuit Boards.* The principal raw materials for the production of printed circuit boards are copper clad laminates and epoxy resin. Nan Ya Plastics' production of printed circuit boards is vertically integrated. Nan Ya PCB procures substantially all of its requirements for copper clad laminates and epoxy resin from Nan Ya Plastics.

Power

Nan Ya Plastics generates approximately one-fourth of the power it uses in its manufacturing plants in Taiwan through the operation and maintenance of four coal-fired co-generation power plants and purchases approximately half of its electrical power requirements from its affiliates. Nan Ya Plastics' remaining requirements are met through purchase of electricity from Taiwan Power Company.

Sales

Geographical Markets

Because Nan Ya Plastics conducts its operations in the PRC and Indonesia through non-consolidated subsidiaries and affiliates, sales of products manufactured in Nan Ya Plastics' plants in these countries are not reflected in its operating revenues, whether on a consolidated or a non-consolidated basis.

Because Nan Ya Plastics conducts its operations in the United States principally through NYPC America, a consolidated subsidiary, sales of products produced in Nan Ya Plastics' manufacturing plants in the United States are not reflected in Nan Ya Plastics' non-consolidated operating revenues. Most of the products produced in the United States are sold within North America.

The following table sets forth, for the periods indicated, the percentage breakdown of Nan Ya Plastics' consolidated operating revenues by geographic segments for each of Nan Ya Plastics' product categories:

	Consolidated		
	Year ended December 31,		
	2001	2002	2003
	%	%	%
Plastics Products			
Taiwan	16.8	16.1	14.2
PRC	5.6	5.2	4.2
U.S. and Canada	4.0	4.1	3.5
Others	3.1	3.1	2.9
Polyester Products			
Taiwan	15.2	15.7	17.9
PRC	1.3	2.3	2.3
U.S. and Canada	20.3	19.2	17.3
Others	3.3	2.8	3.1
Electronics Materials			
Taiwan	7.0	6.1	6.1
PRC	1.5	2.3	3.7
U.S. and Canada	1.3	1.0	0.8
Others	2.9	3.1	3.1
PCB Products			
Taiwan	0.9	0.9	1.1
PRC	0.1	0.8	1.2
U.S. and Canada	1.8	1.7	1.0
Others	5.0	4.9	5.6
Other Products			
Taiwan	6.9	5.9	4.9
PRC	2.4	4.0	5.1
U.S. and Canada	0.2	0.2	0.3
Others	0.4	0.6	1.7
Total	100.0	100.0	100.0

The following table sets forth, for the periods indicated, the percentage breakdown of Nan Ya Plastics' non-consolidated operating revenues by geographic segments for each of Nan Ya Plastics' product categories:

	Non-consolidated	
	Three Months ended March 31,	
	2003	2004
	%	%
Plastics Products		
Taiwan	19.6	17.6
PRC	5.9	5.5
U.S. and Canada	3.1	2.7
Others	4.5	3.7
Polyester Products		
Taiwan	23.5	28.3
PRC	3.3	2.5
U.S. and Canada	0.9	0.6
Others	4.7	4.4
Electronics Materials		
Taiwan	10.7	9.2
PRC	2.8	4.4
U.S. and Canada	1.4	1.3
Others	4.3	4.9
Other Products		
Taiwan	8.3	5.4
PRC	6.2	4.6
U.S. and Canada	0.2	0.6
Others	0.6	4.3
Total	100.0	100.0

Plastics Products. On a consolidated operating revenues basis, 57.3 per cent. of Nan Ya Plastics' plastics products were sold within Taiwan in the year ended December 31, 2003. Most of Nan Ya Plastics' rigid PVC film is sold within Taiwan, although a significant amount of metallic rigid film, which is used to make wrapping paper, Christmas decorations and artificial Christmas trees, is exported to Hong Kong, the PRC and South East Asia. Substantially all of Nan Ya Plastics' BOPP film and related products are sold within Taiwan. Polypropylene rigid film, which is used to produce vacuum-formed food packaging, is an increasingly important export to the rest of Asia and the United States. Polyurethane leather products are largely sold within Taiwan, although a small amount is exported to Hong Kong, the PRC and northern Asia. Substantially all of Nan Ya Plastics' A-PET film is exported to Japan. Approximately two-thirds of Nan Ya Plastics' specialty chemicals are exported to the PRC.

Polyester Products. On a consolidated operating revenues basis, 42.6 per cent. of Nan Ya Plastics' polyester products were sold in the United States and Canada and 44.1 per cent. were sold within Taiwan in the year ended December 31, 2003. Substantially all of the polyester filament and staple fiber produced in Nan Ya Plastics' plants in Taiwan are sold within Taiwan or exported to other parts of Asia. Substantially all of the polyester products produced in Nan Ya Plastics' plants in the United States are sold within the United States and Canada.

Electronics Materials. On a consolidated operating revenues basis, 44.5 per cent. of Nan Ya Plastics' electronics materials were sold within Taiwan in the year ended December 2003, with the remainder exported to the PRC, the United States and Hong Kong.

PCB Products. On a revenues basis, 12.4 per cent. of Nan Ya PCB's products were sold within Taiwan in the year ended December 2003, with the remaining exported principally to Singapore and the United States.

Product Users

Plastics Products. Nan Ya Plastics' PVC sheeting is principally sold to tertiary plastics processors that have relocated their production facilities from Taiwan to the PRC. Nan Ya Plastics' PVC leather is principally sold to Taiwanese manufacturers of shoes, handbags, furniture and suitcases. Nan Ya Plastics' PVC sponge leather is principally sold to upholstery manufacturers. Some of Nan Ya Plastics' EG and specialty chemicals are consumed internally.

Polyester Products. Nan Ya Plastics' polyester filament and staple fiber are principally sold to Taiwan-based textile manufacturers. Nan Ya Plastics' polyester film is principally sold to Taiwan-based manufacturers of food packaging, video tapes and photographic films. Most of Nan Ya Plastics' polyester chips are consumed internally, although a portion produced in the United States is further processed to produce PET chips, which are then sold to manufacturers of PET bottles.

Electronics Materials. In the year ended December 2003, approximately 14 per cent. of copper clad laminates and prepreg produced by Nan Ya Plastics were used internally by Nan Ya PCB, with the remainder sold to a diverse group of manufacturers of printed circuit boards and information systems.

PCB Products. Nan Ya PCB's printed circuit boards are principally sold to computer and telecommunications companies, including Dell Computer Corp., Northern Telecom Limited, Compaq and NTK.

Manner of Sale

On a non-consolidated basis, most of Nan Ya Plastics' products are sold through independent distributors. In other instances, they are sold to Nan Ya Plastics' principal customers directly by the relevant division. Nan Ya Plastics also participates in bidding processes, sometimes in conjunction with its distributors. In accordance with industry practice, Nan Ya Plastics sells substantially all of its products on a purchase order basis. For products that have a significant lead time, Nan Ya Plastics typically receives from its principal customers non-binding rolling forecasts of the quantities of products to be ordered up to six months in advance.

Properties and Facilities

On a non-consolidated basis, Nan Ya Plastics operates sixty four manufacturing plants and four co-generation power plants in Taiwan. In addition, Nan Ya Plastics also operated ten manufacturing plants in Taiwan, four manufacturing plants in the United States through its subsidiaries and sixteen manufacturing plants in the PRC through subsidiaries and affiliates of its subsidiary NYPC HK. In addition, Nan Ya Plastics operates one manufacturing plant in Indonesia through its interest in a local joint venture. In addition to manufacturing plants used for the production of plastics, polyester, electronics materials and printed circuit boards, Nan Ya Plastics also has plants for the production of engineering and machinery products, doors and windows, and plasticizers.

With the exception of one production site in Kaoshiung, Taiwan, and all of its production sites in the PRC, Nan Ya Plastics owns all of the land on which Nan Ya Plastics' production facilities are located. Nan Ya Plastics owns all of its manufacturing plants, properties and equipment in all of its production sites and has its own maintenance crew for each site.

Nan Ya Plastics' engineering division produces much of the standard automation equipment used by it, including rollers, molding tools, factory machines and switchgears. This arrangement allows it to control the supply and quality of such equipment and machinery. Each of Nan Ya Plastics' manufacturing plants has a maintenance department, which regularly checks equipment and makes standard repairs. Nan Ya Plastics also has a centralized maintenance group located and with operations limited to the No. 6 Naphtha Cracker Complex, which assists each of the divisions on larger or more difficult repair jobs.

The following table shows Nan Ya Plastics' estimated annual production capacity in Taiwan, the United States, the PRC and Indonesia for each of its principal products:

	Estimated Annual Production Capacity(1)			
Principal Products	**Taiwan**	**PRC**	**U.S.**	**Indonesia**
Plastics Products				
Flexible PVC sheeting	126,600 tons	122,400 tons	93,600 tons	32,400 tons
PVC leather	42,504,000 yards	798,000,000 yards	—	36,960,000 yards
PVC pipes	195,000 tons	136,800 tons(2)	—	—
BOPP film(3)	112,600 tons	—(4)	—	—
Engineering plastics	36,000 tons	14,400 tons	—	—
Polyurethane leather	18,600,000 yards	44,400,000 yards	—	—
Rigid PVC film and others	213,000 tons	96,000 tons	98,400 tons	—
Vinyl tiles	10,800,000 sq ft	—	—	—
Specialty Chemicals				
Bisphenol-A	290,000 tons	—	—	—
1.4 BG	40,000 tons	—	—	—
ESO	20,000 tons	—	—	—
Hydrogen peroxide	20,000 tons	—	—	—
TDI	30,000 tons	—	—	—
Polyester Products				
Polyester	938,000 tons	—	864,000 tons	—
EG	700,000 tons(5)	—	350,000 tons	—
Electronics Material				
Copper clad laminates	36,000,000 sheets	12,000,000 sheets	—	—
Epoxy resin	220,000 tons	—(6)	—	—
Copper foil	28,800 tons	3,600 tons(7)	—	—
Glass fiber cloth	312,000,000 meters	42,000,000 meters(8)	—	—
LCDs	2,400,000 sheets	—	—	—
Other Products				
Printed circuit boards and IC substrates	18,960,000 sq ft	3,600,000 sq ft	—	—
DRAM	876,000 wafers	—	—	—

Notes:

(1) Estimates based on specifications provided by suppliers of different equipment used in the facilities' production lines, estimates of yield rates for different machinery and equipment, product mix, estimates of how long the equipment may be operated without interruption, and other factors. Actual production capacity may differ from estimated production capacity.

(2) Two additional plants are scheduled to be completed by May 2005. Each plant will have an estimated annual production capacity of 30,000 tons and 12,000 tons individually.

(3) One plant with an estimated annual production capacity of 32,000 tons is scheduled to commence production by January 2005 in Vietnam.

(4) Two additional plants are planned to be built by August 2004 and April 2005. Each plant will have an annual production of 32,000 tons.

(5) One plant with an estimated annual production capacity of 600,000 tons is scheduled to commence production by the end of 2006. In addition, Nan Chung is obligated to supply to Nan Ya Plastics half of the EG produced in its EG plant at the No. 6 Naphtha Cracker Complex. The plant has an estimated annual production capacity of 350,000 tons.

(6) One plant with an estimated annual production capacity of 85,000 tons is scheduled to commence production by December 2005.

(7) Expansion with an estimated annual production capacity of 10,800 tons is scheduled to commence production by December 2004.

(8) Expansion with an estimated annual production capacity of 36,000,000 meters is scheduled to commence production by August 2004.

Plastics Plants

High Value-Added Plastics. Nan Ya Plastics seeks to maintain a diversified product line, with its plants in Taiwan focusing on the production of plastics products that are more technologically sophisticated. During the 1990s, Nan Ya Plastics has expanded its production capacity for PVC metallic film, A-PET film and wet polyurethane leather to meet the growing demand partially driven by improvements in product quality.

Specialty Chemicals. Nan Ya Plastics operates twelve specialty chemical plants at the No. 6 Naphtha Cracker Complex to produce specialty chemicals, some of which are used in the production of its own plastics products. These plants produce antioxidant, isononyl alcohol, bisphenol-A, 1.4BG, tetrahydrofuran, TDI, epoxidized soybean oil and hydrogen peroxide.

Construction Materials. To capitalize on the opportunities offered by the growing construction industry in the PRC, Nan Ya Plastics is adding production capacities for PVC pipes and fittings, engineering plastics and bathroom doors in the PRC.

CDs and DVDs. Nan Ya Plastics expanded its plant to commence the production of DVDs in early 2003. Nan Ya Plastics plans to invest, as part of its initial expansion project, in the construction of 60 additional DVD disc production lines. Currently, six lines are in production and Nan Ya Plastics plans to have commenced production in a total of 20 lines by the end of 2004 and the remaining 40 lines by the end of 2005.

Polyester Plants

EG. Nan Ya Plastics operates three EG plants in Taiwan, all of which are located in the No. 6 Naphtha Cracker Complex. Two of the EG plants are wholly owned by Nan Ya Plastics, and the remaining one is owned by Nan Chung, a joint venture between it and China Manmade Fibers, in which it has a 50 per cent. equity interest.

Commodity Fibers. To lower the production cost of commodity polyester products, Nan Ya Plastics has constructed a polyester plant in Vietnam. The plant is expect to commence production later this year, with production capacities for polyester staple fiber, polyester chips, PET chips, pre-oriented yarn, spin-drawn yarn and draw-textured yarn. Most of the products produced in this plant are expected to be sold outside Taiwan.

PET Chips. Sales of PET chips produced in Nan Ya Plastics' U.S. production site have grown steadily over the years. PET bottles have attracted significant interest as a substitute for glass bottles and have become particularly popular among soft drink bottlers. To meet the strong demand for PET chips, Nan Ya Plastics added a solid-state polymerization facility to its South Carolina production facility in 2001.

Electronics Plants

PRC Operations. Nan Ya Plastics currently produces all of its electronics products in Taiwan. To shorten delivery time to customers in the PRC, Nan Ya Plastics operates two warehouses for copper clad laminates in Suzhou and Guangzhou. Nan Ya Plastics has constructed a manufacturing plant in Kunshan, the PRC, for the production of copper clad laminates and is converting part of the facility for the production of epoxy resin, copper coil and glass fiber cloth.

LCDs. Nan Ya Plastics commenced production of LCDs in the second quarter of 1995. An additional manufacturing plant was completed in early 2002, which has enabled Nan Ya Plastics to increase sales to domestic module makers. The manufacturing plants use sophisticated assembly methods for LCD modules, including chip-on-board, chip-on-glass, surface mount technology and tape-automated bonding.

Other Plants

Printed Circuit Boards. Nan Ya PCB's production site in Taiwan is one of the largest of its kind. The 26-acre site consists of five manufacturing plants, a water treatment facility, a coal storage tank, a 55,000-kW power plant, two treatment plants and a dormitory. Nan Ya PCB has recently completed its new production facility in Kunshan, the PRC. The plant commenced production in early 2003.

Plasticizers. Nan Ya Plastics operates one plasticizer plant in the No. 6 Naphtha Cracker Complex. Two of the principal raw materials used in the production of Nan Ya Plastics' plasticizers are PA and 2-EH, which are produced by Nan Ya Plastics' plasticizer division in the No. 6 Naphtha Cracker Complex.

Competition

Nan Ya Plastics competes on the basis of price and also on quality, speed of delivery, the ability to meet varied product specifications and the ability to supply quantities ordered. Nan Ya Plastics' businesses are principally regional in scope, with the exception of printed circuit boards and copper clad laminates, which are global businesses. The following table sets forth the principal competitors for each of the sectors in which Nan Ya Plastics competes:

Product Sector	Principal Geographical Markets	Principal Competitors
Plastics		
Flexible PVC sheeting and PVC leather	Taiwan, PRC	China General
PVC rigid film	Taiwan, PRC	Ocean, China General
Rigid PVC pipes and fittings	Taiwan, PRC	Ocean, China General
Polyurethane leather	Taiwan, PRC	San Fung
CDs and DVDs	Worldwide	CMC Magnetics, Prodisc and Ritek

Product Sector	Principal Geographical Markets	Principal Competitors
Polyester		
Polyester staple fiber	United States	DuPont and Hoechst
	Taiwan	Synthetic Fiber Corp., Far Eastern Textile Ltd. and Shinkong
Polyester filament	Taiwan	Hualon Teijran Corp., Far Eastern Textile Ltd. and Tuntex Distinct Corp.
Polyester film	Taiwan	Shinkong
Electronics		
Copper clad laminates	Worldwide	Elite, Uniplus
Printed circuit boards	Worldwide	Unitech, Worldwiser, WUS, Ibiden, JVC, Viasystems

Plastics Sector

Nan Ya Plastics believes that it is the world's largest manufacturer of secondary plastics in terms of production capacity. The markets for many of Nan Ya Plastics' plastics products are highly fragmented with a large number of competitors. Due to the bulkiness of plastics products, proximity to customers is an important factor for competitiveness. Nan Ya Plastics sells most of its plastics products to customers with facilities located near its production facilities in Taiwan, the PRC and the United States. Nan Ya Plastics believes proximity of its production facilities to its markets gives it an advantage over its competitors, allowing for reduced transportation costs, more reliable delivery of products and better service to customers.

Polyester Sector

Nan Ya Plastics is a leading manufacturer of polyester fiber products. Nan Ya Plastics believes that it has a cost advantage over some of its competitors in the polyester industry because it designs much of the equipment required in the polyester business and maintains high production efficiencies in its manufacturing plants. Nan Ya Plastics also has a stable supply of EG, the principal raw material for the production of polyester.

Electronics Sector

Nan Ya Plastics believes that it is the world's second largest manufacturer of copper clad laminates in terms of production capacity. The market for copper clad laminates is a global market and is very fragmented. Nan Ya Plastics believes that it is able to compete effectively in this market primarily due to its ability to vertically integrate its production of copper clad laminates with its production of epoxy resin internally and production of printed circuit boards through its subsidiary Nan Ya PCB.

Japanese manufacturers set the pace of technological advancement in the printed circuit board industry in Asia. There are over 200 printed circuit board manufacturers in Taiwan, a majority of which are engaged in the production of printed circuit boards for personal computers, or PCs, and PC peripherals. Nan Ya PCB focuses on high-end printed circuit boards, which have more sophisticated technological specifications. Nan Ya Plastics believes that strong research and development is critical for Nan Ya PCB to maintain a leading position in the industry.

Research and Development

Nan Ya Plastics has a research and development center with 91 staff members as of March 31, 2004. In addition, each of Nan Ya Plastics' operating divisions has its own smaller research and development department. Nan Ya Plastics' research and development efforts are primarily devoted to the development and enhancement of process technologies used in Nan Ya Plastics' manufacturing plants, the design and development of opto-electronic and electronic products, research relating to pollutants, specialty chemicals and polymers, and advice to manufacturing plants on cost reduction, quality improvement and pollution control.

Employees

Workforce and Compensation

On a non-consolidated basis, Nan Ya Plastics had approximately 15,000 employees as of March 31, 2004. The average employment period of Nan Ya Plastics' employees in Taiwan as of December 31, 2003 was approximately 13 years and the average age was 38.

Approximately two-thirds of these employees belonged to an aggregate of 12 unions. To maintain good relations with its workforce, Nan Ya Plastics' management gives serious consideration to the views of the unions and frequently consults with the unions concerning such matters as the workers' needs and the direction of Nan Ya Plastics. Nan Ya Plastics has not experienced any strikes in the past and believes that management maintains a good relationship with its employees.

Nan Ya Plastics has permission to invite foreign workers into Taiwan. As of March 31, 2004, Nan Ya Plastics employed approximately 437 foreign workers.

Direct labor costs made up 8.1 per cent. of Nan Ya Plastics' total consolidated operating costs for the year ended December 31, 2003 and 6.7 per cent. of Nan Ya Plastics' total non-consolidated operating costs for the three months ended March 31, 2004. Wage levels have increased in Taiwan in recent years such that Taiwan is no longer considered a low-wage manufacturing base. The average annual compensation for the average operator in Nan Ya Plastics' factories was approximately the equivalent of NT$680,364 (U.S.$20,017) in December 31, 2003. Many of Nan Ya Plastics' workers are highly skilled and Nan Ya Plastics seeks to achieve the appropriate balance between automation of Nan Ya Plastics' factories and the use of skilled employees to monitor the production process.

Training and Career Development

Nan Ya Plastics believes strongly in the professional development of its employees and maintains a training center for conducting seminars. Nan Ya Plastics offers regular training to all of its employees. There are three major types of training programs, all of which run for approximately one week. The first type seeks to teach new employees the skills necessary to perform their duties and introduce to them company rules and corporate culture. The second type seeks to educate employees who have been recently promoted about their new responsibilities. The third type focuses on management skills and is given to all employees who are at management level. In addition, all new employees receive intensive training during their first three months with the company.

Environmental and Other Regulatory Matters

Nan Ya Plastics is subject to regulation by the ROC Environmental Protection Administration. In Taiwan, the county and city environmental protection bureaus in each county or city where Nan Ya Plastics conducts manufacturing operations are responsible for the enforcement of environmental laws applicable to Nan Ya Plastics' operations there. In addition, Nan Ya Plastics' operations in the PRC, the United States and Indonesia are subject to regulation by the environmental authorities in those countries.

The principal environmental concerns in Nan Ya Plastics' production of plastics products are wastewater and air emissions from certain chemicals used in the production process. The main environmental concern in Nan Ya Plastics' production of polyester products is organic compounds contained in the wastewater resulting from the production process for polyester fiber. The principal environmental concern in Nan Ya Plastics' production of PCB products is heavy metals in wastewater.

Nan Ya Plastics is committed to maintaining appropriate environmental controls in all of its manufacturing facilities and is seeking through research and development efforts to develop more efficient manufacturing processes that generate less waste and emissions. Nan Ya Plastics has also established an Environmental Engineering Center whose tasks include environmental impact assessment, engineering, surveying and monitoring, and data control to ensure a fully integrated approach to environmental protection efforts. The Environmental Engineering Center also performs environmental services for other members of the Formosa Group, and in this regard is operated as a separate profit center. It is responsible for all environmental planning for the No. 6 Naphtha Cracker Complex. The Environmental Engineering Center has 161 employees as of March 31, 2004.

Nan Ya Plastics' principal environmental protection facilities consist of wastewater treatment facilities, incinerators, electrostatic precipitators and flue gas desulphurisation equipment. Nan Ya Plastics believes that it is in compliance with all material environmental regulations, although there can be no assurance that the relevant regulatory authorities will not impose new, stricter regulations which would require additional expenditures on environmental protection.

A number of foreign countries and local governments have enacted, or have under consideration, laws and regulations relating to the use and disposal of plastics materials. Widespread adoption of such laws and regulations, or public perception, could have an adverse impact on the manufacture and sale of plastics materials. Many of Nan Ya Plastics' major markets are in durable, longer-life applications which could be less severely affected by any such environmental regulation. However, there is no assurance that possible future legislation or regulation would not have a material adverse effect on Nan Ya Plastics' business.

Legal Proceedings

Nan Ya Plastics is involved in a patent infringement lawsuit with Far Eastern Textile. Nan Ya Plastics filed a complaint in an ROC court alleging that certain polyester production processes employed by Far Eastern Textile infringed a Nan Ya Plastics patent. In Nan Ya Plastics' original complaint, Nan Ya Plastics sought compensation in the amount of NT$17.0 million, although this amount may be adjusted upward at Nan Ya Plastics' discretion. The lawsuit has been temporarily suspended because Far Eastern Textile has been challenged by Nan Ya Plastics in relation to the validly of the patent Nan Ya Plastics.

Other than as set forth above, Nan Ya Plastics is not involved in any material litigation or proceedings.

SUBSIDIARIES AND INVESTEE COMPANIES

The following table sets forth certain information as of March 31, 2004 regarding Nan Ya Plastics' principal subsidiaries and investee companies:

Name	Registered Office	Book Value of Nan Ya Plastics' Investment	Percentage Interest Held by Nan Ya Plastics	Principal Business
		NT$ million		
Nan Ya Plastics Corporation, America	9 Peach Tree Hill Road, Livingston, NJ 07039 U.S.A.	17,489.9	100.0%	Plastics, polyester
Nan Ya Plastics (Hong Kong) Co., Limited	Citicorp Centre 7F, No.18, Whitfield Road, Causeway Bay, Hong Kong	14,462.7	100.0%	Plastics
Nan Ya Printed Circuit Board Corporation	3F, 201–36 Tung Hwa North Road, Taipei, Taiwan, ROC	7,885.6	89.1%	Printed circuit board
PFG Fibre Glass Corporation	2-1, Chung Yang Industrial Park, Shing Kang, Chia Yi Hsien, Taiwan, ROC	1,916.1	50.0%	Glass fiber
Nan Chung Petrochemical Corporation	2-1, Formosa Plastics Group Industrial Zone, Mailiao Shiang, Yunlin Hsien, Taiwan, ROC	932.1	50.0%	Chemicals, EG
PFG Fibre Glass (Hong Kong) Co. Limited	Citicorp Center 7F, No. 18, Whitfield Road, Causeway Bay, Hong Kong	624.1	50.0%	Glass fiber
Formosa Automobile Corporation	21F-6, 398, Huanbei Road, Jhongli City, Taoyuan, Taiwan, ROC	427.0	45.0%	Cars, motorcycle and parts
Nanya Technology Corporation	Hwa Ya Technology Park, 669 Fuhsing 3 Rd., Kueishan, Taoyuan, Taiwan, ROC	22,616.0	44.9%	DRAM
Formosa Industries Corporation	Nhon Trach 3 Industrial Zone, Dong Nai Provinice, Vietnam	2,093.4	42.5%	Polyester fiber, viscose fiber
Formosa Heavy Industries Corporation	4F, 201–20 Tung Hwa North Road, Taipei, Taiwan, ROC	3,100.5	32.9%	Machinery and construction

Name	Registered Office	Book Value of Nan Ya Plastics' Investment	Percentage Interest Held by Nan Ya Plastics	Principal Business
		NT$ million		
Formosa Petrochemical.	1-1, Formosa Plastics Group Industrial Zones, Mailiao Shiang, Yunlin Hsien, Taiwan, ROC	38,967.3	26.2%	Oil refining, distribution, naphtha cracking and utilities
Su-Hua Transport Corporation . .	42, Biaofu Road, Mialiao Shiang, Yunlin Hsien, Taiwan, ROC	51.6	25.0%	Transportation
Mailiao Power Corporation.	1-1 Formosa Plastics Group Industrial Zone, Mailiao Shiang, Yunlin Hsien, Taiwan, ROC	8,596.1	24.9%	Power
Formosa Group Ocean Marine Investment Corporation	Wickhams Cay, P.O. Box 662, Road Town Tortola, British Virgin Islands	856.9	19.0%	Investment
Mailiao Harbor Administration Corporation	1-1, Formosa Plastics Group Industrial Zone, Mailiao Shiang, Yunlin Hsien, Taiwan, ROC	539.2	18.0%	Harbor administration
Formosa Plastics Development Corporation	2F, 201-36 Tung Hwa North Road, Taipei, Taiwan, ROC	90.0	18.0	Investment
Formosa Plastics Maritime Corporation	42, Biaofu Road, Mialiao Shiang, Yunlin Hsien, Taiwan ROC	1.6	18.0	Marine transportation
Asia Pacific Investment Co., Limited	5F, 201-36 Tung Hwa North Road, Taipei, Taiwan, ROC	727.4	15.0%	Investment

Nanya Plastics Corporation, America ("NPC America") engages in the manufacture and sale of chemicals and polyester. As of March 31, 2004, the company had an issued share capital of U.S.$300.0 million. Nan Ya Plastics did not receive any dividends from NPC America in 2003. As of March 31, 2004, there was no intercompany debt between Nan Ya Plastics and NPC America and Nan Ya Plastics did not provide any guarantee for NPC America. For the year ended December 31, 2003 NPC America made a net income of U.S.$11.2 million.

Nan Ya Plastics (Hong Kong) Co., Limited ("NPC Hong Kong") engages in the sale of semiconductor products. As of March 31, 2004, the company had an issued share capital of HK$3,272.5 million. Nan Ya Plastics received dividends of NT$326.6 million from Nan Ya Plastics

HK in 2003. As of March 31, 2004, there was no intercompany debt between Nan Ya Plastics and NPC HK, and Nan Ya Plastics did not provide any guarantee for Nan Ya Plastics Hong Kong. For the year ended December 31, 2003, NPC Hong Kong made a net income of HK$63.5 million.

Nan Ya Printed Circuit Board Corporation ("Nan Ya PCB") engages in the manufacturing and sale of circuit boards. As of March 31, 2004, the company had an issued share capital of NT$4,825.6 million. Nan Ya Plastics did not receive dividends from Nan Ya PCB in 2003. As of March 31, 2004, there was no intercompany debt between Nan Ya Plastics and Nan Ya PCB. Nan Ya Plastics did not provide any guarantee for Nan Ya PCB. For the year ended December 31, 2003, Nan Ya PCB made a consolidated net income of NT$252.4 million.

PFG Fibre Glass Corporation ("PFG Fiber Glass") engages in the manufacturing and sale of glass fiber. As of March 31, 2004, the company had an issued share capital of NT$1,000 million. Nan Ya Plastics did not receive and dividend from PFG Fiber Glass in 2003. As of March 31, 2004, Nan Ya Plastics owed PFG Fiber Glass NT$35.7 million. Nan Ya did not provide guarantee for PFG Fiber Glass. For the year ended December 31, 2003, PFG Fiber Glass made a net income of NT$83.6 million.

Nan Chung Petrochemical Corporation ("Nan Chung") engages in the manufacturing and sale of petrochemical products. As of March 31, 2004, the company had an issued share capital of NT$2,000.0 million. Nan Ya Plastics did not receive any dividends from Nan Chung in 2003. As of March 31, 2004, Nan Chung owed Nan Ya Plastics an aggregate amount of NT$481.1 million. Nan Ya Plastics did not provide any guarantee for Nan Chung. For the year ended December 31, 2003, Nan Chung made a net income of NT$19.8 million.

PFG Fibre Glass (Hong Kong) Co. Limited ("PFG HK") engages in the sale of fiber glass. As of March 31, 2004, the company had an issued share capital of HK$327.6 million. Nan Ya Plastics did not receive any dividends from PFG HK in 2003. As of March 31, 2004, there was no intercompany debt between Nan Ya Plastics and PFG HK. Nan Ya did not provide any guarantee for PFG HK. For the year ended December 31, 2003, PFG HK made a net loss of HK$40.4 million.

Formosa Automobile Corporation ("Formosa Automobile") engages in the manufacturing and sale of automobiles. As of March 31, 2004, the company had an issued share capital of NT$1,500.0 million. Nan Ya Plastics did not receive any dividends from Formosa Automobile in 2003. As of March 31, 2004, Formosa Automobile owed Nan Ya Plastics an aggregate amount of NT$799.2 million. Nan Ya Plastics did not provide any guarantee for Formosa Automobile. For the year ended December 31, 2003, Formosa Automobile made a net loss of NT$86.2 million.

Nanya Technology Corporation ("Nanya Technology") engages in the design, manufacturing and sale of semiconductors. As of March 31, 2004, the company had an issued share capital of NT$35,646.9 million. Nan Ya Plastics received dividends of NT$466.2 from Nanya Technology in 2003. As of March 31, 2004, Nan Ya Plastics owed Nanya Technology NT$587.4 million. Nan Ya Plastics provided guarantee for Nanya Technology up to an aggregate amount of NT$28,900.0 million as of March 31, 2004. For the year ended December 31, 2003, Nanya Technology incurred a consolidated net loss of NT$1,447.9 million.

Formosa Industries Corporation ("Formosa Industries") engages in the manufacturing and sale of polyester and viscose fibers. As of March 31, 2004, the company had an issued share capital of NT$5,323 million. Nan Ya Plastics did not receive any dividends from Formosa Industries in 2003. As of March 31, 2004, there was no intercompany debt between Nan Ya Plastics and Formosa Industries. Nan Ya Plastics provided guarantee up to an aggregate amount of NT$2,679.6 million for Formosa Industries. For the ended December 31, 2003, Formosa Industries made a net loss of NT$8 million.

Formosa Heavy Industries Corporation ("Formosa Heavy Industries") engages in the sale of machinery. As of March 31, 2004, the company had an issued share capital of NT$6,020.0 million. Nan Ya Plastics did not receive any dividends from Formosa Heavy Industries in 2003. As of March 31, 2004, there was no intercompany debt between Nan Ya Plastics and Formosa Heavy Industries. Nan Ya Plastics did not provide any guarantee for Formosa Heavy Industries. For the year ended December 31, 2003, Formosa Heavy Industries made a net income of NT$151.3 million.

Formosa Petrochemical engages in the manufacturing and sale of petrochemical products. As of March 31, 2004, the company had an issued share capital of NT$78,400.0 million. Nan Ya Plastics received dividends of NT$4,518.7 million from Formosa Petrochemical in 2003. As of March 31, 2004, there was no intercompany debt between Nan Ya Plastics and Formosa Petrochemical, and Nan Ya Plastics did not provide any guarantee for Formosa Petrochemical. For the year ended December 31, 2003, Formosa Petrochemical made a net income of NT$18,934.9 million.

SU-HUA Transport Corporation ("SU-HUA Transport") engages in transportation. As of March 31, 2004, the company had an issued share capital of NT$200 million. Nan Ya did not receive any dividend from SU-HUA Transport in 2003. As of March 31, 2004, SU-HUA Transport owed Nan Ya Plastics NT$368.8 million. Nan Ya did not provide any guarantee for SU-HUA Transport. For the year ended December 31, 2003, SU-HUA Transport made a net loss of NT$9.1 million.

Mailiao Power Corporation ("Mailiao Power") engages in the sale of electricity. As of March 31, 2004, the company had an issued share capital of NT$20,000.0 million. Nan Ya Plastics received dividends in the amount of NT$498.8 million from Mailiao Power in 2003. As of March 31, 2004, Mailiao Power owed Nan Ya Plastics NT$1,745.2 million. Nan Ya Plastics provided guarantee up to an aggregate amount of NT$4,660.0 million for Mailiao Power. For the year ended December 31, 2003, Mailiao Power made a net income of NT$3,508.6 million.

Formosa Group Ocean Marine Investment Corporation engages in the sale of machinery. As of March 31, 2004, the company had an issued share capital of U.S.$138.0 million. Nan Ya Plastics did not receive any dividends from Formosa Ocean Marine Investment in 2003. As of March 31, 2004, Formosa Ocean Marine Investment owed Nan Ya Plastics an aggregate amount of NT$205.4 million and Nan Ya Plastics did not provide any guarantee for Formosa Marine. For the year ended December 31, 2003, Formosa Ocean Marine Investment made a net loss of NT$6.3 million.

Mailiao Harbor Administration Corporation ("Mailiao Harbor Administration") engages in the administration of harbor facilities. As of March 31, 2004, the company had an issued share capital of NT$2,200.0 million. Nan Ya Plastics received dividends of NT$79.1 million from Mailiao Harbor Administration in 2003. As of March 31, 2004, Nan Ya Plastics owed Mailiao Harbor Administration NT$303.6 million. Nan Ya Plastics provided guarantee up to an aggregate amount of NT$2,098.4 million for Mailiao Harbor Administration. For the year ended December 31, 2003, Mailiao Harbor Administration made a net income of NT$520 million.

Formosa Plastics Development Corporation ("Formosa Development") engages in investment. As of March 31, 2004, the company had an issued share capital of NT$500 million. Nan Ya Plastics did not receive any dividend from Formosa Development in 2003. As of March 31, 2004, there was no intercompany debt between Nan Ya Plastics and Formosa Development and Nan Ya did not provide guarantee for Formosa Development. For the year ended December 31, 2003, Formosa Development made a net loss of NT$0.2 million.

Formosa Plastics Maritime Corporation ("Formosa Maritime") engages in marine transportation. As March 31, 2004, the company had an issued share capital of NT$19.5 million. Nan Ya received dividends of NT$5.7 million from Formosa Martime in 2003. As of March 31, 2004, there was no intercompany debt between Nan Ya Plastics and Formosa Martime. Nan Ya Plastics did not provide any guarantee for Formosa Martime. For the year ended December 31, 2003, Formosa Martime made a net income of NT$37.8 million.

Asia Pacific Investment Co., Limited ("Asia Pacific Investment") engages in investment management. As of March 31, 2004, the company had an issued share capital of NT$4,250.0 million. Nan Ya Plastics did not receive any dividends from Asia Pacific Investment in 2003. As of March 31, 2004, there was no intercompany debt between Nan Ya Plastics and Asia Pacific Investment and Nan Ya Plastics did not provide any guarantee for Asia Pacific Investment. For the year ended December 31, 2003, Asia Pacific Investment made a net income of NT$20.4 million.

Nan Ya Plastics' equity interests in all of the subsidiaries and investee companies listed above have been paid in full.

MANAGEMENT OF NAN YA PLASTICS CORPORATION

Directors and Supervisors

The ROC Company Law and the Articles of Incorporation of Nan Ya Plastics provide that the Board of Directors is to be elected by the shareholders of Nan Ya Plastics for three-year terms in a general shareholders' meeting at which a quorum, consisting of a majority of all issued and outstanding shares, is present. The Chairman is a Director elected by the Board. The fifteen-member Board of Directors of Nan Ya Plastics is responsible for the management of the business of Nan Ya Plastics.

Nan Ya Plastics currently has three Supervisors. Supervisors are typically elected at the time that Directors are elected. The Supervisors' duties and powers include, but are not limited to, investigation of Nan Ya Plastics' condition, inspection of Nan Ya Plastics' corporate records, attending meetings of the Board of Directors, verification of some statements by the Board of Directors prior to the regular shareholders' meetings, calling of shareholders' meetings, representing Nan Ya Plastics in negotiations with its Directors and notification, when appropriate, to the Board of Directors to cease acting in contravention of any applicable law or regulation or in contravention of its Articles of Incorporation or beyond its scope of business. In accordance with the laws of the ROC relating to corporations, a Supervisor cannot concurrently serve as a Director, managerial officer or other staff member. The ROC Company Law requires at least one Supervisor be appointed at all times.

The term of office for the Directors and Supervisors is three years from the date of election. They may serve any number of consecutive terms and may be removed from office at any time by a resolution adopted at a shareholders' meeting. The Director or Supervisor being removed without a reason could claim for damages from us. Normally, all Directors and Supervisors are elected at the same time.

Of the current Directors and Supervisors, I-Kai Wang was elected in his capacity as a representative of Lian Hwa Aluminum Co., Limited, Hsueh-Kung Ma was elected in his capacity as a representative of Nittong Industries Co., Limited, Amy Chen was elected in her capacity as a representative of Mao Yang Co., Limited and Reuy Wang was elected in her capacity as a representative of Formosa Chemicals & Fibre. A Director or Supervisor who serves as a representative of a legal entity may be removed or replaced at any time at the discretion of that legal entity, and the replacement Director or Supervisor may serve the remainder of the term of the office of the replaced Director or Supervisor.

The following table sets forth certain information relating to the Directors and Supervisors of Nan Ya Plastics as of May 21, 2004.

Name	Position	Age	Number of Shares Held Directly[1]	Number of Shares Held Through Spouse and Minor Children[2]	Percentage of Total Shares Issued and Outstanding[3]
Yeong-Ching Wang. . .	Chairman	87	369,765,055	—	5.6%
Yeong-Tsai Wang	Vice Chairman	82	377,090,711	516,174	5.7%
Chao-Neng Chang . . .	Director	79	2,456,358	—	*
Chin-Jen Wu	Director	70	55,995	—	*
Chen-Ling Lin.	Director	68	878,841	—	*
I-Kai Wang[4]	Director	42	12,589	—	*
Hsueh-Kung Ma[5] . . .	Director	81	3,071,730	—	*
Chia-Chau Wu	Director	60	65,645	46,465	*
Tai-Shiung Lin	Director	67	163,073	—	*
Fong-Chin Lin	Director	56	21,148	10,305	*
Shin-Fa Chang	Director	58	306,294	137,310	*
Yuan-Shan Liu	Director	56	43,729	17,190	*
Amy Chen[6].	Director	47	1,050,000	—	*
Ming-Jen Tsou	Director	54	156,772	2,020	*
Song-Yue Hsieh	Director	55	45,849	—	*
Reuy Wang[7].	Supervisor	42	309,065,745	—	4.65%
Pen-Yuan Chang	Supervisor	53	108,460	—	*
Chen-Ching Fu.	Supervisor	57	225,434	277,025	*

Notes:

* Less than 1 per cent.

(1) In the case of a Director who is also a representative of a legal entity, the number in this column includes both the number of Shares held by the corporate shareholder and the Director in his/her individual capacity.

(2) Applies to a Director or Supervisor serving in his or her individual capacity only.

(3) Calculated by dividing the number of Shares held by such person and such person's spouse and minor children as indicated above, by the number of total issued and outstanding shares in each case as of March 23, 2004.

(4) Representative of Lian Hwa Aluminium Co., Limited.

(5) Representative of Nittong Industries Co., Limited Hsueh-Kung Ma owns 1,432,539 shares in his individual capacity and 1,639,191 shares as a representative of Nittong Industries Co. Limited.

(6) Representative of Mao Yang Co. Limited.

(7) Representative of Formosa Chemicals & Fibre. Reuy Wang owns 3,075,532 shares in her individual capacity and 305,990,213 shares as a representative of Formosa Chemicals & Fibre.

The business address of each Director and Supervisor is the registered office of Nan Ya Plastics.

Set forth below is a short biography of each of the Directors and Supervisors, all of whom were elected for their present term on May 21, 2004.

Mr. Yeong-Ching Wang is the Chairman of the Board of Directors. He is also the Chairman of the Formosa Group and the chairman of many companies in the Formosa Group. He graduated from elementary school in Taiwan during the Japanese occupation era. Mr. Yeong-Ching Wang is the brother of Mr. Yeong-Tsai Wang, the Vice Chairman of Nan Ya Plastics.

Mr. Yeong-Tsai Wang is the Vice Chairman. He is also the Vice Chairman of the Formosa Group and the vice chairman of many companies in the Formosa Group. He graduated from high school in Taiwan during the Japanese occupation era. Mr. Yeong-Tsai Wang is the brother of Mr. Yeong-Ching Wang, the Chairman of Nan Ya Plastics.

Mr. Chao-Neng Chang is a Director. He was previously the chairman of Youda Trading Co., Limited. Mr. Chang graduated from elementary school.

Mr. Chin-Jen Wu is a Director and the President. He is also the president of PFG Fiber Glass Corporation. Mr. Wu holds a bachelor's degree from National Cheng Kung University.

Mr. Chen-Ling Lin is a Director. He also serves as the Executive Vice President. He is also the president of Formosa Plastics Petrochemical Industries Corp. Mr. Lin holds a bachelor's degree from University of North Carolina, USA.

Mr. I-Kai Wang is a Director. He is also the chairman of Title Max Technology Co., Limited. Mr. Wang holds a bachelor's degree from Tamkang University.

Mr. Hsueh-Kung Ma is a Director. He is also the chairman of Forchem International Co., Limited. Mr. Ma graduated from Taiwan Provincial Tainan Junior College of Technology.

Mr. Chia-Chau Wu is a Director. He also serves as an Executive Vice President. Mr. Wu holds a bachelor's degree from National Cheng Chi University.

Mr. Tai-Shiung Lin is a Director. He also serves as a Senior Vice President. Mr. Lin graduated from Tatung Institute of Technology.

Mr. Fong-Chin Lin is a Director. He also serves as a Senior Vice President. Mr. Lin holds a bachelor's degree from National Cheng Chi University. He is the son-in-law of Mr. Yeong-Tsai Wang, a Vice Chairman of Nan Ya Plastics.

Mr. Shin-Fa Chang is a Director. He also serves as a Vice President. Mr. Chang graduated from National Taipei Institute of Technology.

Mr. Yuan-Shan Liu is a Director. He also serves as a Vice President. Mr. Liu holds a bachelor's degree from National Taiwan University.

Ms. Amy Chen is a Director. She is also the manager of Hong Tung Co., Limited. Ms. Chen graduated from Ming Chuan University.

Mr. Ming-Jen Tsou is a Director. He also serves as a Vice President. Mr. Tsou graduated from National Taipei Institute of Technology.

Mr. Song-Yue Hsieh is a Director. He also serves as a Vice President. Mr. Hsieh graduated from Ming Chi Institute of Technology.

Ms. Reuy Wang is a Supervisor. She is also the Senior Vice President of the Formosa Group. Ms. Wang holds a master's degree from National Taiwan University.

Mr. Pen-Yuan Chang is a Supervisor. He is also the Financial Vice President of Formosa Group. Mr. Chang holds a bachelor's degree from National Cheng Chi University.

Mr. Chen-Ching Fu is a Supervisor. He is also the Senior Vice President of Formosa Group. Mr. Fu holds a bachelor's degree from National Chung Hsing University.

Executive Officers

The executive officers of Nan Ya Plastics are appointed by the Board of Directors. The following table sets forth certain information relating to the executive officers as of March 23, 2004.

Name	Position	Age	Number of Shares Held Directly	Number of Shares Held Through Spouse and Minor Children	Percentage of Total Shares Issued and Outstanding(1)
Chin-Jen Wu	President	70	55,995	—	*
Chen-Ling Lin.	Executive Vice President	68	878,841	—	*
Chia-Chau Wu	Executive Vice President	60	65,645	46,465	*
Tai-Shiung Lin	Senior Vice President	67	163,073	—	*
Zo-Chun Jen	Senior Vice President	65	251,988	139,420	*
Fong-Chin Lin	Senior Vice President	56	21,148	10,305	*
Mao-Lin Tsai	Director of the President's Office	65	87,894	—	*
Mao-Hsiang Lin	Vice President	55	1,492	43	*
Ruey-Tong Hwang . . .	Vice President	62	191,104	—	*
Yuan-Shan Liu	Vice President	56	43,729	17,190	*
Kuei-Yung Wang	Vice President	57	31,971	37,746	*
Ming-Jen Tsou	Vice President	54	156,772	2,020	*
Wen-Yi Tseng	Vice President	59	31,925	—	*
Shin-Fa Chang	Vice President	58	306,294	137,310	*
Song-Yue Hsieh	Vice President	55	45,849	—	*

Note:

* Less than 1 per cent.

(1) Calculated by dividing the number of Shares held by such person and such person's spouse and minor children as indicated above, by the number of total issued and outstanding shares in each case as of March 23, 2004.

The business address of each executive officer is the registered office of Nan Ya Plastics.

Set forth below is a short biography of each of the executive officers:

Mr. Zo-Chun Jen has served as a Senior Vice President since January 1,1998. He graduated from Tatung Institute of Technology.

Mr. Mao-Lin Tsai has served as the Director of the President's Office since February 23, 2001. He graduated from Commercial High School.

Mr. Mao-Hsiang Lin has served as a Vice President since January 19, 2004. He graduated from Chung Yuan Christian University.

Mr. Ruey-Tong Hwang has served as a Vice President since October 28, 2003. He graduated from Tatung Industrial Vocational School.

Mr. Kuei-Yung Wang has served as a Vice President since July 26,1993. He graduated from the University of London.

Mr. Wen-Yi Tseng has served as a Vice President since January 1,1998. He graduated from National Cheng Kung University.

For a short biography of the other executive officers, see "— Directors and Supervisors".

Compensation of Directors, Supervisors and Executive Officers

The aggregate remuneration paid to the executive officers in 2003 was NT$65.8 million. In June 2003, shareholders of Nan Ya Plastics approved the proposed payment of employee share bonuses of NT$26.6 million and payment of remuneration of NT$26.6 million to its Directors and Supervisors in 2003. Such bonuses have been paid. Nan Ya Plastics does not have a stock option plan.

Interests of Management in Certain Transactions

Certain of the Directors, Supervisors and executive officers of Nan Ya Plastics also serve as directors, supervisors or executive officers of companies with which Nan Ya Plastics does business. These companies include the affiliates of Nan Ya Plastics. See "— Principal Shareholders of Nan Ya Plastics", "Related Party Transactions", Note 17 to Nan Ya Plastics' Audited Consolidated Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 and Note 17 to Nan Ya Plastics' Unaudited Non-consolidated Financial Statements as at and for the three months ended March 31, 2003 and 2004 included elsewhere in this Offering Circular. Nan Ya Plastics conducts these transactions on an arms' length commercial basis. There are no outstanding loans or loan guarantees granted by Nan Ya Plastics to any Director, Supervisor or executive officer of Nan Ya Plastics.

PRINCIPAL SHAREHOLDERS OF NAN YA PLASTICS CORPORATION

The following table sets forth certain information as of March 23, 2004 with respect to shares owned by each person who, according to the records of Nan Ya Plastics, beneficially owned 1 per cent. or more of the shares of Nan Ya Plastics and by all Directors, Supervisors and executive officers as a group. Beneficial ownership includes ownership by such person's spouse and minor children.

Name of Shareholder	Number of Shares	Percentage of Total Issued and Outstanding Shares
Yeong-Tsai Wang	377,090,711	5.7
Yeong-Ching Wang	369,765,055	5.6
Formosa Plastics Corporation	338,734,185	5.1
Formosa Chemicals & Fibre Corporation	305,990,213	4.7
Chang Gung Memorial Hospital	294,591,503	4.5
Chang Gung University	255,623,789	3.9
Vanson International Investment Corp.	187,889,361	2.9
Chindwell International Investment Corp..	151,040,823	2.3
Chunghwa Post Co., Ltd..	125,739,006	1.9
Bureau of Labor Insurance	101,880,674	1.6
Directors, Supervisors and executive officers as a group(1)	757,671,507	11.5

Note:

(1) Includes shares held by Directors and Supervisors serving in their individual capacities and executive officers through their respective spouses and minor children. Excludes shares held by legal entities for which Directors and Supervisors were acting as representatives.

Apart as set out above, no shareholder owned one per cent. or more of Nan Ya Plastics' outstanding shares.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF FORMOSA CHEMICALS & FIBRE CORPORATION

The following discussion should be read in conjunction with "Summary — Summary Financial Information — Formosa Chemicals & Fibre" and each of Formosa Chemicals & Fibre's Audited Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 and Unaudited Financial Statements as at and for the three months ended March 31, 2003 and 2004 and the notes thereto, included elsewhere in this Offering Circular.

Overview

Formosa Chemicals & Fibre is one of Taiwan's leading manufacturers of petrochemical, plastics, fiber and textile products. Its major businesses include the development, manufacture and sale of petrochemical products (including pure terephthalic acid ("PTA"), phenol, ortho-xylene ("OX"), styrene monomer ("SM"), acetone, raffinate, dimethyl formamide ("DMF"), para-xylene ("PX") and toluene), plastics products (including acrylonitrile butadiene styrene co-polymer ("ABS"), polystyrene ("PS"), polypropylene ("PP") and polycarbonate ("PC")), fiber products (including rayon staple fiber and nylon filament) and textile products (including spun yarn, rayon fabric and nylon tafetta). For the year ended December 31, 2003, sales of petrochemical, plastics, fiber and textile products accounted for 45.2 per cent., 26.6 per cent., 17.4 per cent. and 4.2 per cent., respectively, of Formosa Chemicals & Fibre's total operating revenues. For the three months ended March 31, 2004, sales of petrochemical, plastics, fiber and textile products accounted for 47.4 per cent., 26.9 per cent., 16.9 per cent. and 4.0 per cent., respectively, of Formosa Chemicals & Fibre's total operating revenues.

Formosa Chemicals & Fibre is a principal supplier of the raw materials used by its affiliates in the Formosa Group to produce downstream petrochemical and plastics products. During 2003, sales to affiliated companies in the Formosa Group (primarily Nan Ya Plastics and Formosa Taffeta), comprised 30.6 per cent. of Formosa Chemicals & Fibre's total operating revenues. Outside the Formosa Group, Formosa Chemicals & Fibre's products are sold principally to secondary and tertiary producers that operate in Taiwan, the PRC, Indonesia, Hong Kong, the United States, Pakistan, Japan and several European countries. Sales outside Taiwan comprised 40.3 per cent. and 36.6 per cent. of total operating revenues in the year ended December 31, 2003 and the three months ended March 31, 2004, respectively.

Formosa Chemicals & Fibre also operates in-house power generating units which supply water, electricity and steam to its production facilities for use in its manufacturing processes. It sells, electricity generated from internal sources not required by its own operations to its affiliates and to Taiwan Power Company. Sales of electricity constituted 5.4 per cent. and 4.4 per cent. of Formosa Chemicals & Fibre's total operating revenues in the year ended December 31, 2003 and the three months ended March 31, 2004, respectively.

Formosa Chemicals & Fibre's operating revenues were NT$106,421.4 million (U.S.$3,131.0 million) in 2003, compared to NT$86,873.0 million in 2002 and NT$67,536.8 million in 2001. Net operating income was NT$13,523.0 million (U.S.$397.7 million) in 2003, compared to NT$8,849.8 million in 2002 and NT$3,828.5 million in 2001. Operating revenues were NT$30,245.7 million (U.S.$916.5 million) in the three months ended March 31, 2004, compared to NT$25,968.0 million in the corresponding period in 2003. Operating income was NT$5,435.1 million (U.S.$164.7 million) in the three months ended March 31, 2004, compared to NT$3,427.3 million in the corresponding period in 2003.

Due to the integrated nature of the Formosa Group, a substantial portion of Formosa Chemicals & Fibre's net sales are derived from, and net purchases are made to, other companies in the Formosa Group. Sales to Formosa Petrochemical, Formosa Plastics and Nan Ya Plastics accounted for 3.7 per cent., 1.3 per cent., 20.4 per cent., respectively, of Formosa Chemicals &

Fibre's net sales for the three months ended March 31, 2004. For the same period, purchases by Formosa Chemicals & Fibre from Formosa Petrochemical, Formosa Plastics and Nan Ya Plastics were 39.5 per cent., 3.5 per cent. and 2.2 per cent., respectively of Formosa Chemicals & Fibre's net purchases.

The petrochemical cycle

The petrochemical industry is capital intensive and margins in the industry have historically been cyclical. Margins are sensitive to supply and demand imbalances both domestically and internationally. Demand for Formosa Chemicals & Fibre's products is generally linked to the level of economic activity, and weak economic conditions tend to reduce demand. Supply is affected by significant capacity additions, and if such additions are not matched by corresponding growth in demand, average industry operating margins will face downward pressures. As a result, the petrochemical cycle is characterized by periods of tight supply, leading to high operating rates and margins, followed by periods of oversupply, primarily resulting from significant capacity additions, leading to reduced operating rates and margins. It is not possible to predict accurately the supply and demand balances, market conditions and other factors that may affect industry operating rates and margins in the future. See "Appendix D — The Petrochemical Industry — Petrochemical Cycle".

Operating revenues

Formosa Chemicals & Fibre's operating revenues consist primarily of net sales from the sale of its petrochemical products (including PTA, OX and phenol), plastics products (including ABS, PS and PP), fiber products (including nylon and rayon), textile products (including spun yarn, rayon fabric and nylon fabric) and utilities. Prices of most of these products, except utilities, are based on or influenced by regional and global market prices, which tend to be cyclical and are subject to significant fluctuations.

Petrochemical products revenues

Petrochemical products (principally PTA) have constituted Formosa Chemicals & Fibre's largest contributor to revenues since 2000. Revenues from the sale of petrochemical products constituted 39.8 per cent., 43.7 per cent., 45.2 per cent., 49.2 per cent. and 47.4 per cent. of Formosa Chemicals & Fibre's net operating revenues in the years ended December 31, 2001, 2002 and 2003, and the three months ended March 31, 2003 and 2004, respectively. The following tables set forth sales volumes of Formosa Chemicals & Fibre's key petrochemical products, revenues generated by sales of such products and the percentage of total petrochemical products revenues represented by each product for the periods indicated.

	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
PTA	901,661	13,960.3	52.0	1,260,969	21,065.1	55.4	1,403,723	26,316.1	774.1	54.7
Phenol	178,134	2,877.3	10.7	232,822	4,092.0	10.8	220,086	5,163.3	151.9	10.7
OX	169,309	2,244.6	8.4	217,270	3,127.4	8.2	286,341	5,072.2	149.2	10.5
SM	159,333	2,616.3	9.7	188,216	3,861.0	10.2	149,586	3,527.0	103.8	7.3
Acetone	111,279	1,244.8	4.6	134,838	2,021.5	5.3	142,012	2,786.2	82.0	5.8
Raffinate	253,253	2,013.6	7.5	249,452	1,940.2	5.1	275,908	2,657.1	78.2	5.5
Others[1]	—	1,898.5	7.1	—	1,886.0	5.0	—	2,589.5	76.3	5.4
Total	—	26,855.4	100.0	—	37,993.2	100.0	—	48,111.4	1,415.5	100.0

	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
PTA	369,866	7,547.8	59.1	388,558	8,274.7	250.7	57.7
Phenol	61,996	1,463.8	11.5	47,155	1,118.1	33.9	7.8
OX	64,345	1,239.4	9.7	74,298	1,562.7	47.4	10.9
SM	24,344	651.3	5.1	23,564	660.0	20.0	4.6
Acetone	33,680	688.0	5.4	33,401	681.7	20.6	4.8
Raffinate	56,718	626.1	4.9	66,477	754.6	22.9	5.3
Others[(1)]	—	555.2	4.3	—	1,281.7	38.8	8.9
Total	—	12,771.6	100.0	—	14,333.5	434.3	100.0

Note:

(1) "Others" includes DMF, PX and toluene.

The majority of Formosa Chemicals & Fibre's sales of petrochemical products are to affiliated companies within the Formosa Group. In 2003, sales to Nan Ya Plastics made up 35.9 per cent. of Formosa Chemicals & Fibre's total petrochemical sales by value. Formosa Chemicals & Fibre also consumes large quantities of petrochemicals produced internally for the production of more downstream petrochemical products and plastics products.

Plastics products revenues

Revenues from the sale of plastics products constituted 22.1 per cent., 23.1 per cent., 26.6 per cent., 22.4 per cent. and 26.8 per cent. of Formosa Chemicals & Fibre's net operating revenues in the years ended December 31, 2001, 2002 and 2003, and the three months ended March 31, 2003 and 2004, respectively. The following tables set forth sales volumes of Formosa Chemical & Fibre's key plastics products, revenues generated by sales of such products and the percentage of total plastics products revenues represented by each product for the periods indicated.

	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ million	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
ABS and SAN	243,160	7,125.8	47.7	278,363	8,186.9	40.6	328,961	10,846.9	318.6	38.2
PS	210,932	4,429.9	29.8	251,736	5,895.0	29.7	259,223	7,218.9	212.4	25.5
PP	178,045	3,271.4	22.0	243,013	5,072.0	25.2	249,528	6,167.0	181.4	21.8
PC	—	—	—	16,364	833.7	4.1	73,030	4,019.7	118.3	14.2
Others	—	62.2	0.5	—	156.3	0.4	—	63.8	2.4	0.3
Total	—	14,889.3	100.0	—	20,143.9	100.0	—	28,316.3	833.1	100.0

	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
ABS and SAN	73,261	2,553.0	43.8	89,901	3,184.7	96.5	39.1
PS	57,974	1,790.7	30.7	63,874	2,059.8	62.4	25.4
PP	48,753	1,299.4	22.3	70,005	1,986.9	60.2	24.5
PC	2,092	163.9	2.8	16,079	873.3	26.5	10.8
Others	—	18.1	0.4	—	17.3	0.5	0.2
Total	—	5,825.1	100.0	—	8,121.9	246.1	100.0

Fiber products revenues

Revenues from the sale of fiber products constituted 21.6 per cent., 20.1 per cent., 18.1 per cent., 19.1 per cent. and 16.9 per cent. of Formosa Chemicals & Fibre's net operating revenues in the years ended December 31, 2001, 2002 and 2003, and the three months ended March 31, 2003 and 2004, respectively. The following tables set forth sales volumes of Formosa Chemicals & Fibre's key fiber products, revenues generated by sales of such products and the percentage of total fiber products revenues represented by each product for the periods indicated.

	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Nylon filament	136,402	9,337.5	63.9	166,408	10,650.4	61.0	173,635	12,111.0	356.3	62.9
Rayon staple fiber	92,822	4,115.1	28.2	137,159	5,599.0	32.1	136,654	5,945.1	174.9	30.9
Others[(1)]	—	1,163.9	7.9	—	1,207.0	6.9	—	1,201.7	35.4	6.2
Total	—	14,616.5	100.0	—	17,456.4	100.0	—	19,257.9	566.6	100.0

	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Nylon filament	49,176	3,098.4	62.6	48,679	3,366.6	102.0	65.7
Rayon staple fiber	36,335	1,565.3	31.6	30,172	1,453.4	44.0	28.4
Others[(1)]	—	288.9	5.8	—	303.4	9.2	5.9
Total	—	4,952.7	100.0	—	5,123.4	155.2	100.0

Note:

(1) "Others" include by-products (primarily natrium sulfuricum) and detergents.

Textile products revenues

Revenues from the sale of textile products constituted 8.1 per cent., 5.8 per cent., 4.2 per cent., 4.2 per cent. and 4.0 per cent. of Formosa Chemicals & Fibre's net operating revenues in the years ended December 31, 2001, 2002 and 2003, and the three months ended March 31, 2003 and 2004, respectively. The following tables set forth sales volumes of Formosa Chemicals & Fibre's key textile products, revenues generated by sales of such products and the percentage of total textile products revenues represented by each product for the periods indicated.

	Year ended December 31,									
	2001			2002			2003			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Spun yarn	146,973 bales	1,912.3	34.7	143,664 bales	1,865.6	37.1	130,139 bales	1,783.1	52.5	39.6
Rayon fabric	76,629 KY	1,295.7	23.5	137,159 KY	1,662.6	33.0	136,654 KY	1,566.7	46.1	34.8
Nylon tafetta	120,606 KY	1,758.6	31.9	166,408 KY	1,392.5	27.6	173,635 KY	1,041.3	30.6	23.1
Others	—	544.0	9.9	—	115.7	2.3	—	112.0	3.3	2.5
Total	—	5,510.6	100.0	—	5,036.4	100.0	—	4,503.1	132.5	100.0

	Three months ended March 31,						
	2003			2004			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Spun yarn	33,927 bales	462.8	42.3	37,968 bales	558.6	16.9	46.0
Rayon fabric	15,909 KY	329.7	30.2	17,887 KY	386.3	11.7	31.8
Nylon tafetta	20,310 KY	273.6	25.0	15,583 KY	241.2	7.3	19.9
Others	—	27.4	2.5	—	28.5	0.9	2.3
Total	—	1,093.5	100.0	—	1,214.6	36.8	100.0

Prior to construction of the No. 6 Naphtha Cracker Complex in the 1990's, Formosa Chemicals & Fibre focused on production and sale of downstream fiber and textile products. As focus shifted towards aromatics and other petrochemical and plastics products, revenues obtained from the sale of textiles have decreased both absolutely and as a percentage of Formosa Chemicals & Fibre's total revenues. Formosa Chemicals & Fibre has built textile production facilities in Vietnam in order to cut labor and other production costs and move production closer to their customer base.

Utilities revenues

Revenues from the sale of utilities constituted 7.8 per cent., 6.7 per cent., 5.4 per cent., 4.7 per cent. and 4.4 per cent. of Formosa Chemicals & Fibre's net operating revenues in the years ended December 31, 2001, 2002 and 2003 and the three months ended March 31, 2003 and 2004, respectively. The following tables set forth sales volumes of electricity, revenues generated by sales of utilities products and the percentage of total utilities products revenues represented by each product for the periods indicated.

	Year ended December 31,									
	2001			2002			2003			
	Volume (mWh)	NT$ (millions)	%	Volume (mWh)	NT$ (millions)	%	Volume (mWh)	NT$ (millions)	U.S.$ (millions)	%
Electricity	2,896,728	4,864.6	92.5	3,256,439	5,366.8	91.9	3,245,838	5,281.0	155.4	91.6
Others[(1)]	—	396.4	7.5	—	470.7	8.1	—	483.0	14.2	8.4
Total	—	5,261.1	100.0	—	5,837.5	100.0	—	5,764.0	169.6	100.0

	Three months ended March 31,						
	2003			2004			
	Volume (mWh)	NT$ (millions)	%	Volume (mWh)	NT$ (millions)	U.S.$ (millions)	%
Electricity	745,536	1,113.6	91.3	773,655	1,189.5	36.0	89.3
Others[(1)]	—	105.8	8.7	—	141.9	4.3	10.7
Total	—	1,219.4	100.0	—	1,331.4	40.3	100.0

(1) "Others" include sales of steam and industrial water.

Formosa Chemicals & Fibre's utilities sales primarily relate to sales of electricity from its in-house power generating units in excess of that needed to support its own production facilities to its affiliates and to Taiwan Power Company.

Operating costs

The largest component of Formosa Chemicals & Fibre's operating costs is raw material costs, principally the costs of rayon staple fibre, liquid and powdered caprolactam, styrene monomer and para-xylene. Raw material costs accounted for 68.1 per cent. and 71.9 per cent. of Formosa Chemicals & Fibre's operating costs in the year ended December 31, 2003 and the three months ended March 31, 2004, respectively. The prices paid for these products are generally based on global commodity prices denominated in U.S. dollars, which tend to be cyclical and subject to significant volatility. Purchases from unaffiliated suppliers accounted for 27.6 per cent., 28.4 per cent., 24.5 per cent., 18.0 per cent. and 17.9 per cent. of purchases of raw materials by value in the years ended December 31, 2001, 2002 and 2003, and the three months ended March 31, 2003 and 2004, respectively. Operating costs also include certain research and development expenses relating to capacity expansions and facility upgrades, pension costs, retirement plan costs and payroll costs for factory personnel.

The following table sets forth the total cost of Formosa Chemicals & Fibre's principal raw materials and the percentage of total raw material costs they represent for the periods indicated.

	Year ended December 31,						Three months ended March 31,			
	2001		2002		2003		2003		2004	
	U.S.$ (millions)	%	U.S.$ (millions)	%	U.S.$ (millions)	%	U.S.$ (millions)	%	U.S.$ (millions)	%
Heat cut naphtha . .	155.4	13.9	188.3	15.7	295.8	17.1	78.0	20.3	86.5	17.2
Pyrolysis gasoline. .	177.4	15.9	159.0	13.2	219.7	12.7	41.8	10.9	81.5	16.2
Propylene	143.4	12.8	135.7	11.3	184.4	10.7	46.4	12.1	61.9	12.3
Caprolactum	182.6	16.4	187.4	15.6	266.1	15.4	53.7	14.0	62.5	12.4
Ethylene	70.7	6.3	74.2	6.2	99.0	5.7	21.7	5.7	31.4	6.2
Mix xylene	61.4	5.5	60.9	5.1	122.2	7.1	28.9	7.5	32.2	6.4

The following table sets forth the volumes of key raw materials produced internally and consumed by Formosa Chemicals & Fibre for the periods indicated.

	Year ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
Benzene	570,494 MT	554,498 MT	544,470 MT[1]	119,488 MT	165,078 MT
PX	587,285 MT	622,839 MT	811,167 MT[2]	194,343 MT	264,622 MT
SM	369,716 MT	309,484 MT	450,339 MT	106,819 MT	116,507 MT
Rayon staple fiber	10,524 MT	11,551 MT	12,972 MT	2,940 MT	3,243 MT

Note:

(1) In 2003, Formosa Chemicals & Fibre purchased 160,580 MT of Benzene externally in addition to the 544,470 MT it produced internally.

(2) In 2003, Formosa Chemicals & Fibre purchased 113,741 MT of PX externally on the spot market in addition to the 811,167 MT it produced internally.

Operating expenses

Operating expenses include selling, general and administrative and research and development expenses. Research and development expenses consist of expenses incurred in the development of process upgrades and product improvements. Actual expenditures in expanding factory capacity and upgrading facilities are operating costs which are allocated to each operating division.

Non-operating income

Non-operating income includes primarily interest income, investment income, gain on disposal of investments, dividend income, gain on disposal of fixed assets and certain other non-operating income such as rental income.

Non-operating expenses

Non-operating expenses consist primarily of interest expenses.

Inventory

The petrochemical, plastics, fiber and textile industries are generally characterized by prompt delivery by manufacturers and rapid product movement through the distribution and production process. Varying levels of raw material and finished product inventory are maintained, depending on lead time and shipping schedules, under supply chain management. Raw material and finished product inventory levels are kept generally between one and two months. Inventories are originally recorded at cost using the weighted average cost method, and are stated at the lower of cost or market value at any balance sheet date. See Note 2 to Formosa Chemicals & Fibre's Audited

Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 and Note 2 to Unaudited Financial Statements as at and for the three months ended March 31, 2003 and 2004, included elsewhere in this Offering Circular.

Consolidation

Under ROC GAAP, Formosa Chemicals & Fibre is required to consolidate the financial statements of a subsidiary if the total assets or net operating revenues of such subsidiary exceeds 10 per cent. of Formosa Chemicals & Fibre's non-consolidated total assets or net operating revenues, as the case may be. In addition, under rules promulgated by the ROC Securities and Futures Commission, if the total assets or net operating revenues of all of Formosa Chemicals & Fibre's non-consolidated subsidiaries exceed 30 per cent. of Formosa Chemicals & Fibre's non-consolidated total assets or net operating revenues, as the case may be, Formosa Chemicals & Fibre is required to consolidate the financial statements of all non-consolidated subsidiaries whose assets or net operating revenues exceed 3 per cent. of its non-consolidated total assets or net operating revenues, as the case may be.

The investees, Formosa Chemicals & Fibre Corp., America, FCFC Investment Corp. (Cayman), Tah Shin Spinning Corp., Formosa Idemitsu Petrochemical Corp., Formosa BP Chemicals Corp. and Formosa Biomedical Technology Corp. are treated as subsidiaries because Formosa Chemicals & Fibre owns more than 50 per cent. of their voting stock. As a result, they should be included in the consolidated financial statements. However, since both the total assets and operating revenues of each subsidiary are below 10 per cent. of Formosa Chemicals & Fibre's respective account balances, and the total assets and operating revenues of all above subsidiaries are not more than 30 per cent. of Formosa Chemicals & Fibre's respective account balances, consolidated financial statements are not required.

Critical Accounting Policies

Accounting estimates are an integral part of the financial statements prepared by Formosa Chemicals & Fibre's management and are based upon management's judgment. See Note 2, "Significant Accounting Policies", to Formosa Chemicals & Fibre's Audited Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 included elsewhere in this Offering Circular which includes a summary of the principal accounting policies used in the preparation of such financial statements. Critical accounting policies are those that are both most important to the portrayal and understanding of Formosa Chemicals & Fibre's financial conditions and results of operations and those that require management's most difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. Formosa Chemicals & Fibre's management believes the following accounting policies are critical to the portrayal and understanding of its financial condition and results of operations and/or involve the most significant judgments and estimates used in the preparation of its financial statements.

Formosa Chemicals & Fibre believes the following critical accounting policies are affected by management's estimates and assumptions, changes to which could have a significant impact on its consolidated financial statements.

Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation. Major renewals, improvements and additions are treated as capital expenditures. Interest expense on the acquisition of assets is capitalized and classified under appropriate categories of property and equipment. Gains (losses) on the disposal of property and equipment are recorded as non-operating income (expense).

Depreciation of property, plant and equipment, is calculated by using the fixed percentage decline method and straight-line method basis over estimated useful lives of the assets.

Net deferred tax assets

Under ROC GAAP, Formosa Chemicals & Fibre's income tax expense is recorded based on calculations using the statutory tax rate of its jurisdiction of incorporation. As of March 31, 2004, Formosa Chemicals & Fibre's deferred tax assets related principally to income tax credits that expire between 2005 and 2006. The realization of these assets is based upon estimates of future taxable income. In preparing estimates of future taxable income, Formosa Chemicals & Fibre has used the same assumptions and projections utilized in its internal forecasts. Based on these projections, Formosa Chemicals & Fibre estimates that a portion, but not all, of these tax credits will be fully utilized prior to their expiration. Formosa Chemicals & Fibre expects to achieve future earnings through the expansion of its businesses. However, Formosa Chemicals & Fibre may not be able to generate sufficient additional income to fully utilize its deferred tax assets. An additional valuation allowance may be required to the extent Formosa Chemicals & Fibre is not able to fully utilize its deferred tax assets. As of March 31, 2004, Formosa Chemicals & Fibre had net deferred tax assets of NT$2,777.2 million (U.S.$84.1 million).

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by using the monthly weighted average method. Market value represents replacement cost or net realizable value.

Results of Operations

The following table sets forth certain income statement data as a percentage of Formosa Chemicals & Fibre's total operating revenues for the periods shown.

	Year ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
	%	%	%	%	%
Operating revenues	100.0	100.0	100.0	100.0	100.0
Operating costs	86.6	83.7	82.1	81.9	77.5
Gross profit from operations	13.4	16.3	17.9	18.1	22.5
Operating expenses:					
Selling	3.6	3.1	2.5	2.5	2.1
General and administrative	3.5	2.5	2.3	2.0	2.1
Research and development	0.6	0.5	0.4	0.4	0.3
Total operating expenses	7.7	6.1	5.2	4.9	4.5
Operating income	5.7	10.2	12.7	13.2	18.0
Non-operating income	6.6	7.4	8.9	4.9	9.6
Non-operating expenses	5.5	3.2	2.2	2.1	1.5
Income before income tax	6.8	14.4	19.4	15.9	26.1
Income tax expense	0.0	1.8	2.8	2.9	1.6
Net income	6.8	12.6	16.6	13.0	24.5

The following table sets forth the operating revenues of each of Formosa Chemicals & Fibre's businesses for the periods shown.

	Year ended December 31,							Three months ended March 31,				
	2001		2002		2003			2003		2004		
	NT$ (millions)	%	NT$ (millions)	%	NT$ (millions)	U.S.$ (millions)	%	NT$ (millions)	%	NT$ (millions)	U.S.$ (millions)	%
Petrochemicals	26,855.4	39.8	37,993.2	43.7	48,111.4	1,415.4	45.2	12,771.6	49.2	14,333.5	434.3	47.4
Plastics	14,889.3	22.1	20,143.9	23.2	28,316.3	833.1	26.6	5,825.1	22.4	8,121.9	246.1	26.9
Fibers	14,616.5	21.6	17,456.4	20.1	19,257.9	566.6	18.1	4,952.7	19.1	5,123.4	155.3	16.9
Textiles	5,510.6	8.2	5,036.4	5.8	4,503.1	132.5	4.2	1,093.5	4.2	1,214.6	36.8	4.0
Engineering & Utilities	5,261.1	7.8	5,837.5	6.7	5,764.0	169.6	5.4	1,219.4	4.7	1,331.4	40.3	4.4
Others[(1)]	403.9	0.5	405.6	0.5	468.7	13.8	0.5	105.7	0.4	120.9	3.7	0.4
Total	67,536.8	100.0	86,873.0	100.0	106,421.4	3,131.0	100.0	25,968.0	100.0	30,245.7	916.5	100.0

Note:

(1) "Others" primarily consists of sales of carpets.

Three months ended March 31, 2004 compared to three months ended March 31, 2003

Operating revenues

Formosa Chemicals & Fibre's net operating revenues increased 16.5 per cent. to NT$30,245.7 million (U.S.$916.5 million) in the three months ended March 31, 2004 from NT$25,968.0 million in the corresponding period in 2003, primarily as a result of increases in sales of petrochemical and plastics products.

Operating revenues from the sale of petrochemical products increased 12.2 per cent. to NT$14,333.5 million (U.S.$434.3 million) in the three months ended March 31, 2004 from NT$12,771.6 million in the corresponding period in 2003 due to increased sales of PTA, OX and PX partially offset by decreased sales of phenol. PTA sales increased due to an increase in average sales price and sales volumes. PX sales increased due to the temporary shutdown of one of Formosa Chemicals & Fibre's PTA production facilities in that quarter and thus more PX being available for external sale in the three months ended March 31, 2004. Domestic sales of petrochemical products increased 29.7 per cent. in the three months ended March 31, 2004 as compared to the corresponding period in 2003 while export sales of petrochemical products in this period decreased 16.4 per cent. Reasons for the divergence in domestic and export sales included a shutdown of phenol facilities for maintenance in the three months ended March 31, 2004 resulting in lower exports of phenol in this period, and recovery in the domestic market which had begun to be affected by SARS in March 2003.

Operating revenues from the sale of plastics products increased 39.4 per cent. to NT$8,121.9 million (U.S.$246.1 million) in the three months ended March 31, 2004 from NT$5,825.1 million in the corresponding period in 2003 due primarily to increased sales of PC, PP, ABS and PS both in Taiwan and abroad. In particular, PC sales increased 432.8 per cent. to NT$873.3 million (U.S.$26.5 million) in the three months ended March 31, 2004 from NT$163.9 million in the corresponding period in 2003, primarily due to a shortage of relevant raw materials in the three months ended March 31, 2003.

Operating costs and gross profit from operations

Operating costs increased 10.2 per cent. to NT$23,427.5 million (U.S.$709.9 million) in the three months ended March 31, 2004 from NT$21,259.5 million in the corresponding period in 2003, primarily as a result of increased purchases of raw materials. Such increase was attributable to the completion of new production facilities after the first quarter of 2003 and a general increase in most raw materials prices. In particular, a shortage of coal supply in the PRC began to increase the average sales price for coal in the three months ended March 31, 2004. Operating costs as a percentage of operating revenues, however, decreased to 77.5 per cent. in the three months ended March 31, 2004 from 81.9 per cent. in the corresponding period in 2003, primarily as a result of higher manufacturing efficiency realized through increased production.

Gross profit from operations increased 44.8 per cent. to NT$6,818.1 million (U.S.$206.6 million) in the three months ended March 31, 2004 from NT$4,708.5 million in the corresponding period in 2003, primarily as a result of increased sales from petrochemical and plastics products. Gross margins increased to 22.5 per cent. in the three months ended March 31, 2004 from 18.1 per cent. in the corresponding period in 2003.

Operating expenses

Operating expenses increased 7.9 per cent. to NT$1,383.0 million (U.S.$41.9 million) in the three months ended March 31, 2004 from NT$1,281.2 million in the corresponding period in 2003, primarily as a result of an increase in general and administrative expenses partially offset by decreases in selling expenses and research and development expenses. General and administrative expenses increased 26.8 per cent. to NT$647.3 million (U.S.$19.6 million) in the three months ended March 31, 2004 from NT$510.7 million in the corresponding period in 2003, primarily as a result of travel expenses and pay increases due to expanding management presence in the PRC and Vietnam. Research and development expenses decreased 21.8 per cent. to NT$88.1 million (U.S.$2.7 million) in the three months ended March 31, 2004 from NT$112.7 million in the corresponding period in 2003 due to a decrease in salary expenses due to the retirement of research and development staff. Selling expenses decreased 1.5 per cent. to NT$647.7 million (U.S.$19.6 million) in the three months ended March 31, 2004 from NT$657.8 million in the corresponding period in 2003 due to decreased rental expenses for inventory storage.

Operating income

As a result of the foregoing factors, operating income increased 58.6 per cent. to NT$5,435.1 million (U.S.$164.7 million) in the three months ended March 31, 2004 from NT$3,427.3 million in the corresponding period in 2003 and operating margin increased to 18.0 per cent. in the three months ended March 31, 2004 from 13.2 per cent. in the corresponding period in 2003.

Non-operating income

Non-operating income increased 128.9 per cent. to NT$2,916.0 million (U.S.$88.4 million) in the three months ended March 31, 2004 from NT$1,273.7 million in the corresponding period in 2003, primarily due to increases in investment income. Investment income increased 137.0 per cent. to NT$2,623.1 million (U.S.$79.5 million) in the three months ended March 31, 2004 from NT$1,106.6 million in the corresponding period of 2003, primarily due to the increased profitability of Formosa Petrochemical.

Non-operating expenses

Non-operating expenses decreased 21.4 per cent. to NT$442.7 million (U.S.$13.4 million) in the three months ended March 31, 2004 from NT$563.2 million in the corresponding period in 2003, primarily as a result of a decrease in interest expense. Interest expense decreased 22.0 per cent. to NT$428.4 million (U.S.$13.0 million) in the three months ended March 31, 2004 from NT$549.5 million in the corresponding period in 2003, primarily as a result of lower interest rates and Formosa Chemicals & Fibre paying down its interest bearing debt.

Income before income tax

Income before income tax increased 91.1 per cent. to NT$7,908.4 million (U.S.$239.6 million) in the three months ended March 31, 2004 from NT$4,137.8 million in the corresponding period in 2003, primarily reflecting the foregoing.

Income tax expense

Income tax expense decreased 34.5 per cent. to NT$493.9 million (U.S.$15.0 million) in the three months ended March 31, 2004 from NT$753.7 million in the corresponding period in 2003. The decrease in increase tax expense and effective tax rate in the three months ended March 31, 2004 as compared to the corresponding period in 2003 was due primarily to a reversal in provision for valuation allowance for deferred income tax assets and an increase in tax exempted investment income partially offset by an increase in taxable income.

Net income

As a result of the factors discussed above, net income increased 119.1 per cent. to NT$7,414.5 million (U.S.$224.7 million) in the three months ended March 31, 2004 from NT$3,384.1 million in the corresponding period in 2003. Formosa Chemicals & Fibre recorded primary earnings per share after taxes of NT$1.64 (U.S.$0.05) in the three months ended March 31, 2004, compared to NT$0.75 in the corresponding period in 2003.

Year ended December 31, 2003 compared to year ended December 31, 2002

Operating revenues

Operating revenues increased 22.5 per cent. to NT$106,421.4 million (U.S.$3,131.0 million) in 2003 from NT$86,873.0 million in 2002, primarily as a result of increased sales of petrochemical, plastics and fiber products partially offset by decreased sales of textile products.

Operating revenues from petrochemical product sales increased 26.6 per cent. to NT$48,111.4 million (U.S.$1,415.5 million) in 2003 from NT$37,993.2 million in 2002 primarily due to increased sales volumes of PTA and OX in 2003. Domestic sales of petrochemical products increased 35.5 per cent. in 2003 over 2002. Export sales also increased 13.9 per cent. to NT$14,837.6 million (U.S.$436.5 million) in 2003 from NT$13,025.3 million in 2002.

Operating revenues from plastics product sales increased 40.6 per cent. to NT$28,316.3 million (U.S.$833.1 million) in 2003 from NT$20,143.9 million in 2002. This increase was due to increased sales of PC, ABS, PS and PP due almost entirely to increased exports into the PRC. Export sales of plastics products to the PRC increased 33.6 per cent. to NT$14,432.0 million (U.S.$424.5 million) in 2003 from NT$10,805.6 million in 2002 and sales to the PRC representing 51.0 per cent. of total plastics sales in 2003 compared with 53.6 per cent. in 2002.

Operating revenues from fiber product sales increased 10.3 per cent. to NT$19,257.9 million (U.S.$566.6 million) in 2003 from NT$17,456.4 million in 2002 due to increased nylon sales volumes. These increases were partially offset by a decrease in sales of textile products. Textile product sales decreased 10.6 per cent. to NT$4,503.1 million (U.S.$132.5 million) in 2003 from NT$5,036.4 million in 2002 primarily due to increased competition from textile producers in Southeast Asia where production costs are lower. In order to increase its ability to compete with such producers, Formosa Chemicals & Fibre has built production facilities in Vietnam and plans to expand such facilities in the future.

Operating costs and gross profit from operations

Operating costs increased 20.1 per cent. to NT$87,396.9 million (U.S.$2,571.3 million) in 2003 from NT$72,748.1 million in 2002. This increase was a result of increased production volume which in turn increased the amount of raw materials purchased. Operating costs as a percentage of operating revenues decreased to 82.1 per cent. in 2003 from 83.7 per cent. in 2002, primarily as a result of increased economies of scale, higher utilization levels and the scaling down of production in Formosa Chemicals & Fibre's fiber and textile facilities.

Primarily as a result of the foregoing factors, gross profit from operations increased 110.1 per cent. to NT$19,024.5 million (U.S.$559.7 million) in 2003 from NT$9,054.6 million in 2002 and gross margins increased to 17.9 per cent. in 2003 from 16.3 per cent. in 2002.

Operating expenses

Operating expenses increased 4.3 per cent. to NT$5,501.5 million (U.S.$162.0 million) in 2003 from NT$5,275.1 million in 2002, primarily due to an 8.6 per cent. increase in general and administrative expenses to NT$2,387.8 million (U.S.$70.2 million) in 2003 from NT$2,198.8 million in 2002 as well as a 2.2 per cent. increase in selling expenses to NT$2,713.6 million (U.S.$80.0 million) in 2003 from NT$2,654.2 million in 2002, partially offset by a 5.2 per cent. decrease in research and development expenses to NT$400.1 million (U.S.$11.8 million) in 2003 from NT$422.1 million in 2002.

Operating income

As a result of the foregoing factors, operating income increased 52.8 per cent. to NT$13,523.0 million (U.S.$397.7 million) in 2003, compared with an operating income of NT$8,849.8 million in 2002 and operating margin increased to 12.7 per cent. in 2003 from 10.2 per cent. in 2002.

Non-operating income

Non-operating income increased 45.9 per cent. to NT$9,447.8 million (U.S.$278.0 million) in 2003 from NT$6,475.4 million in 2002, due to increases in investment income, gains on the disposal of investments and dividend income. Investment income increased 50.1 per cent. to NT$6,671.4 million (U.S.$196.3 million) in 2003 from NT$4,444.0 million in 2002, primarily as a result of the increased profitability of Formosa Petrochemical. Gains on disposal of investments increased 61.7 per cent. to NT$1,100.0 million (U.S.$32.4 million) in 2003 from NT$680.3 million in 2002 due primarily to the sale of shares of Formosa Petrochemical in connection with that company's 2003 initial public offering in Taiwan. Dividend income increased 54.6 per cent. to NT$692.9 million (U.S.$20.4 million) in 2003 from NT$448.3 million in 2002.

Non-operating expenses

Non-operating expenses decreased 17.4 per cent. to NT$2,323.1 million (U.S.$68.3 million) in 2003 from NT$2,813.8 million in 2002, primarily as a result of decreased interest expenses. Interest expenses decreased 18.7 per cent. to NT$2,248.0 million (U.S.$66.1 million) in 2003 from NT$2,766.6 million in 2002, primarily as a result of a decrease in interest rates and in interest-bearing debt over the course of 2002 and 2003.

Income before income tax

Income before income tax of increased 65.0 per cent. to NT$20,647.7 million (U.S.$607.4 million) in 2003 from NT$12,511.4 million in 2002, primarily reflecting the foregoing.

Income tax expense

Income tax expenses increased 91.8 per cent. to NT$2,951.2 million (U.S.$86.8 million) in 2003 (an effective rate of 14.3 per cent.) from NT$1,538.6 million in 2002 (an effective tax rate of 12.3 per cent.) due primarily to an increase in income before tax in 2003 partially offset by increased tax exempted income in 2003 as compared with 2002.

Net income

As a result of the factors discussed above, net income increased 61.3 per cent. to NT$17,696.5 million (U.S.$520.6 million) in 2003 from NT$10,972.8 million in 2002. Formosa Chemicals & Fibre recorded basic earnings per share after income taxes of NT$3.92 (U.S.$0.12) in 2003, compared to NT$2.43 in 2002.

Year ended December 31, 2002 compared to year ended December 31, 2001

Operating revenues

Operating revenues increased 28.6 per cent. to NT$86,873.0 million in 2002 from NT$67,536.8 million in 2001, primarily as a result of increased petrochemical, plastic and fiber products sales.

Operating revenues from petrochemical product sales increased 41.5 per cent. to NT$37,993.2 million in 2002 from NT$26,855.4 million in 2001 due to increased sales prices and volumes of PTA, SM, phenol and OX. Sales of petrochemical products to the PRC increased 106.4 per cent. to NT$12,979.8 million (34.2 per cent. of total petrochemical sales) in 2002 from NT$6,288.9 million (23.4 per cent. of total petrochemical sales) due to strong demand in the PRC.

Operating revenues from plastics product sales increased 35.3 per cent. to NT$20,143.9 million in 2002 to NT$14,889.3 million in 2001 due primarily to increased sales prices of PP, ABS and PS and increased sales volumes due, in part, to completed debottlenecking projects. Domestic demand was strong and domestic sales increased 57.7 per cent. to NT$7,230.4 million in 2002 from NT$4,585.5 million in 2001. Export sales also increased 25.3 per cent. to NT$12,913.6 million in 2002 from NT$10,303.8 million in 2001

Operating revenues from fiber product sales increased 19.4 per cent. to NT$17,456.4 million in 2002 from NT$14,616.5 million in 2001. This increase was due primarily due to increased sales volumes of rayon and nylon products in 2002.

Operating costs and gross profit from operations

Operating costs increased 24.4 per cent. to NT$72,748.1 million in 2002 from NT$58,482.2 million in 2001.This increase was primarily due to increased raw materials purchases in 2002 needed to support increased production volumes. However, operating costs as a percentage of operating revenues decreased to 83.7 per cent. in 2002 from 86.6 per cent. in 2001, primarily as a result of increased economies of scale, as well as the scaling down of production in Formosa Chemicals & Fibre's fiber and textile facilities.

Primarily as a result of the foregoing factors, gross profit increased 56.0 per cent. to NT$14,124.9 million in 2002 from NT$9,054.5 million in 2001, and gross margin increased to 16.3 per cent in 2002 from 13.4 per cent. in 2001.

Operating expenses

Operating expenses remained relatively stable increasing 0.9 per cent. to NT$5,275.1 million 2002 from NT$5,226.1 million in 2001.

Operating income

As a result of the foregoing factors, operating income increased 131.1 per cent. to NT$8,849.8 million in 2002 from NT$3,828.5 million in 2001 and operating margin increased to 10.2 per cent. in 2002 from 5.7 per cent. in 2001.

Non-operating income

Non-operating income increased 45.0 per cent. to NT$6,475.4 million in 2002 from NT$4,465.3 million in 2001, due to a 88.2 per cent. increase in investment income to NT$4,444.0 million in 2002 from NT$2,361.1 million in 2001 and a NT$680.3 million gain on the disposal of investments and NT$448.3 million in dividend income. This was partially offset by a decrease in other non-operating income of 53.3 per cent. to NT$315.8 million in 2002 from NT$676.6 million in 2001. The increase in investment income was due to improvements in the business of Formosa Petrochemical. The gain on disposal of investments was due to the disposal of investments in Nanya Technology.

Non-operating expenses

Non-operating expenses decreased 23.6 per cent. to NT$2,813.8 million in 2002 from NT$3,684.2 million in 2001, primarily as a result of no foreign exchange loss in 2002 as compared to a foreign exchange loss of NT$597.8 million in 2001 due to the depreciation of the NT dollar against the U.S. dollar and an 8.9 per cent. decrease in interest expenses to NT$2,766.6 million in 2002 from NT$3,035.7 million in 2001, primarily as a result of a decrease in interest bearing indebtedness in 2002.

Income before income tax

Income before income tax increased 171.4 per cent. to NT$12,511.4 million in 2002 from NT$4,609.6 million in 2002, primarily reflecting the foregoing.

Income tax expense

Formosa Chemicals & Fibre recorded an income tax expense of NT$1,538.6 million (an effective rate of 12.3 per cent.) compared to no income tax in 2001. This was primarily due to an increase in taxable income and a decrease in investment tax credits in 2002.

Net income

As a result of the factors discussed above, net income increased 138.0 per cent. to NT$10,972.8 million in 2002 from NT$4,609.6 million in 2001. Formosa Chemicals & Fibre recorded basic earnings per share after tax of NT$2.43 in 2002, compared to NT$1.02 in 2001.

Liquidity and Capital Resources

Formosa Chemicals & Fibre's principal sources of liquidity are cash flow from operations and financing activities, including short and long-term secured and unsecured borrowings. Formosa Chemicals & Fibre's principal uses of cash in the three months ended March 31, 2004 were repayment of debt, capital expenditures and short-term and long-term investments. Formosa Chemicals & Fibre's principal uses of cash in 2003 were the repayment of long-term debt, payment of cash dividends and additional long-term investments.

Cash flow

In the three months ended March 31, 2004, net cash flow was an outflow of NT$25.8 million (U.S.$0.8 million) as compared to an outflow of NT$446.6 million in the three months ended March 31, 2003, bringing Formosa Chemicals & Fibre's cash and cash equivalents position as of March 31, 2004 to NT$446.5 million (U.S.$13.5 million).

Three months ended March 31, 2004. Net cash provided by operating activities was NT$4,712.7 million (U.S.$142.8 million) in the three months ended March 31, 2004. This amount reflected net income of NT$7,414.5 million (U.S.$224.7 million), depreciation and amortization of NT$1,696.3 million (U.S.$51.4 million) and a decrease in other current assets of NT853.2 million (U.S.$25.9 million) partially offset by investment income of NT$2,623.1 million (U.S.$79.5 million), a NT$670.5 million (U.S.$20.3 million) increase in accounts receivable, a NT$580.2 million (U.S.$17.6 million) decrease in accounts payable and a NT$503.1 million (U.S.$15.2 million) increase in inventories.

Net cash used in investing activities in the three months ended March 31, 2004 was NT$1,817.9 million (U.S.$55.1 million). consisting primarily of NT$1,830.7 million (U.S.$55.5 million) in purchases of property, plant and equipment, a NT$1,747.4 million (U.S.$53.0 million) increase in short-term investments and a NT$911.4 million (U.S.$27.6 million) increase in long-term investments partially offset by a NT$2,551.8 million decrease in other receivables from related parties. Net cash used in financing activities in the three months ended March 31, 2004 was NT$2,775.8 million (U.S.$84.1 million) consisting principally of repayments of bonds payable and long-term bank loans of NT$3,000.0 million (U.S.$90.9 million) and NT$517.2 million (U.S.$15.7 million), respectively, partially offset by a NT$554.3 million (U.S.$16.8 million) increase in amounts due to banks and a NT$203.6 million (U.S.$6.2 million) increase in other short-term borrowings.

Three months ended March 31, 2003. Net cash provided by operating activities was NT$3,196.5 million in the three months ended March 31, 2003. This amount reflected non-consolidated net income of NT$3,384.1 million and depreciation and amortization of NT$1,619.5 million partially offset by investment income under the equity method of NT$1,106.6 million, a NT$725.1 million increase in other current assets and a NT$576.0 million increase in accrued expenses.

Net cash provided by investing activities in the three months ended March 31, 2003 was NT$3,067.5 million consisting principally of a NT$6,720.8 million decrease in short-term investments partially offset by a NT$1,749.0 million increase in long-term investments and a NT$1,578.5 million increase in other receivables from related parties.

Net cash used in financing activities in the three months ended March 31, 2003 was NT$6,650.0 million, primarily reflecting repayments of long-term bank loans of NT$7,230.2 million partially offset by a NT$447.0 million increase in amounts due to banks.

In 2003, net cash flow was an outflow of NT$133.4 million (U.S.$3.9 million), compared to an inflow of NT$468.4 million in 2002 and an outflow of NT$1,124.3 million in 2001. bringing Formosa Chemicals & Fibre's cash and cash equivalents position as of December 31, 2003 to NT$472.3 million (U.S.$13.9 million).

Year ended December 31, 2003. Net cash provided by operating activities was NT$22,107.1 million (U.S.$650.4 million) in 2003. This amount reflected net income of NT$17,696.5 million (U.S.$520.6 million), depreciation and amortization of NT$6,579.8 million (U.S.$193.6 million), a NT$3,274.1 million (U.S.$96.3 million) cash dividend received from long-term equity investments, a decrease in deferred income tax assets of NT$2,951.1 million (U.S.$86.8 million), a NT$1,302.6 million (U.S.$38.3 million) increase accounts payables due to related parties and a NT$813.5 million (U.S.$23.9 million) increase in accounts payable. This was partially offset by a NT$6,671.4 million

(U.S.$196.3 million) in investment income, a NT$1,876.5 million (U.S.$55.2 million) increase in prepayment and other current assets and a NT$1,092.2 million (U.S.$32.1 million) gain on the disposal of long-term investments.

Net cash used in investing activities in 2003 was NT$3,649.3 million (U.S.$107.4 million). This amount reflected an increase in long-term investments of NT$4,449.5 million (U.S.$130.9 million), purchases of plant, property and equipment of NT$2,426.3 million (U.S.$71.4 million) and an increase in other receivables from related parties of NT$2,124.9 million (U.S.$62.5 million). The effect of these activities was partially offset by a decrease in short-term investments of NT$3,120.8 million (U.S.$91.8 million), proceeds from the sale of long-term investments of NT$1,860.3 million (U.S.$54.7 million) and proceeds from the sale of property, plant, equipment and other assets of NT$962.7 million (U.S.$28.3 million).

Net cash used in financing activities in 2003 was NT$18,567.0 million (U.S.$546.2 million). This amount reflected the repayment of long-term bank loans of NT$32,435.8 million (U.S.$954.3 million), cash dividends of NT$6,690.3 million (U.S.$196.8 million) and repayment of bonds payable of NT$4,000.0 million (U.S.$117.7 million) partially offset by an increase in long-term loans of NT$19,557.8 million (U.S.$575.4 million) and an increase in bonds payable of NT$5,000.0 million (U.S.$147.1 million).

Year ended December 31, 2002. Net cash provided by operating activities was NT$18,106.2 million in 2002. This amount reflected net income of NT$10,972.8 million, depreciation and amortization of NT$6,118.1 million, an NT$3,688.3 million decrease in inventories, a NT$1,538.6 million decrease in deferred tax assets and an NT$975.9 million increase in accounts payable to related parties. This was partially offset by NT$4,444.0 million in investment income, an NT$1,359.9 million increase in accounts receivables from related parties and an NT$969.3 million increase in accounts receivable.

Net cash used in investing activities in 2002 was NT$9,503.6 million. Investing activities consisted an increase in short-term investments of NT$6,165.3 million, purchase of property, plant and equipment of NT$4,086.0 million and an increase in long-term investments of NT$2,073.1 million. The effect of these activities was partially offset by a decrease in receivables from related parties of NT$2,981.5 million.

Net cash used in financing activities in 2002 was NT$8,100.9 million. This amount reflected the repayment of long-term bank loans of NT$33,882.4 million, a decrease in amounts due to banks of NT$5,645.5 million, distribution of a NT$2,365.8 million cash dividend, decrease in short-term bills payable of NT$2,116.1 million and a repayment of bonds payable of NT$1,500.0 million partially offset by an increase in long-term bank loans of NT$24,257.7 million and an increase in bonds payable of NT$13,750.0 million.

Year ended December 31, 2001. Net cash provided by operating activities was NT$5,875.9 million in 2001. This amount reflected net income of NT$4,609.6 million and depreciation and amortization of NT$5,819.1 million partially offset by NT$2,361.1 million in investment income under the equity method, an NT$1,021.2 million decrease in accrued expenses, a NT$1,011.4 million decrease in accounts payable, an NT$563.8 million increase in inventories and an NT$548.9 million increase in accounts receivable.

Net cash used in investing activities in 2001 was NT$20,084.7 million. Investing activities consisted of purchase of property, plant and equipment of NT$14,265.4 million and an increase in long-term investments of NT$8,175.7 million partially offset by the proceeds from sales of property, plant, equipment and other assets of NT$1,612.2 million and a decrease in receivables from related parties of NT$1,000.0 million.

Net cash provided by financing activities in 2001 was NT$12,862.4 million. This amount reflected an increase in long-term bank loans of NT$24,740.7 million and an increase in short-term bills payable of NT$1,267.6 million partially offset by a decrease in amounts due to banks of NT$6,553.6 million, distribution of a cash dividend of NT$2,921.4 million a repayment of long-term bank loans of NT$2,067.2 million and a repayment of bonds payable of NT$1,500.0 million.

Capital resources

Short-term debt

As of March 31, 2004, Formosa Chemicals & Fibre had total availability of NT$51,281.8 million (U.S.$1,508.3 million) in short-term credit facilities, NT$910.0 million (U.S.$27.6 million) of which was outstanding. All of Formosa Chemicals & Fibre's outstanding short-term debt as of that date was unsecured borrowings and letters of credit. The interest rates for such short-term credit facilities ranged from 0.38 per cent. to 1.05 per cent. Formosa Chemicals & Fibre uses short-term financing primarily to fund the purchase of raw materials. As of March 31, 2004, the current portion of Formosa Chemicals & Fibre's long-term bank loans and notes payable was NT$3,711.8 million (U.S.$112.5 million). Formosa Chemicals & Fibre believes that its cash flow from operations and available credit under its short-term credit facilities provide itself with sufficient liquidity to serve short-term debt and otherwise meet its working capital requirements.

Long-term debt

As of March 31, 2004, Formosa Chemicals & Fibre had long-term bank loans and notes payable (net of current portion) outstanding of NT$32,873.9 million (U.S.$996.2 million). The following table sets forth the repayment schedule of Formosa Chemicals & Fibre's long-term bank loans and notes payable as of March 31, 2004:

Balances due	Total long-term bank loans and long-term notes payable amounts due (including U.S.$ currency loans)
	NT$ (millions)
April 1, 2004–March 31, 2005	3,711.8
April 1, 2005–March 31, 2006	10,111.4
April 1, 2006–March 31, 2007	8,781.4
April 1, 2007–March 31, 2008	3,181.5
April 1, 2008 and thereafter	10,799.7
Total	36,585.8

The interest rates for many of Formosa Chemicals & Fibre's long-term credit facilities are floating rates, and such floating rates ranged from 0.82 per cent. to 4.16 per cent. in 2003 and from 0.82 per cent. to 4.16 per cent. in the three months ended March 31, 2004.

Summary of major credit facilities. The followings is a summary of the terms of Formosa Chemicals & Fibre's major credit facilities:

Syndicated loan with the Chiao Tung Bank and 31 other banks. In order to finance the construction of the No. 6 Naphtha Cracker Complex and the related factories, Formosa Chemicals & Fibre entered into a long-term loan agreement with the 32 banks on April 28, 1994. This loan required Formosa Chemicals & Fibre to maintain its debt ratio below 1.5 and its current ratio above 1.2. Since the No. 6 Naphtha Cracker Complex expanded, Formosa Chemicals & Fibre entered into an expansion loan agreement with the banks on December 6, 2000. This loan required Formosa Chemicals & Fibre to maintain its debt ratio below 1.5 and its current ratio above 1.0. The total credit line included NT$16,235.0 million and U.S.$260.0 million. As of March 31, 2004, NT$14,802.0 million and U.S.$260.0 million of the loans had been disbursed, respectively.

Syndicated loan with China Development Industrial Bank. In order to rebuild the factory buildings and buy the equipment of generate electric power, Formosa Chemicals & Fibre entered into a long-term loan agreement with banks on December 23, 1999, and the China Development Industrial Bank was the manager bank for the syndicated loan. This loan required Formosa Chemicals & Fibre to maintain its debt ratio below 1.5 and its current ratio above 1.0. The total credit line was NT$6,000.0 million. As of March 31, 2004, the entire amount had been disbursed.

Summary of corporate bonds

The following is a summary of the corporate bonds issued by Formosa Chemicals & Fibre.

Bonds payable as of March 31, 2004, were as follows:

	NT$ (millions)	U.S.$ (millions)
Unsecured bonds No. 2	2,500.0	75.8
Unsecured bonds No. 4	5,000.0	151.5
Unsecured bonds No. 5	3,750.0	113.6
Unsecured bonds No. 6	5,000.0	151.5
Unsecured bonds No. 1 of 2003	5,000.0	151.5
Subtotal	21,250.0	643.9
Less: current portion of bonds payable	(1,650.0)	(50.0)
Bonds payable	19,600.0	593.9

In 1998, Formosa Chemicals & Fibre issued seven series of domestic unsecured nonconvertible corporate bonds in aggregate principal amount of NT$5,000.0 million ("Unsecured bonds No. 2"). These bonds bear annual interest rates ranging from 7.34 per cent. to 7.61 per cent. and have maturity dates ranging from June 2003 to June 2005. As of March 31, 2004, an aggregate principal amount of NT$2,500.0 million of these bonds were outstanding.

In 2002, Formosa Chemicals & Fibre issued two series of domestic unsecured nonconvertible corporate bonds in aggregate principal amount of NT$5,000.0 million ("Unsecured bonds No. 4"). These bonds bear annual interest rates ranging from 2.9778 per cent. to 3.0 per cent. and have maturity dates ranging from February 2005 to March 2007. As of March 31, 2004, the full principal amount of these bonds was outstanding.

In 2002, Formosa Chemicals & Fibre issued fourteen series of domestic unsecured nonconvertible corporate bonds in aggregate principal amount of NT$3,750.0 million ("Unsecured bonds No. 5"). These bonds bear annual interest rates ranging from 4.15 per cent. to 6.006 per cent. and have maturity dates ranging from July 2005 to July 2007. As of March 31, 2004, the full principal amount of these bonds was outstanding.

In 2002, Formosa Chemicals & Fibre issued term bonds in the aggregate principal amount of NT$5,000.0 million ("Unsecured bonds No. 6"). These bonds bear an annual interest rate of 4.44875 per cent. and have maturity dates in December 2007. As of March 31, 2004, the full principal amount of these bonds was outstanding.

In 2003, Formosa Chemicals & Fibre issued seven term bonds in the aggregate principal amount of NT$5,000.0 million. These bonds bear interest rates ranging from 2.00 per cent. to 3.15 per cent. and have maturity dates in July 2009. As of March 31, 2004, the full principal amount of these bonds was outstanding.

Capital expenditures

Formosa Chemicals & Fibre operates its own manufacturing and power generating facilities and therefore require significant amounts of capital to build, expand, modernize and maintain its facilities and equipment. Total capital expenditures were NT$14,265.4 million in 2001, NT$4,086.0 million in 2002 and NT$2,426.3 million (U.S.$71.4 million) in 2003. In the three months ended March 31, 2003 and 2004, total capital expenditures were NT$253.2 million and NT$1,803.7 million (U.S.$54.5 million), respectively. The following table sets forth Formosa Chemicals & Fibre's principal capital expenditures incurred in 2001, 2002, 2003 and the three months ended March 31, 2003 and 2004:

	Year ended December 31,					Three months ended March 31,		
	2001	2002	2003		2004 (estimated)	2003	2004	
	NT$ (millions)	NT$ (millions)	NT$ (millions)	U.S.$ (millions)	NT$ (millions)	NT$ (millions)	NT$ (millions)	U.S.$ (millions)
Expansion	13,456.8	3,978.5	2,255.2	66.3	7,218.6	237.4	1,309.1	39.7
Improvements/ Debottlenecking	808.6	107.5	164.1	4.8	1,585.1	15.8	521.6	15.8
Land Purchases	—	—	7.0	0.2	—	—	—	—
Total	14,265.4	4,086.0	2,426.3	71.4	8,803.7	253.2	1,803.7	54.5

As of March 31, 2004, Formosa Chemicals & Fibre had incurred NT$1,803.7 million in capital expenditures.

Formosa Chemicals & Fibre expects to make total capital expenditures of NT$8,803.7 million in 2004, primarily in relation to the construction of new aromatics, SM, PP and phenol production facilities. Actual capital expenditures may vary from projected capital expenditures for a variety of reasons, including changes in market conditions and other factors. Formosa Chemicals & Fibre expect to meet its capital expenditure requirements through cash and cash equivalents on hand, cash generated from future operations and financing activities, including the proceeds from this offering and additional bank borrowings. In the future Formosa Chemicals & Fibre may consider additional debt financing or additional equity financing, including issuances of convertible securities, depending on market conditions, financial performance and other relevant factors. There can be no assurance that Formosa Chemicals & Fibre will be able to raise additional capital, should that become necessary, on acceptable terms or at all.

Commitments and contingencies

As of March 31, 2004, Formosa Chemicals & Fibre's commitments and contingencies were as follows:

Formosa Chemicals & Fibre had outstanding letters of credit for major raw materials of NT$733.6 million.

In connection with seven-year long-term loans of U.S.$79.0 million and U.S.$47.0 million taken out by Formosa ABS Plastic (Ningbo) Limited Co. and Formosa Power (Ningbo) Limited Co., respectively, on May 26, 2003, for which Citibank has acted as the arranger, Formosa Chemicals & Fibre has provided assurances to Citibank to support the borrowers to complete building their factories and help them to settle the loans.

The following table sets forth the details of endorsements and guarantees made by Formosa Chemicals & Fibre to its related parties for the three months ended March 31, 2003 and 2004:

	March 31,		
	2003	2004	
	NT$ (millions)	NT$ (millions)	U.S.$ (millions)
Formosa BP Chemicals	$ —	$ 2,205.6	$ 66.8
Mailiao Power	7,422.5	7,422.5	225.0
Mailiao Harbor Administration	2,098.4	2,098.4	63.6
Formosa Industries	—	2,792.9	84.6
	$ 9,520.9	$ 14,519.4	$ 440.0

Quantitative and Qualitative Disclosures About Market Risks

Formosa Chemicals & Fibre's exposure to financial market risks derives primarily from changes in interest rates and foreign exchange rates. To mitigate these risks, Formosa Chemicals & Fibre utilizes derivative financial instruments, the application of which is primarily for hedging purposes and not for speculative purposes.

Interest rate risk

Formosa Chemicals & Fibre's current exposure to interest rate risk comes primarily from the floating interest rates on the No. 6 Naphtha Cracker Complex syndicated loan and the first, fifth and sixth of its 2003 corporate bonds. Formosa Chemicals & Fibre enters into interest rate swap contracts and cross currency swap contracts in order to hedge its exposure to interest rate fluctuations.

As of March 31, 2004, Formosa Chemicals & Fibre had un-expired interest rate swap contracts with a total principal amount of NT$18,023.1 million due on December 27, 2008 with ABN-AMRO, Deutsche Bank, Bank of America, Taishin Bank and HSBC. The contracts were entered into for the purposes of hedging the fluctuation on floating interest rates for the No. 6 Naphtha Cracker Complex syndicate loan. According to the contract with a principal amount of NT$18,023.1 million, Formosa Chemicals & Fibre pays interest to the counter parties based on a rate ranging from 1.12 per cent. to 3.69 per cent. and collects interest from the counter parties based on the floating rates of each contract every three months. The nominal amount of NT$2,500.0 million decreases by NT$192.3 million every six months from January 10, 2002 to December 27, 2008.

As of March 31, 2004, Formosa Chemicals & Fibre had un-expired cross-currency swap contracts with a total principal amount of U.S.$70.2 million, due from May 2001 to March 2008 with Chinatrust Bank and BNP-Paribas. The contracts were entered into for the purposes of hedging the fluctuation on floating interest rates and exchange rates for the No. 6 Naphtha Cracker Complex syndicate loan. According to the contract, Formosa Chemicals & Fibre pays interest and principal to the counter parties based on a fixed interest rate of 5 per cent. and fixed exchange rate of U.S. dollars, and collects interest and principal from the counter parties based on a flexible Singapore inter-bank offered rate (SIBOR) and floating exchange rate every six months from March 2002 to March 2008.

Formosa Chemicals & Fibre is exposed to substantial interest rate risk on its existing floating rate debt and on additional debt financing that may be periodically needed for the capital expenditures associated with the purchase of property, plant and equipment for capacity expansion. Upward fluctuations in interest rates increase the cost of both existing and new debt. The interest rate that Formosa Chemicals & Fibre will be able to obtain in a new debt financing will depend on market conditions at that time and may differ from the rates it has secured on its current debt. An increase in interest rates of one per cent. would increase annual interest charges by NT$593.8 million (U.S.$18.0 million) based on the principal amount of Formosa Chemicals & Fibre's outstanding indebtedness as of March 31, 2004.

Foreign exchange risk

In 2003, 55.9 per cent. of Formosa Chemicals & Fibre's consolidated operating revenues were denominated in U.S. dollars, with the remaining portion denominated in NT dollars, and 60.3 per cent. of its operating costs were denominated in U.S. dollars, with the remaining portion in NT dollars and other foreign currencies. Formosa Chemicals & Fibre's financial statements are expressed in NT dollars. Formosa Chemicals & Fibre records a foreign currency denominated transaction on the date it occurs in NT dollars using the prevailing exchange rate for such date. The realized gains or losses resulting from the application of a different foreign exchange rate when the transaction is settled and the amount received or paid in settlement is converted into or from NT dollars and credited or charged to income. At the end of each period, Formosa Chemicals & Fibre restates the balances of foreign currency assets and liabilities at the period-end spot rate of exchange and credit or charge to income for such period the resulting foreign exchange gains or losses, as the case may be. See Note 2 to Formosa Chemicals & Fibre's Audited Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 and Note 2 to Formosa Chemicals & Fibre's Unaudited Financial Statements as at and for the three months ended March 31, 2003 and 2004 included elsewhere in this Offering Circular. As a result, changes in the rate of exchange between the NT dollar and the U.S. dollar affect Formosa Chemicals & Fibre's gross and operating profit margins and could result in foreign exchange and operating losses. Formosa Chemicals & Fibre recorded net foreign exchange loss of NT$591.8 million in 2001 and a net foreign exchange gains of NT$117.4 million in 2002, NT$17.9 million (U.S.$0.5 million) in 2003 and NT$81.6 million (U.S.$2.5 million) in the three months ended March 31, 2004.

Formosa Chemicals & Fibre also enters into foreign exchange forward contracts from time to time in order to hedge exposure to currency rate fluctuation associated with the No. 6 Naphtha Cracker Complex syndicated loan. As of March 31, 2004, Formosa Chemicals & Fibre had foreign exchange forward contracts with Chinatrust Bank based on a nominal principal of U.S.$12.0 million.

Taxation

Since incorporation, Formosa Chemicals & Fibre has enjoyed preferential tax treatment in certain respects under the SUI. Such tax credits resulted in income tax savings of NT$651.4 million, NT$1,765.4 million and NT$3,090.4 million (U.S.$90.9 million) in 2001, 2002 and 2003, respectively.

Article 6 of the SUI provides tax credits of up to 35 per cent. for certain research and development and employee training expenses. If the amount of expenses exceeds the average of such expenses for the preceding two years, an additional tax credit of 50 per cent. of the excess amount may be used. These tax credits for research and development as well as investments in equipment and technology must be utilized within five years from the year such expense or investment was incurred. In addition, the aggregate tax reduction from these tax credits for any year except the final year before expiration cannot, subject to certain exceptions, exceed 50 per cent. of the company's income tax liability for that year.

Article 7 of the SUI provides tax credits of up to 20 per cent. for certain investment in specific industries of a county or township area with scanty natural resources or with slow development. These tax credits for investment in barren areas must be utilized within five years from the year such investment was incurred. Formosa Chemicals & Fibre received tax credits from Article 7 as a result of its investment in the No. 6 Naphtha Cracker Complex in Mailiao. As of March 31, 2004, qualified unused tax credits under Article 7 amounted to NT$6,597.0 million (U.S.$200.0 million).

Article 8 of the SUI provides tax credits of up to 20 per cent. for subscription to the registered stock issued by a company within the newly emerging, important and strategic industries, and has held such stock for a period of three years or longer. These tax credits for investment must be utilized within five years from the year such investment was incurred. In addition, the aggregate tax reduction from these tax credits for any year except the final year before expiration cannot, subject to certain exceptions, exceed 50 per cent. Formosa Chemicals & Fibre received most of its Article 8 tax credits as a result of its investment in Formosa Petrochemical. However, all of such tax credits were derived prior to December 31, 1999, when Article 8 was amended. The former version of Article 8 included a wider category of industries, investments in which qualified for tax credits and only required a holding period of two years. As of March 31, 2004, qualified unused tax credits under Article 8 amounted to NT$1,992.8 million (U.S.$60.4 million).

In 1997, the ROC Legislative Yuan passed an amendment to the ROC Income Tax Law to integrate corporate income tax and shareholder dividend tax. Under the amendment, retained earnings of a year, as adjusted, generated after January 1,1998 and not distributed to shareholders in the following year as dividends for the year in which such retained earnings were generated will be assessed a 10 per cent. tax. For each of the years ended December 31, 2001, 2002 and 2003, such tax payable by Formosa Chemicals & Fibre arising from the amendment amounted to NT$252.7 million, nil and nil, which was offset by available tax credits.

FORMOSA CHEMICALS & FIBRE CORPORATION

BUSINESS OF FORMOSA CHEMICALS & FIBRE

Overview

Formosa Chemicals & Fibre is one of Taiwan's leading manufacturers of petrochemical products, plastics products, fiber products and textile products. Its major businesses include the development, manufacture and sale of petrochemical products (including PTA, OX, SM, acetone, raffinate, DMF, PX and toluene), plastics products (including ABS, PS, PP and PC), fiber products (including rayon staple fiber and nylon filament) and textile products (including spun yarn, rayon fabric and nylon tafetta). For the year ended December 31, 2003, sales of petrochemical products, plastics products, fiber products and textile products accounted for 45.2 per cent., 26.6 per cent., 17.4 per cent. and 4.2 per cent., respectively, of Formosa Chemicals & Fibre's total operating revenues for the same period. For the three months ended March 31, 2004, sales of petrochemical products, plastics products, fiber products and textile products accounted for 47.4 per cent., 26.9 per cent., 16.9 per cent., and 4.0 per cent., respectively, of Formosa Chemicals & Fibre's total operating revenues. For the year ended December 31, 2003, Formosa Chemicals & Fibre's total operating revenues and net income were NT$106,421.4 million (U.S.$3,131.0 million) and NT$17,696.5 million (U.S.$520.6 million), respectively. For the three months ended March 31, 2004, Formosa Chemicals & Fibre's total operating revenues and net income were NT$30,245.7 million (U.S.$916.5 million) and NT$7,414.5 million (U.S.$224.7 million), respectively.

Formosa Chemicals & Fibre is a principal supplier of the raw materials used by its affiliates in the Formosa Group to produce downstream petrochemical and plastics products. Sales to affiliated companies in the Formosa Group, primarily Nan Ya Plastics and Formosa Taffeta Co., Limited, comprised 30.6 per cent. and 31.9 per cent. of Formosa Chemicals & Fibre's total operating revenues for the year ended December 31, 2003 and for the three months ended March 31, 2004, respectively. Outside the Formosa Group, Formosa Chemicals & Fibre's products are sold principally to secondary and tertiary producers which operate in Taiwan, the PRC, Indonesia, Hong Kong, the United States, Pakistan, Japan and several European countries. Sales outside Taiwan comprised 40.3 per cent. and 36.6 per cent. of Formosa Chemicals & Fibre's total operating revenues for the year ended December 31, 2003 and for the three months ended March 31, 2004, respectively.

Formosa Chemicals & Fibre also operates in-house power generating units which supply water, electricity, and steam to its production facilities for use in its manufacturing processes. It sells electricity generated from internal sources not required by its own operations to its affiliates and to Taiwan Power Company. Sales of electricity constituted 5.4 per cent. and 4.4 per cent. of Formosa Chemicals & Fibre's total operating revenues for the year ended December 31, 2003 and for the three months ended March 31, 2004, respectively.

At its inception, Formosa Chemicals & Fibre's initial focus was on the production of fiber and fabric products and textiles processing. Formosa Chemicals & Fibre believes that it has been, and still is, one of the world's largest manufacturers of rayon staple fiber and nylon filament and Taiwan's largest integrated textiles manufacturer. Although the manufacture of fiber and textile products still constitute a significant part of Formosa Chemicals & Fibre's business, the company has over the years expanded and diversified into the petrochemical and plastics businesses and has become one of Taiwan's leading manufacturers of petrochemical and plastics products.

As at March 31, 2004, Formosa Chemicals & Fibre employed 6,462 full-time employees and operated 28 manufacturing plants and three co-generation power plants at five production sites in Taiwan located at Ilan, Changhwa, Dongshan, Chiayi Hsin Kang and Mailiao. Formosa Chemicals & Fibre's business is conducted through five operating business divisions: petrochemicals (which includes the first chemicals division, second chemicals division and third chemicals division), plastics, fibers (which includes the nylon division), textiles and engineering and utilities. Each of the first four operating business divisions is responsible for a particular product or group of products while the engineering and utilities division is principally concerned with installing and operating power supply facilities and designing equipment and production facilities for Formosa Chemicals & Fibre. Fomosa Chemicals & Fibre's registered office is at 359 Chung-Shan Road, Section 3, Chang-Hwa, Taiwan, ROC.

Formosa Chemicals & Fibre was incorporated on March 5, 1965 as a company organized under the laws of the ROC. The ordinary shares of Formosa Chemicals & Fibre have been listed on the TSE since 1984, and, as at June 28, 2004, Formosa Chemicals & Fibre's total market capitalization was NT$228.0 billion.

History

Certain key dates in the history of Formosa Chemicals & Fibre include:

1965 . . . Formosa Chemicals & Fibre was established as Taiwan's first vertically integrated producer of wood pulp, fiber and fabric products and textiles processing products.

1967 . . . Formosa Chemicals & Fibre began to construct its own power generation and supply facilities to help ensure an adequate and low-cost supply of electricity for its operations.

1973 . . . Formosa Chemicals & Fibre commenced production of nylon filament.

1973 . . . Formosa Chemicals & Fibre constructed its own nylon plant. During the same year, Formosa Chemicals & Fibre also entered into a joint venture to form Formosa Taffeta Co., Limited as a downstream processor of nylon products. As at March 31, 2004, Formosa Chemicals & Fibre owned a 37.4 per cent. interest in Formosa Taffeta Co., Limited.

1990 . . . Formosa Chemicals & Fibre began to diversify into upstream petrochemical products and plastics products, such as PTA.

1991 . . . Formosa Chemicals & Fibre commenced production of PS.

1992 . . . Formosa Chemicals & Fibre terminated its wood pulp production business due to the ban of logging activities in Taiwan.

1994 . . . Formosa Chemicals & Fibre participated in the construction of the No. 6 Naphtha Cracker Complex. As part of its investments in the complex, Formosa Chemicals & Fibre established a number of petrochemical plants in Mailiao and Heifeng for the production of aromatics and its downstream petrochemical materials, including benzene, toluene, PX, OX, SM, phenol and acetone.

1999 . . . Formosa Chemicals & Fibre's petrochemical and aromatics plants began to supply petrochemical raw materials to its affiliated companies in the Formosa Group.

2002 . . . Formosa Chemicals & Fibre formed a joint venture with Japanese manufacturer, Idemitsu Petrochemical Co., Ltd., to engage in the production and sale of polycarbonate.

2003 . . . Formosa Chemicals & Fibre began construction of a new ABS plant at Ningbo, the PRC, which is expected to be in operation in the latter part of 2004.

Strategy

Formosa Chemicals & Fibre's goal is to continue to improve on its position as one of Taiwan's leading manufacturers of petrochemical and plastics products. Formosa Chemicals & Fibre will continue to concentrate on producing a large variety of higher value-added products at competitive prices by taking advantage of its vertically integrated manufacturing process and manufacturing process know-how.

Pursue vertical integration

To help alleviate its reliance on purchases and imports of raw materials and to lower its production costs, Formosa Chemicals & Fibre has been pursuing vertical integration both internally and with other companies within the Formosa Group. Examples include the following:

- In the petrochemicals business, Formosa Chemicals & Fibre's own aromatics plant at Mailiao produced approximately 80 per cent. of its PX requirement used for the production of PTA for the year ended December 31, 2003. Formosa Chemicals & Fibre's aromatics plant also manufactures benzene, one of the principal raw materials used in the production of SM and phenol. The SM produced by Formosa Chemicals & Fibre's second chemicals division are in turn used as raw materials to produce PS and ABS by its plastics division.

- Formosa Chemicals & Fibre obtains a large proportion of its raw materials from its affiliates within the Formosa Group. Formosa Petrochemical supplies Formosa Chemicals & Fibre with most of its demand of heat cut naphtha, pyrolysis gasoline and ethylene used to manufacture PX, OX, benzene and SM.

- In the fiber and textiles businesses, Formosa Plastics and Formosa Petrochemical supply Formosa Chemicals & Fibre with all of its requirements of caustic soda (also known by its chemical name sodium hydroxide) and molten sulphur used in the production of rayon staple fiber. Rayon staple fiber produced by Formosa Chemicals & Fibre's first chemicals division are in turn used as raw materials to produce spun yarn and rayon fabric by its textiles division.

Formosa Chemicals & Fibre believes that its vertically integrated operations enable it to reduce its manufacturing costs and ensure a more stable and cost-effective means of supply of raw materials. As Formosa Chemicals & Fibre and a majority of its affiliates within the Formosa Group still purchase or import a large proportion of the raw materials used in their manufacturing processes, Formosa Chemicals & Fibre plans to pursue further vertical integration by expanding into production and supply of new upstream materials which it does not currently produce and by increasing capacity of raw materials which it already produces so as to further reduce the Formosa Group's reliance on purchases and imports of raw materials and the impact of volatility in the market prices of raw materials.

Diversify product range

Formosa Chemicals & Fibre competes on the basis of price and quality of products as well as the ability to respond quickly to changes in the markets' needs. To stay competitive and maintain market share, Formosa Chemicals & Fibre will continue to respond to the changing needs of its customers in a timely manner. Formosa Chemicals & Fibre has developed higher value-added and higher margin products to improve competitiveness and market share. Examples include:

- In the plastics business, to satisfy the increasing demand for plastics products as substitutes for other materials, Formosa Chemicals & Fibre has focused on manufacturing plastics products with new applications. Formosa Chemicals & Fibre will continue to serve its customers' needs by engaging in research and development of new products. It plans to develop new ABS products to venture into new markets such as those for telecommunications, cosmetics and sporting equipment.

- In the fiber business, Formosa Chemicals & Fibre has focused on the development of higher value-added types of rayon and nylon fiber with special usages, such as non-woven rayon, high count rayon, dope-dyed rayon, anti-bacteria rayon and flame retardant rayon. Formosa Chemicals & Fibre plans to continue to invest in research and development activities and work with upstream and downstream production facilities to create new and diversified fiber products, such as anti-UV radiation fiber and non-woven rayon for medical usage.

- In the textiles business, to avoid direct competition with low-priced commodity textiles products, Formosa Chemicals & Fibre has focused, and will continue to focus, on the production of smaller volumes of diversified and higher value-added types of textile products, which tend to have higher profit margins. It has introduced and promoted fabric using new fiber materials produced by its first chemicals division and nylon division such as Formotex, Formocel, flame retardant rayon, anti-bacteria rayon and dope-dyed rayon fiber.

Formosa Chemicals & Fibre believes that maintaining a diversified production line is essential to its growth and to establishing relationships with its customers and improving market share. It plans to sell a broader range of higher value-added products to its existing customers and create new products to venture into new markets.

Expand Formosa Chemicals & Fibre's presence in the PRC

Formosa Chemicals & Fibre believes that the PRC will remain as one of the world's most important petrochemical markets due to its significant demand for petrochemical products as a result of its economic growth and correlated growth in petrochemical consumption. Formosa Chemicals & Fibre plans to increase its investments in the PRC in order to increase production capacity and improve domestic market share in the PRC. Examples include the following:

- Formosa Chemicals & Fibre's largest export market for its petrochemical products is the PRC. To increase its production capacity of petrochemical products and improve its domestic market share in the PRC, Formosa Chemicals & Fibre plans to build a new PTA plant in the PRC with an annual capacity of 600,000 metric tons. Formosa Chemicals & Fibre will also focus on increasing sales and promotional activities for its petrochemical products and plans to set up distribution centers or seek strategic alliances in the PRC so as to gain access to effective marketing channels.

- In response to the increasing demand for plastics products in the PRC, Formosa Chemicals & Fibre has also built a new ABS plant in Ningbo in the PRC which is expected to commence operations in the latter part of 2004.

Reduce production costs

Formosa Chemicals & Fibre has been facing extensive competition from overseas competitors such as the PRC, Indonesia, India and Vietnam, who enjoy the benefit of lower labor costs. To lower its production costs and improve competitiveness, Formosa Chemicals & Fibre has focused on improving productivity and manufacturing efficiency in each of its manufacturing divisions. Examples include the following:

- Pursuant to its participation in the development of the No. 6 Naptha Cracker Complex, Formosa Chemicals & Fibre has completed construction of nine new plants. It has also performed debottlenecking on existing plants to reduce costs. Formosa Chemicals & Fibre believes that this expansion has resulted in economies of scale which would not be achievable by competitors which have plants with smaller capacities. Formosa Chemicals & Fibre will continue to expand its production activities both in Taiwan and overseas, in particular in the PRC and Vietnam, to expand its scale of production.

- A significant portion of Formosa Chemicals & Fibre's equipment and machinery is designed by engineers in its engineering and utilities division. These engineers are also responsible for the design and maintenance of Formosa Chemicals & Fibre's plants, equipment and machinery. Formosa Chemicals & Fibre believes that the delegation of these responsibilities to the same group of professionals improves manufacturing efficiency and accountability and lowers future maintenance cost.

- Formosa Chemicals & Fibre has been actively managing its labor force and the productivity of its labor force. Between 1997 to 2003, Formosa Chemicals & Fibre has downsized its workforce from a total of 7,919 employees to 6,544 employees. Annual turnover per employee has improved from NT$5.7 million per person in 1997 to NT$16.3 million per person in 2003.

- For the year ended December 31, 2003, Formosa Chemicals & Fibre generated 30 per cent. of the electrical power it consumed in its manufacturing processes in Taiwan through the operation of three co-generation power plants at five production sites. Formosa Chemicals & Fibre believes that the operation of its in-house co-generation power plants will further reduce production costs.

Products

Formosa Chemicals & Fibre produces a broad range of products in the following principal categories: petrochemicals, plastics, fibers and textiles.

Formosa Chemicals & Fibre develops, manufactures and markets its products through five operating business divisions: petrochemicals (which includes the first chemicals division, second chemicals division and third chemicals division), plastics, fibers (which includes the nylon division), textiles and engineering and utilities.

The following tables set forth, for the periods indicated, the contribution of each business division to Formosa Chemicals & Fibre's operating revenues and the percentage each business division contributes to Formosa Chemicals & Fibre.

	Year ended December 31,						
	2001		2002		2003		
	NT$ (millions)	%	NT$ (millions)	%	NT$ (millions)	U.S.$ (millions)	%
Petrochemicals	26,855.4	39.8	37,993.2	43.7	48,111.4	1,415.4	45.2
Plastics	14,889.3	22.1	20,143.9	23.2	28,316.3	833.1	26.6
Fibers	14,616.5	21.6	17,456.4	20.1	19,257.9	566.5	18.1
Textiles	5,510.6	8.2	5,036.4	5.8	4,503.1	132.5	4.2
Engineering & Utilities	5,261.1	7.8	5,837.5	6.7	5,764.0	169.6	5.4
Others[(1)]	403.9	0.5	405.6	0.5	468.7	13.8	0.5
Total	67,536.8	100.0	86,873.0	100.0	106,421.4	3,131.0	100.0

	Three months ended March 31,				
	2003		2004		
	NT$ (millions)	%	NT$ (millions)	U.S.$ (millions)	%
Petrochemicals	12,771.6	49.2	14,333.5	434.3	47.4
Plastics	5,825.1	22.4	8,121.9	246.1	26.9
Fibers	4,952.7	19.1	5,123.4	155.3	16.9
Textiles	1,093.5	4.2	1,214.6	36.8	4.0
Engineering & Utilities	1,219.4	4.7	1,331.4	40.3	4.4
Others[(1)]	105.7	0.4	120.9	3.7	0.4
Total	25,968.0	100.0	30,245.7	916.5	100.0

Note:

(1) "Others" primarily consists of sales of carpets.

Petrochemical Products

Formosa Chemicals & Fibre began to diversify into upstream petrochemical products, such as PTA, in 1990. Later, as part of its participation in the development of the No. 6 Naphtha Cracker Complex, Formosa Chemicals & Fibre established a number of petrochemical plants in Mailiao and Heifeng for the production of aromatics and its downstream petrochemical products, including phenol, OX, PX, benzene, SM, acetone, raffinate and toluene. Currently, Formosa Chemicals & Fibre manufactures and sells a variety of petrochemical products, including PTA, phenol, OX, SM, acetone, raffinate, DMF, PX and toluene. For the year ended December 31, 2003 and the three months ended March 31, 2004, petrochemical products represented the largest portion of Formosa Chemicals & Fibre's business by revenues. Sales of petrochemical products accounted for 39.8 per cent., 43.7 per cent. and 45.2 per cent. of Formosa Chemicals & Fibre's total operating revenues for the years ended December 31, 2001, 2002 and 2003, respectively. The following table sets forth sales volumes of Formosa Chemicals & Fibre's key petrochemical products, revenues generated from sales of such products, and the percentage of total petrochemical products revenues represented by each product for the periods indicated:

	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
PTA	901,661	13,960.3	52.0	1,260,969	21,065.1	55.4	1,403,723	26,316.1	774.1	54.7
Phenol	178,134	2,877.3	10.7	232,822	4,092.0	10.8	222,086	5,163.3	151.9	10.7
OX	169,309	2,244.6	8.4	217,270	3,127.4	8.2	286,341	5,072.2	149.2	10.5
SM	159,333	2,616.3	9.7	188,216	3,861.0	10.2	149,586	3,527.0	103.8	7.3
Acetone	111,279	1,244.8	4.6	134,838	2,021.5	5.3	142,012	2,786.2	82.0	5.8
Raffinate	253,253	2,013.6	7.5	249,452	1,940.2	5.1	275,908	2,657.1	78.2	5.5
Others[(1)]	—	1,898.5	7.1	—	1,886.0	5.0	—	2,589.5	76.3	5.4
Total	—	26,855.4	100.0	—	37,993.2	100.0	—	48,111.4	1,415.5	100.0

Sales of petrochemical products accounted for 49.2 per cent. and 47.4 per cent. of Formosa Chemicals & Fibre's total operating revenues for the three months ended March 31, 2003 and 2004, respectively. The following table sets forth sales volumes of Formosa Chemicals & Fibre's key petrochemical products, revenues generated from sales of such products, and the percentage of total petrochemical products revenues represented by each product for the periods indicated:

	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
PTA	369,866	7,547.8	59.1	388,558	8,274.7	250.7	57.7
Phenol	61,996	1,463.8	11.5	47,155	1,118.1	33.9	7.8
OX	64,345	1,239.4	9.7	74,298	1,562.7	47.4	10.9
SM	24,344	651.3	5.1	23,564	660.0	20.0	4.6
Acetone	33,680	688.0	5.4	33,401	681.7	20.6	4.8
Raffinate	56,718	626.1	4.9	66,477	754.6	22.9	5.3
Others[(1)]	—	555.2	4.3	—	1,281.7	38.8	8.9
Total	—	12,771.6	100.0	—	14,333.5	434.3	100.0

Note: (1) "Others" include DMF, PX and toluene.

PTA. PTA is one of the principal raw materials used in the production of polyester. Formosa Chemicals & Fibre has been manufacturing PTA since 1990 at its PTA plant in Longte. As part of its investments under the No. 6 Naphtha Cracker Complex, Formosa Chemicals & Fibre began construction on two additional PTA plants in Mailiao in 1994. The two plants were completed in September 1998 and August 1999, respectively, and each plant has an annual production capacity of 500,000 metric tons of PTA.

In light of increasing demand for PTA in the domestic and foreign markets as polyester producers continue to expand, Formosa Chemicals & Fibre replaced its production line at its Longte plant with a more advanced PTA production line in 2002, which increased its production capacity to 500,000 metric tons per year. With the two additional PTA plants in Mailiao and the rebuilt PTA plant in Longte, Formosa Chemicals & Fibre has a combined annual production capacity of approximately 1.5 million metric tons of PTA, which it utilizes to fulfil internal demands within the Formosa Group (Formosa Chemicals & Fibre provides all of Nan Ya Plastics' requirements of PTA), and sells residual amounts to polyester producers outside the Formosa Group. For the year ended December 31, 2003, Formosa Chemicals & Fibre sold 25,000 metric tons of PTA per month to domestic customers outside the Formosa Group and 52,000 metric tons of PTA per month to polyester producers in the export market, primarily in the PRC.

Phenol and Acetone. Phenol and acetone are the two principal raw materials used in the production of Bisphenol-A. Formosa Chemicals & Fibre commenced production of phenol and acetone in 2000 as a result of its participation of the No. 6 Naphtha Cracker Complex. Phenol and acetone are joint-products produced by alkylation of benzene and propylene via the current process. Currently, Formosa Chemicals & Fibre's annual production capacity of phenol and acetone are 200,000 metric tons and 123,000 metric tons, respectively. To accommodate increasing demand for phenol and acetone in the domestic and export markets, Formosa Chemicals & Fibre has commenced to establish a new production line for phenol and acetone which is expected to be in operation in the latter part of 2004. The new production line is expected to increase Formosa Chemicals and Fibre's annual production capacity of phenol and acetone to a total of approximately 400,000 metric tons and 246,000 metric tons, respectively.

Aromatics (including OX, PX, benzene and toluene). OX is mainly used for gasoline blending in the production of pathalic anhydride. PX is a principal raw material used to produce PTA and dimethyl terephthalate. Benzene is a principal raw material used to produce SM, caprolactam and detergent. Toluene is principally used to produce benzene and xylene. Benzene and toluene can also be used as solvents. Formosa Chemicals & Fibre began construction of its first aromatics plant in 1996 as a result of its participation in the No. 6 Naphtha Cracker Complex. The first aromatics plant was completed in 1999. Formosa Chemicals & Fibre completed its second aromatics plant in 2000, with which annual production capacities of OX, PX, benzene and toluene increased to 202,829 metric tons, 635,088 metric tons, 624,448 metric tons and 20,000 metric tons, respectively. As a result of continuous improvement in manufacturing efficiency and debottlenecking, Formosa Chemicals & Fibre's annual production capacities of OX, PX and benzene were subsequently increased to 240,000 metric tons, 815,000 metric tons and 687,000 metric tons, respectively, in 2003. Its production capacity of toluene was maintained at 20,000 metric tons per year in 2003.

In light of increasing demand for aromatics for internal consumption and external sales in the domestic and export markets, Formosa Chemicals & Fibre has commenced construction of an additional plant for the production of aromatics, which is expected to be completed by mid-2006. With the completion of the new aromatics plant in 2006, Formosa Chemicals & Fibre's annual production capacities of OX, PX and benzene will be expected to increase to 340,000 metric tons, 1,415,000 metric tons and 1,058,000 metric tons, respectively.

SM. SM is a principal raw material used in the production of PS and ABS resins. Formosa Chemicals & Fibre began construction of its SM plant in 1996 as a result of its participation in the No. 6 Naphtha Cracker Complex. Phase 1 of the SM plant was completed in 1999 with annual production capacity of 200,000 metric tons of SM. Phase 2 of the SM plant was completed in 2000 which increased annual production capacity of SM to 450,000 metric tons. As a result of continued debottlenecking on its SM plant and improvement in manufacturing efficiency, Formosa Chemicals & Fibre's annual production capacity of SM further increased to 600,000 metric tons in 2002.

In light of increasing demand for SM in the domestic and export markets, Formosa Chemicals & Fibre has commenced construction of an additional SM plant in Taiwan to implement phase 3 of its production of SM. The new SM plant is expected to be completed by mid-2006. With the completion of new SM plant, Formosa Chemicals & Fibre's annual production capacity of SM is expected to increase to 1,200,000 metric tons.

Raffinate: Raffinate is a by-product produced in the naphtha cracking process to produce aromatics.

Plastics Products

Formosa Chemicals & Fibre manufactures and sells a variety of plastics products including ABS, PS, PP and PC. Sales of plastics products accounted for 22.1 per cent., 23.2 per cent. and 26.6 per cent. of Formosa Chemicals & Fibre's total operating revenues for the years ended December 31, 2001, 2002 and 2003, respectively. The following table sets forth sales volumes of Formosa Chemicals & Fibre's key plastics products, revenues generated from sales of such products, and the percentage of total plastics products revenues represented by each product for the periods indicated:

	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ million	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
ABS and SAN	243,160	7,125.8	47.7	278,363	8,186.9	40.6	328,961	10,846.9	318.6	38.2
PS	210,932	4,429.9	29.8	251,736	5,985.0	29.7	259,223	7,218.9	212.4	25.5
PP	178,045	3,271.4	22.0	243,013	5,072.0	25.2	249,528	6,167.0	181.4	21.8
PC	—	—	—	16,364	833.7	4.1	73,030	4,019.7	118.3	14.2
Others	—	62.2	0.4	—	66.3	0.3	—	63.8	1.9	0.2
Total	—	14,889.3	100.0	—	20,143.9	100.0	—	28,316.3	833.1	100.0

Sales of plastics products accounted for 22.4 per cent. and 26.9 per cent. of Formosa Chemicals & Fibre's total operating revenues for the three months ended March 31, 2003 and 2004, respectively. The following table sets forth sales volumes of Formosa Chemicals & Fibre's key plastics products, revenues generated from sales of such products, and the percentage of total plastics products revenues represented by each product for the periods indicated:

	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
ABS and SAN	73,261	2,553.0	43.8	89,901	3,184.6	96.5	39.1
PS	57,974	1,790.7	30.7	63,874	2,059.8	62.4	25.4
PP	48,753	1,299.4	22.3	70,005	1,986.9	60.2	24.5
PC	2,092	163.9	2.8	16,079	873.3	26.5	10.8
Others	—	18.1	0.4	—	17.3	0.5	0.2
Total	—	5,825.1	100.0	—	8,121.9	246.1	100.0

ABS and SAN. As ABS resin (a copolymer of acrylonitrile-butadiene-styrene), a downstream product of styrene, is also an important plastics material with extensive applications, Formosa Chemicals & Fibre embarked on the construction of its own ABS plant in the Zhong Yang Industrial Zone at Hsin Kang, Chiayi in 1993, which was completed in May 1995. In 1996, the ABS plant underwent expansion which increased annual production capacity to 250,000 metric tons. As a result of its participation in the construction of the No. 6 Naphtha Cracker Complex, Formosa Chemicals & Fibre constructed an additional ABS plant in Mailiao, which increased its total production capacity to 390,000 metric tons per year. SAN is an intermediate product produced in the polymerization process of AN and SM to form ABS resin.

PS. PS is a downstream product of SM which is used to manufacture rigid plastics products. Formosa Chemicals & Fibre produces both general purpose PS and high impact PS. General purpose PS can be injection moulded, can be clear or coloured, and is used in such items as drinking cups, tumblers and audio cassettes. High impact PS is more resistant and is used for products that require greater strength, such as furniture, exterior cases for electronic appliances, video cassettes and toys.

Formosa Chemicals & Fibre's PS plant is located in the Zhong Yang Industrial Zone. The plant has an annual production capacity of 140,000 metric tons. Formosa Chemicals & Fibre had also built an additional PS plant in Mailiao pursuant to its investment in the No. 6 Naphtha Cracker Complex, which produces 120,000 metric tons of PS per year, thereby increasing Formosa Chemicals & Fibre's total annual production capacity to 260,000 metric tons.

PP. PP is a very versatile polymer that is light-weight and has high optical clarity, low moisture vapour transmission and the ability to be drawn and oriented into fibers. PP is used in the manufacture of a wide range of consumer non-durable plastics, consumer durables and industrial products such as automotive products and coatings. PP is one of the most versatile and low cost polymers in the petrochemical industry and has achieved a large portion of its growth in demand by substituting other polyolefins. This has been especially true for such applications as PS in disposal utensils, polyethylene terephthalate in film packaging, polyethylene in housewares and consumer goods and flexible PVC in film, automotive and medical applications.

Formosa Chemicals & Fibre's PP plant is located in Mailiao. The PP plant was completed in 2000 with an annual capacity of 300,000 metric tons.

PC. In light of the increasingly competitive market for plastics products, Formosa Chemicals & Fibre formed a joint venture with Japanese manufacturer, Idemitsu Petrochemical Co., Ltd., to engage in the production and sale of PC in 2002. Phase 1 of the PC production line was completed in October 2002, with an annual production capacity of 50,000 metric tons. Phase 2 of the project was completed in April 2003, with annual production capacity increased to 100,000 metric tons.

Fiber Products

The principal products of Formosa Chemicals & Fibre's fiber business are rayon staple fiber and nylon filament. Sales of fiber products accounted for 21.6 per cent., 20.1 per cent. and 18.1 per cent. of Formosa Chemicals & Fibre's total operating revenues for the years ended December 31, 2001, 2002 and 2003, respectively. The following table sets forth sales volumes of Formosa Chemicals & Fibre's key fiber products, revenues generated from sales of such products, and the percentage of total fiber products revenues represented by each product for the periods indicated:

	Year ended December 31,									
	2001			2002			2003			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Nylon filament	136,402	9,337.5	63.9	166,408	10,650.4	61.0	173,635	12,111.1	356.3	62.9
Rayon staple fiber	92,822	4,115.1	28.2	137,159	5,599.0	32.1	136,654	5,945.1	174.9	30.9
Others[(1)]	—	1,163.9	7.9	—	1,207.0	6.9	—	1,201.7	35.4	6.2
Total	—	14,616.5	100.0	—	17,456.4	100.0	—	19,257.9	566.6	100.0

Notes:

(1) "Others" include by-products (primarily natrium sulfuricum) and detergents

Sales of fiber products accounted for 19.1 per cent. and 16.9 per cent. of Formosa Chemicals & Fibre's total operating revenues in the three months ended March 31, 2003 and 2004, respectively. The following table sets forth sales volumes of Formosa Chemicals & Fibre's key fiber products, revenues generated from sales of such products, and the percentage of total fiber products revenues represented by each product for the periods indicated:

	Three months ended March 31,						
	2003			2004			
	Volume (MT)	NT$ (millions)	%	Volume (MT)	NT$ (millions)	U.S.$ (millions)	%
Nylon filament	49,176	3,098.4	64.8	48,679	3,366.6	102.0	65.7
Rayon staple fiber[(1)]	36,335	1,565.3	32.7	30,172	1,453.5	44.0	28.4
Others	—	288.9	5.8	—	303.4	9.2	5.9
Total	—	4,952.7	100.0	—	5,123.4	155.2	100.0

Notes:

(1) "Others" include by-products (such as natrium sulfuricum) and detergents

Nylon Filament. Formosa Chemicals & Fibre produces four broad categories of nylon filament: fully oriented yarn, partially oriented yarn, tire cord yarn and multi-purpose industrial yarn including fishnet yarn.

Fully oriented yarn is the most important type of filament product and has a wide range of applications. Formosa Chemicals & Fibre produces three types of fully oriented nylon products: taffeta yarn, pantyhose yarn and tricot yarn. The most important fully oriented yarn product for Formosa Chemicals & Fibre in terms of sales is taffeta, which takes the form of taffeta yarn, spin-dyed taffeta and micro-denier taffeta. These products are used internally or sold to producers outside the Formosa Group for the manufacture of a wide variety of cloths, including cloths for raincoats and umbrellas and ballistic nylon for handbags and suitcases. The main characteristics of pantyhose yarn are its texture and sheerness. Although the current sales of this product make up only a small percentage of Formosa Chemicals & Fibre's total sales, pantyhose yarn is a high value-added product for which Formosa Chemicals & Fibre expects market demand to increase. Tricot yarn is used in the manufacture of lace and tricot cloth for wedding gowns and shoe linings. Although the current sales volume is small, tricot is also a high value added product in what Formosa Chemicals & Fibre believes is a growing market.

Partially oriented yarn is more stretchable but not as strong as fully oriented yarn. These products are used internally or sold to producers outside the Formosa Group for spinning into nylon stretched yarn using a false twisting process. Nylon stretched yarn can be processed into cloth that can be stretched, and is used in the manufacture of a variety of products such as sports clothing, swimwear, socks, women's hosiery, intimate apparel, aerobic dancing clothes and other stretchable clothes.

Nylon tire cord yarn is thicker and stronger than the other three types of yarn. Because of its strength and durability, it is widely used in the manufacture of automobile and truck tires.

Fishnet yarn is one type of multi-purpose industrial yarn manufactured by Formosa Chemicals & Fibre. Fishnet yarn is primarily used to manufacture fishnet and nylon string.

Formosa Chemicals & Fibre has also directed its efforts towards developing customer-oriented, higher value added products, including high count yarn, micro fiber yarn, dope dyed yarn, full dull yarn and PP yarn to diversify its production and improve market share.

Rayon Staple Fiber. Rayon staple fiber, the principal raw material for all rayon products, is produced primarily in lengths of one to two inches which can then be spun like cotton into pure or blended yarn. Formosa Chemicals & Fibre manufactures a wide range of rayon fibers having various deniers, lengths, tenacities and lustres for numerous applications in order to meet customer's specifications and demand, among them the production of pure rayon yarn and E/R yarn (a blend of polyester fiber and rayon fiber), as well as special usage fibers which include dope-dyed rayon fiber, non-woven rayon fiber, high wet modulus rayon, flame resistant rayon, anti-bacteria rayon and tow.

Formosa Chemicals & Fibre is also focusing on producing higher value added types of rayon fiber that are not so easily replaced by cotton and have higher downstream profit margins. These higher value added fibers include special usage fiber, high tenacity fiber and fine denier fiber. Fiber with a denier of 1.1 or less is called fine denier fiber and requires more sophisticated technology to produce. Fabric produced from fine denier fiber is softer and thinner than that produced from other fibers and can be used for high fashion clothing. Due to the complexity of its production process, Formosa Chemicals & Fibre is one of the very few Asian manufacturers who is able to produce fine denier fiber.

Formosa Chemicals & Fibre also provides non-woven rayon from special usage fiber which is used for manufacturing medical and hygiene products such as swabs, tampons and diapers. By-products from rayon staple fiber production include sodium sulphate, which Formosa Chemicals & Fibre primarily sells to domestic dyeing and glass industries.

Textile Products

The principal products of Formosa Chemicals & Fibre's textiles business are spun yarn, rayon fabric and nylon taffetta. Sales of textile products accounted for 8.2 per cent., 5.8 per cent. and 4.2 per cent. of Formosa Chemicals & Fibre's total operating revenues for the years ended December 31, 2001, 2002 and 2003, respectively. The following table sets forth sales volumes of Formosa Chemicals & Fibre's key textile products, revenues generated from sales of such products, and the percentage of total textile products revenues represented by each product for the periods indicated:

	Year ended December 31,									
	2001			2002			2003			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Spun yarn . . .	146,973 bales	1,912.3	34.7	143,664 bales	1,865.6	37.1	130,139 bales	1,783.1	52.5	39.6
Rayon fabric .	76,629 KY	1,295.7	23.5	137,159 KY	1,662.6	33.0	136,654 KY	1,566.7	46.1	34.8
Nylon tafetta .	120,606 KY	1,758.6	31.9	166,408 KY	1,392.5	27.6	173,635 KY	1,041.3	30.6	23.1
Others.	—	544.0	9.9	—	115.7	2.3	—	112.0	3.3	2.5
Total.	—	5,510.6	100.0	—	5,036.4	100.0	—	4,503.1	132.5	100.0

Sales of textiles products accounted for 4.2 per cent. and 4.0 per cent. of Formosa Chemicals & Fibre's total operating revenues for the three months ended March 31, 2003 and 2004, respectively. The following table sets forth sales volumes of Formosa Chemicals & Fibre's key textile products, revenues generated from sales of such products, and the percentage of total textile products revenues represented by each product for the periods indicated:

	Three months ended March 31,						
	2003			2004			
	Volume	NT$ (millions)	%	Volume	NT$ (millions)	U.S.$ (millions)	%
Spun yarn	33,927 bales	462.8	42.3	37,968 bales	558.6	16.9	46.0
Rayon fabric	15,909 KY	329.7	30.2	17,887 KY	386.3	11.7	31.8
Nylon tafetta	20,310 KY	273.6	25.0	15,583 KY	241.2	7.3	19.9
Others.	—	27.4	2.5	—	28.5	0.9	2.3
Total.	—	1,093.5	100.0	—	1,214.6	36.8	100.0

Spun Yarn. Formosa Chemicals & Fibre is one of the largest producers of yarn in Taiwan, producing primarily pure rayon yarn and E/R yarn. Rayon yarn is used for textiles and industrial purposes. Using fiber produced by its first chemicals division and polyester fiber from Nan Ya Plastics, Formosa Chemicals & Fibre produces E/R yarn and other yarn for internal use for weaving or knitting into cloth and for sale to both domestic and overseas customers. It is also focusing on high twist versions of its pure rayon and E/R yarns, which have a high value added content.

Formosa Chemicals & Fibre also manufactures acrylic yarn from acrylic purchased from Formosa Plastics and pure polyester yarn from polyester purchased from Nan Ya Plastics.

In line with its diversification strategy, Formosa Chemicals & Fibre has added dyed yarn and special purpose yarns to its product lines, and has undertaken research and development activities to improve the quality of yarn and to discover new materials to develop new yarn products to improve competitiveness and market share.

Rayon Fabric. Pure rayon cloth and rayon and blended cloth can be used to make a variety of clothing articles and household linens and as backing cloth for PVC leather and polyurethane leather. Nan Ya Plastics, which manufactures PVC and polyurethane leather, is Formosa Chemicals & Fibre's principal customer for industrial use rayon cloth and accounted for 13 per cent. of Formosa Chemicals & Fibre's operating revenues from rayon fabric for the year ended December 31, 2003. Formosa Chemicals & Fibre's rayon fabric production is evenly split between the production of pure rayon cloth and cloth manufactured from rayon blended with other fibers such as polyester, linen and cotton.

Nylon Tafetta. Formosa Chemicals & Fibre produces nylon tafetta from nylon filament. Nylon tafetta is primarily used in ski jackets, swimsuits, umbrellas, raincoats, tents, handbags and as apparel lace. Nylon is used in dresses and blouses as nylon "parachute silk" fabric and as a blend with such fibers as rayon and acetate in satins and taffetas. In addition, nylon tafetta is widely used as a lining material in wallets, suitcases, upholstered furniture and other products.

Engineering and Utilities

Formosa Chemicals & Fibre's engineering and utilities division has installed power generation equipment at Formosa Chemicals & Fibre's production sites in order to provide a stable and cost-effective supply of power and steam for Formosa Chemicals & Fibre's production activities. The engineering and utilities division also sells the electricity and steam which it generates to third parties, including companies within the Formosa Group. Sales of electricity, steam and other products provided by the engineering and utilities division accounted for 7.8 per cent., 6.7 per cent. and 5.4 per cent. of Formosa Chemicals & Fibre's total operating revenues for the years ended December 31, 2001, 2002 and 2003, respectively. The following table sets forth sales volumes of Formosa Chemicals & Fibre's key engineering and utilities products, revenues generated from sales of such products, and the percentage of total engineering and utilities products revenues represented by each product for the periods indicated:

	Year ended December 31,									
	2001			2002			2003			
	Volume (mWh)	NT$ (millions)	%	Volume (mWh)	NT$ (millions)	%	Volume (mWh)	NT$ (millions)	U.S.$ (millions)	%
Electricity	2,896,728	4,864.6	92.5	3,256,439	5,366.8	91.9	3,245,838	5,281.0	155.4	91.6
Others[(1)]	—	396.4	7.5	—	470.7	8.1	—	483.0	14.2	8.4
Total	—	5,261.1	100.0	—	5,837.5	100.0	—	5,764.0	169.6	100.0

(1) "Others" includes sales of steam and industrial water.

Sales of electricity, steam and other products provided by Formosa Chemicals & Fibre's engineering and utilities division accounted for 4.7 per cent. and 4.4 per cent. of Formosa Chemicals & Fibre's total operating revenues for the three months ended March 31, 2003 and 2004, respectively. The following table sets forth sales volumes of Formosa Chemicals & Fibre's key engineering and utilities products, revenues generated from sales of such products, and the percentage of total engineering and utilities products revenues represented by each product for the periods indicated:

	Three months ended March 31,						
	2003			2004			
	Volume (mWh)	NT$ (millions)	%	Volume (mWh)	NT$ (millions)	U.S.$ (millions)	%
Electricity	745,536	1,113.6	91.3	773,655	1,189.5	36.0	89.3
Others[(1)]	—	105.8	8.7	—	141.9	4.3	10.7
Total	—	1,219.4	100.0	—	1,331.4	40.3	100.0

(1) "Others" includes sales of steam and industrial water.

Formosa Chemicals & Fibre operates three coal-fired co-generation power plants at five production sites in Taiwan. Under current ROC regulations, it is not possible to transfer excess power from one site to another via the national grid. As a result, Formosa Chemicals & Fibre sells power to other companies within the Formosa Group and to Taiwan Power Company and purchases electricity for use at two production sites which do not generate electricity for its production facilities. For the year ended December 31, 2003, sales of electricity to affiliates and Taiwan Power Company accounted for approximately 70 per cent. of all power generated by Formosa Chemicals & Fibre.

The engineering and utilities division also provides equipment, system design and supervisory and management services within the various business divisions of Formosa Chemicals & Fibre and does not ordinarily derive revenues from outside the Formosa Group except from power generation.

In support of the overseas investment projects undertaken by Formosa Chemicals & Fibre's various subsidiaries, Formosa Chemicals & Fibre's engineering and utilities division also provides supervisory and management services for several utility plants in Ningbo in the PRC and Tong Nai in Vietnam to serve the power needs of its overseas plants.

Production processes

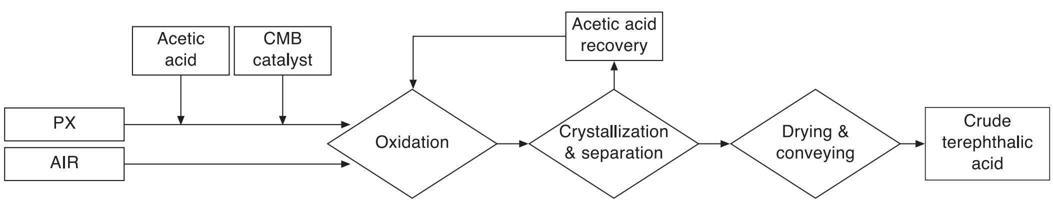
Petrochemical Products

PTA

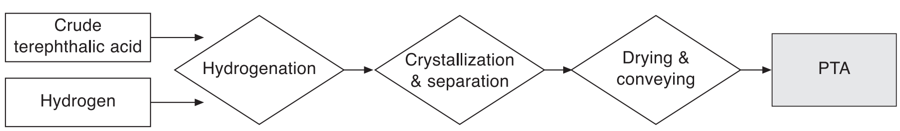
PTA is produced by a two-stage oxidation-hydrogenation process. Para-xylene, together with acetic acid and CMB catalyst, is oxidized with air. The resultant is then crystallized, separated and dried to obtain crude terephthalic acid ("CTA"). CTA is then mixed with hydrogen and then crystallized and purified into PTA.

Production Flow Chart for PTA

Oxidation process:



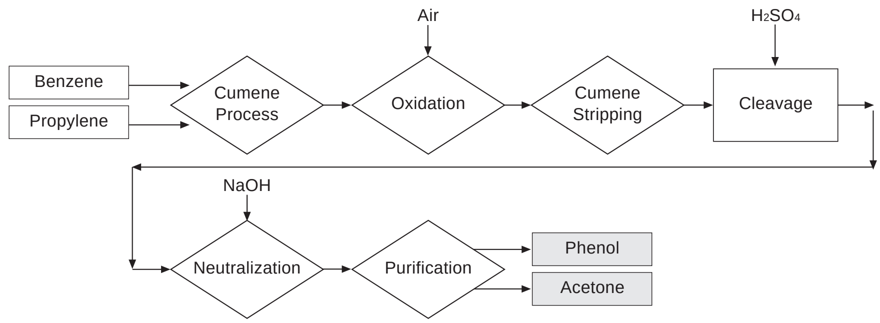
Hydrogenation process:



Phenol Synthesis

Phenol and acetone are produced by alkylation of benzene and propylene via the cumene process. Cumene derived from the oxidation process is then neutralized with sodium hydroxide (NaOH) to form phenol and acetone after removal of impurities.

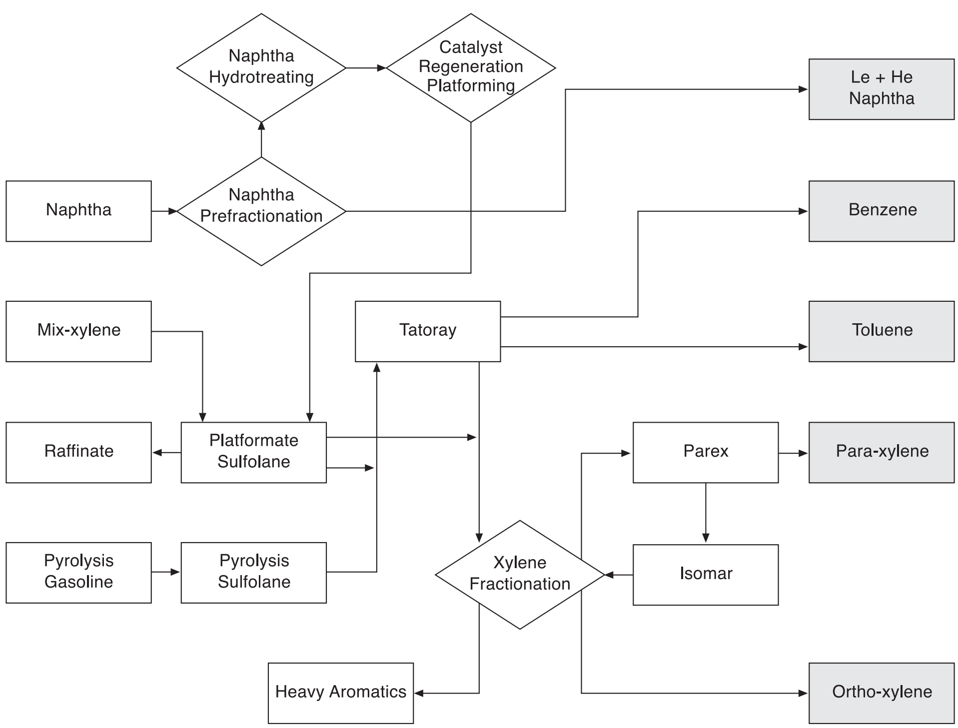
Production Flow Chart for Phenol and Acetone



Aromatics Hydrocarbons

Aromatics, including benzene, toluene, PX and OX are produced by the process of naphtha cracking. Naphtha, together with hydrogen, is fed into an extraction unit where the aromatics are selectively dissolved in a proprietary solvent and then separated via distillation into benzene and toulene. PX and OX are also produced in the process as joint-products.

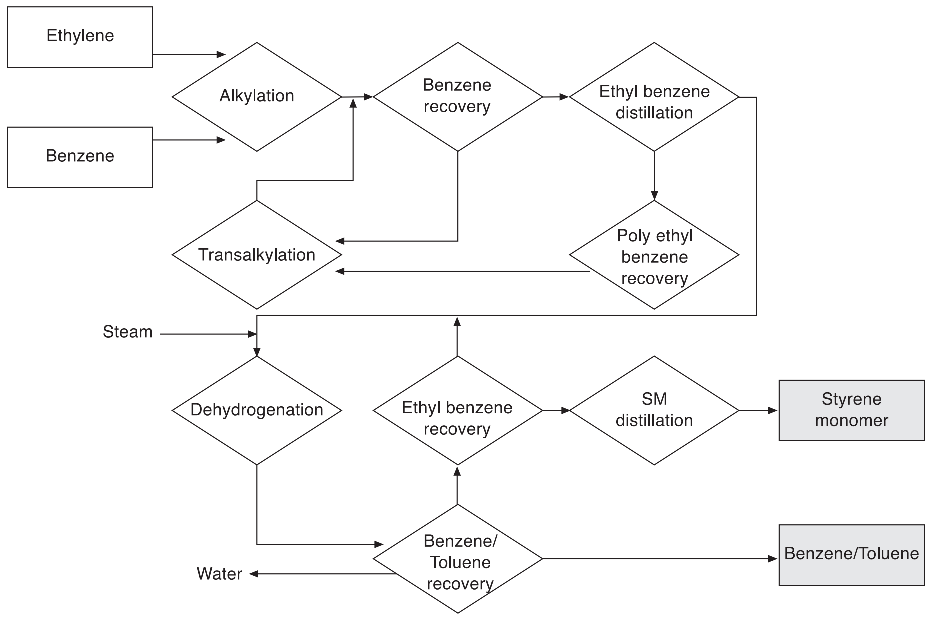
Production Flow Chart for Aromatics



SM

SM is produced by a two-stage process: (i) alkylation and distillation of benzene and ethylene to form ethyl benzene; (ii) ethyl benzene is then added with steam, separated and distilled to form SM.

Production Flow Chart for SM

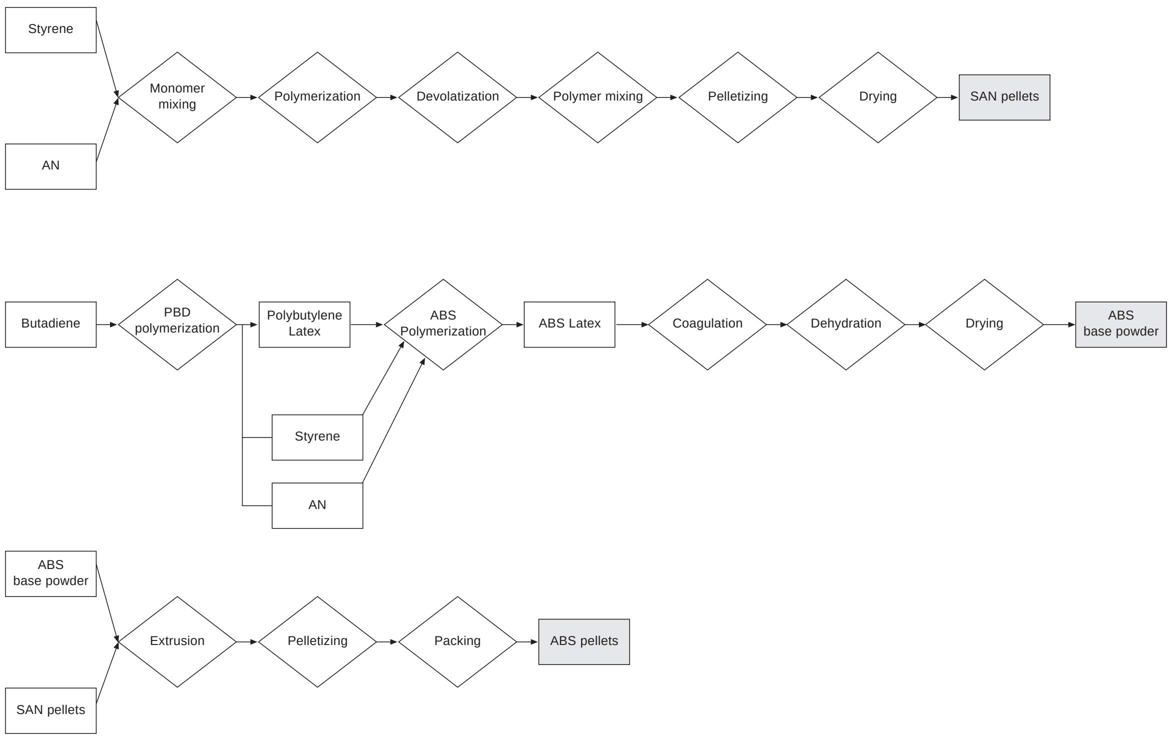


Plastics Products

ABS and SAN

ABS is produced by a two-stage process: styrene and AN are mixed, polymerized and dried to form SAN pellets. Butadiene is polymerized to form polybutylene latex which is then polymerized with styrene and AN to form ABS latex. ABS latex is then dehydrated and dried to form ABS base powder. ABS pellets are produced by extruding and pelletizing ABS base powder together with SAN pellets.

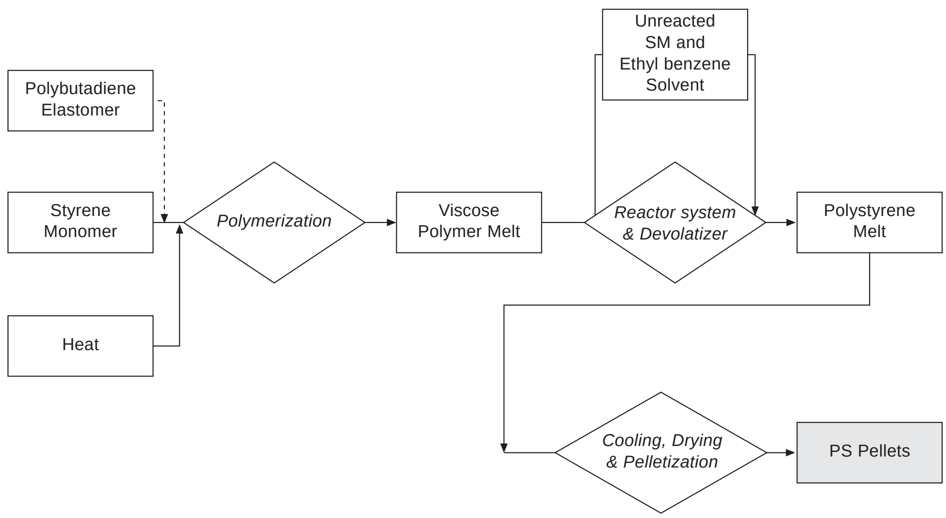
Production Flow Chart for ABS and SAN



PS

General purpose PS is produced by heating and polymerizing SM in an ethyl benzene solvent to form viscose polymer melt. The polymer is passed through a reactor system before entering a devolatilizer. In the devolatilizer, unreacted SM and the solvent are stripped from the PS melt. The remaining PS melt is cooled in a water bath. Having passed through a drying system the strands are pelletised by a rotating knife to form polystyrene chips. The production of high impact PS differs only in that polybutadiene elastomer is added to the SM prior to the heating stage.

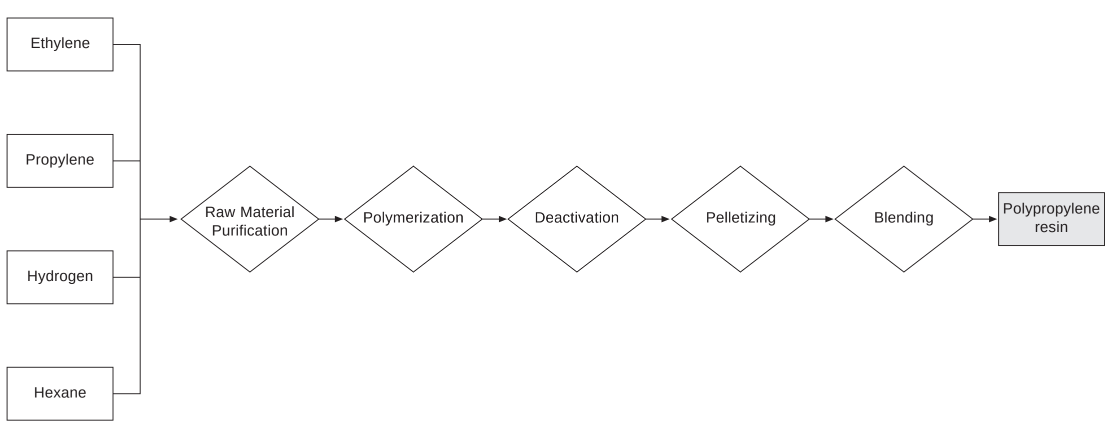
Production Flow Chart for Polystyrene Pellets



PP

Ethylene, propylene, hydrogen and hexane are purified, polymerized, deactivated and then blended to form PP resins.

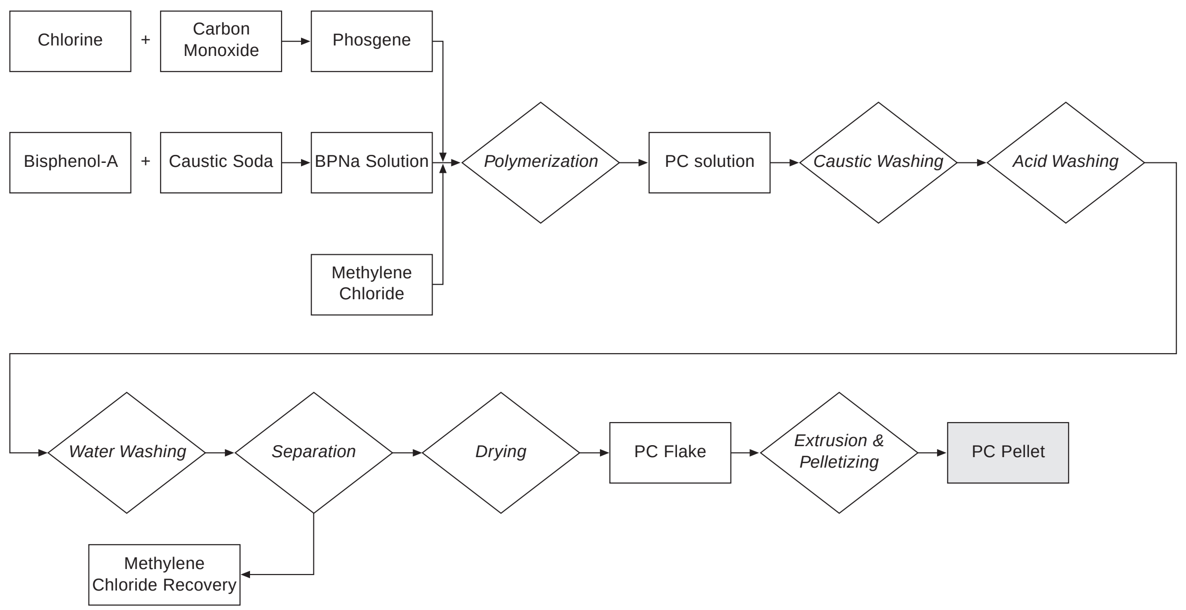
Production Flow Chart for Polypropylene



PC

Chlorine is mixed with carbon monoxide to from phosgene which is then polymerized with BPNa solution (which is formed by mixing Bisphenol-A with caustic soda) and methylene chloride to form PC solution. PC solution is then washed, separated and dried to form PC flakes which are then extracted and pelletized into PC pellets.

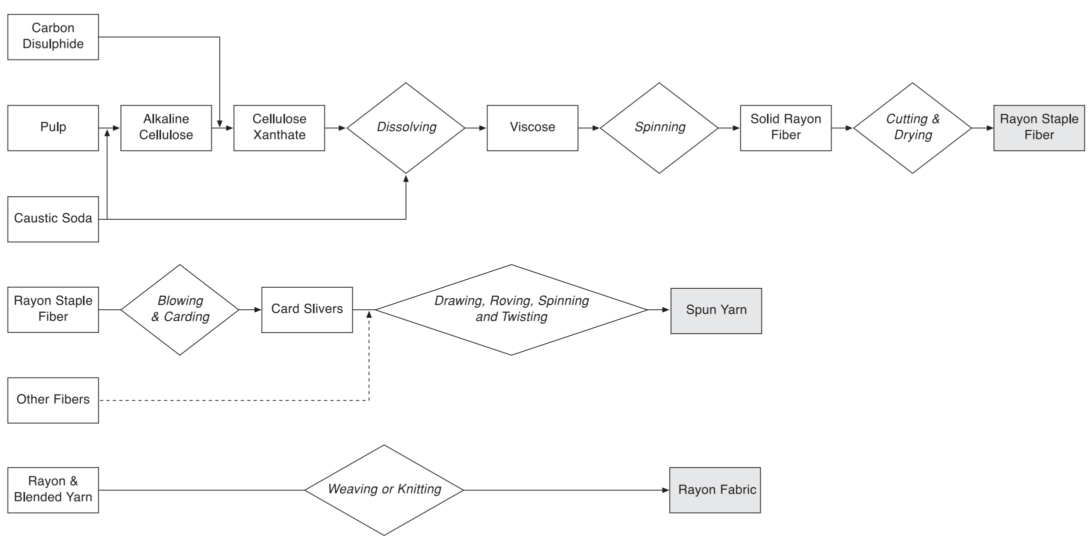
Production Flow Chart for Polycarbonate



Rayon products

Pulp is mixed with caustic soda to produce alkaline cellulose, which is then mixed with carbon disulphide to produce cellulose xanthate. The cellulose xanthate is dissolved in caustic soda to produce viscose, which is spun to form solid rayon fiber. The fiber is then cut and dried to produce rayon staple fiber. By using a blowing and carding process, the rayon staple fiber is combed into card-slivers. At this stage, other fibers may be added to produce blended yarn for the production of blended cloth. Using a drawing and droving process the card slivers are combined into a continuous fiber which is spun and twisted into yarn, which is wound onto cones, from which it is drawn together and woven or knitted into cloth. Other than in the case of dope-dyed fiber which is dyed during the fiber manufacturing process, dyeing generally takes place either when the yarn is on the cones or when it has been woven or knitted into cloth.

Production Flow Chart for Rayon Products

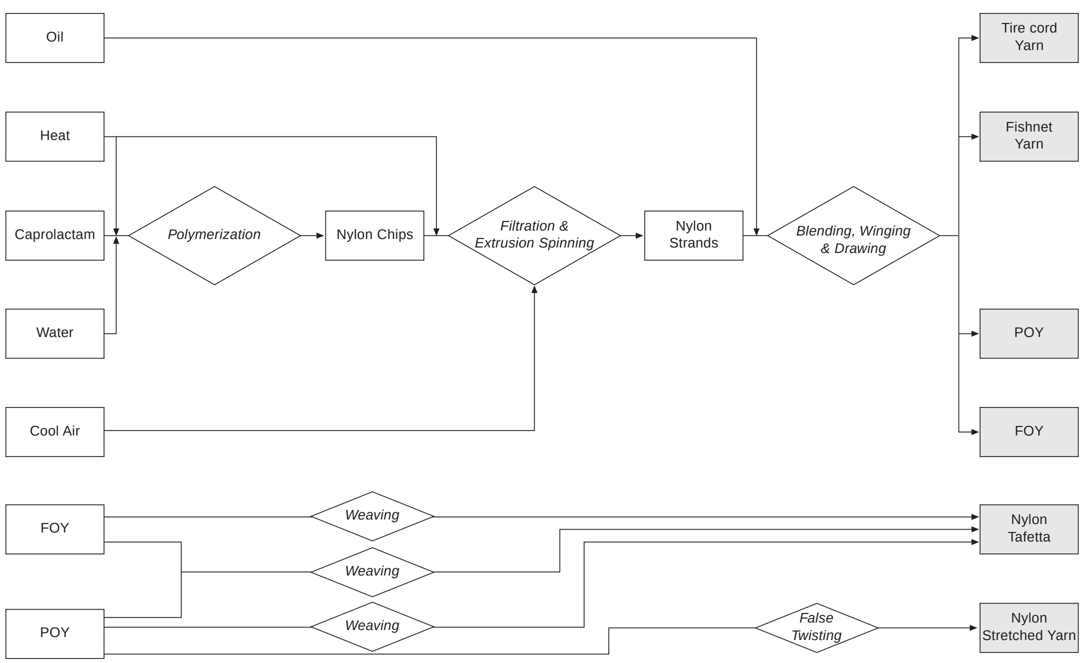


Nylon products

In the production of nylon-6, molten or powdered caprolactam is broken down by heating and adding water and then polymerized into nylon chips, whereas in the production of nylon-66 adipic acid and hexamethylenediamine are polymerized to form nylon chips. The nylon chips are heated, filtered and then extruded through a spinnerette while being cooled. After being spun, the strands are blended with oil and drawn into nylon filament by a process of winding. The various different types of nylon filament are determined by differences in the viscosity of the molten chips and the extrusion and drawing processes. Extruding molten nylon chips through relatively large holes in spinnerettes produces tyre cord yarn, through medium sized holes fishnet yarn and through small holes either fully oriented yarn ("FOY") or partially oriented yarn ("POY"). The production process for partially oriented yarn differs only in the post-extrusion process, when there is partial instead of full drawing of the strands. Stretched yarn can be produced from the partially oriented yarn by a process of false twisting.

Nylon cloth with varying degrees of stretchability can be produced by weaving either only fully oriented yarn, only partially oriented yarn or a blend of fully oriented and partially oriented yarns. Partially oriented yarn produces the most stretchable type of fabric.

Production Flow Chart for Nylon Products



Organization

Operating Divisions

Formosa Chemicals & Fibre's petrochemicals, plastics, fiber and textiles businesses in Taiwan are managed by four operating business divisions, and each of these divisions focuses on a particular product or group of products. The engineering and utilities division is principally concerned with installing and operating power supply facilities and designing equipment and production facilities for Formosa Chemicals & Fibre. The engineering and utilities division also sells to affiliates and other third parities electricity generated from Formosa Chemicals & Fibre's co-generation power plants. The following table sets forth the principal products of each of Formosa Chemicals & Fibre's principal product categories and the typical applications of such products, as well as the operating business divisions responsible for the manufacture of such products:

Product Category	Division	Main Products/Business	Typical Applications
Petrochemical Products			
PTA	Petrochemicals (Third Chemicals Division)	PTA	Raw material for polyester fiber
Phenol	Petrochemicals (Second Chemicals Division)	Phenol	Raw material for Bisphenol-A
OX	Petrochemicals (Second Chemicals Division)	OX	Raw material for pathalic anhydride (PA)
SM	Petrochemicals (Second Chemicals Division)	SM	Raw material for PS and ABS
Acetone	Petrochemicals (Second Chemicals Division)	Acetone	Raw material for Bisphenol-A
Plastics Products			
ABS	Plastics Division	ABS resin	Containers, exterior cases for electronic appliances, automobile appliances, luggage and pipes
PS	Plastics Division	General purpose PS and high impact PS	Containers, exterior cases for electronic appliances and toys
PP	Plastics Division	PP	Carpeting, food packaging, upholstery, automobile component and plastic bottle cups
PC	Plastics Division	PC	Raw material for manufacturing compact disc
Fiber Products			
Nylon filament	Fiber (Nylon Division)	Nylon filament (fully oriented yarn; partially oriented yarn; tire cord yarn)	Fabric, taffeta and tire cord
Rayon staple fiber	Petrochemicals (First Chemicals Division)	Rayon staple fiber	Spun rayon yarn, blended yarn
Textiles Products			
Spun yarn	Textiles Division	Spun rayon yarn, rayon and blended yarn	Fabric
Rayon fabric	Textiles Division	Rayon fabric	Clothing, backing cloth for PVC and polyurethane leather

Product Category	Division	Main Products/Business	Typical Applications
Nylon tafetta	Fiber (Nylon Division)	Nylon taffeta	Ski jackets, swimsuits, umbrellas, clothes, raincoats, tents, handbags, backing cloth for PVC and polyurethane leather
Power Generation			
Electricity and steam	Engineering and Utilities Division	Electricity, steam and water treatment Design of equipment and plant	Power supply

Raw Materials

Supply and Consumption

Raw materials sourced within and outside the Formosa Group. The principal component of Formosa Chemicals & Fibre's operating costs is raw materials. Cost of raw materials constituted 68.1 per cent. and 71.9 per cent. of Formosa Chemicals & Fibre's operating costs for the year ended December 31, 2003 and the three months ended March 31, 2004, respectively. Some of these raw materials were purchased from Formosa Chemicals & Fibre's affiliates. All such purchases were made on an arm's length basis at market prices. Such purchases, like Formosa Chemicals & Fibre's other transactions with its affiliates, are conducted on terms that are substantially the same as those for comparable transactions with non-affiliates. See "Related Party Transactions — Formosa Chemicals & Fibre". Purchases from unaffiliated suppliers accounted for 27.6 per cent., 28.4 per cent. and 24.5 per cent. of Formosa Chemicals & Fibre' purchases of raw materials by value for the years ended December 31, 2001, 2002 and 2003, respectively. The table below sets forth certain information regarding the principal raw materials that Formosa Chemicals & Fibre sources from other entities, including other members of the Formosa Group.

Raw Materials	Principal Use	Principal Supplier
Pulp	Rayon staple fiber	Saiccor, Domsjo, Tembec, Borregaard, Sniace
Sodium hydroxide	Rayon staple fiber	Formosa Plastics
Sulphur	Rayon staple fiber	Formosa Petrochemical
Acetic acid	PTA	CPDC, Spot Market
Full range naphtha	PX, OX, Benzene, Toluene	Spot Market
Heat cut naphtha	PX, OX, Benzene, Toluene	Formosa Petrochemical
Pyrolysis gasoline	PX, OX, Benzene, Toluene	Formosa Petrochemical
Ethylene	SM	Formosa Petrochemical
Mix ylene	PX, OX, Benzene, Toluene	Spot Market
Propylene	Phenol, Acetone, PP	Formosa Petrochemical
AN	ABS	Formosa Plastics
Butadiene	ABS	Formosa Petrochemical
Bisphenol-A	PC	Nan Ya Plastics
Para-tertiary-butylphenol	PC	Dainippon, Yuka Schenectady
Carbon monoxide	PC	Formosa Petrochemical
Caprolactam	Nylon filament	CPDC, DSM, UBE, Toray
Polyester staple fiber	Spun Yarn	Nan Ya Plastics
Acrylic staple fiber	Spun Yarn	Formosa Plastics
Cotton	Spun Yarn	Spot Market

Raw Materials produced internally. As part of its vertical integration strategy, Formosa Chemicals & Fibre produces a series of petrochemical products in the No.6 Naphtha Cracker Complex for use principally in the production of its own downstream products. The following table sets forth certain information regarding the principal raw materials that Formosa Chemicals & Fibre produces internally.

Raw Materials Produced Internally	Principal Use	Division responsible
Benzene	SM, Phenol, Acetone	Petrochemicals (Second Chemicals Division)
PX	PTA	Petrochemicals (Second Chemicals Division)
SM	PS, ABS	Petrochemicals (Second Chemicals Division)
Rayon staple fiber	Spun Yarn	Petrochemicals (First Chemicals Division)
Rayon blended yarn	Rayon, Blended Fabric	Textiles Division
Nylon filament	Taffeta Fabric	Fiber (Nylon Division)

Principal Raw Materials consumed. Formosa Chemicals & Fibre's principal raw materials by value consumed include PX, benzene, SM, heat cut naphtha, pyrolysis gasoline, propylene, mix-xylene caprolactam and ethylene. The following table sets forth, for the periods indicated, the amount of principal raw materials consumed by Formosa Chemicals & Fibre:

	Year ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
	(MT)	(MT)	(MT)	(MT)	(MT)
PX	587,285	830,235	924,908	245,614	264,622
Benzene	604,400	673,878	705,050	159,467	165,078
SM	369,716	309,484	450,339	106,819	116,507
Heat cut naphtha	642,032	833,195	1,041,561	237,816	251,597
Pyrolysis gasoline	709,720	673,638	755,030	132,622	228,923
Propylene	370,689	337,704	378,446	87,526	93,798
Mix xylene	174,819	191,997	281,027	72,408	63,461
Caprolactam	166,800	188,500	198,824	49,794	49,141
Ethylene	155,096	169,123	177,728	37,527	46,241

Types of Raw Materials

Petrochemical Products

PTA. PX and acetic acid are the two principal raw materials used in the production of PTA. For the year ended December 31, 2003, Formosa Chemicals & Fibre sourced 88 per cent. of its demand of PX from its own aromatics plant at Mailiao. The remaining 20 per cent. was purchased from overseas suppliers with reference to spot market prices.

For the year ended December 31, 2003, Formosa Chemicals & Fibre acquired 80 per cent. of its requirements of acetic acid from China Petrochemical Development Corp., with the remaining 20 per cent. purchased from overseas suppliers.

PX and OX. The principal raw materials required for the production of PX and OX are full range naphtha, heat cut naphtha and pyrolysis gasoline. Formosa Chemicals & Fibre imports its requirements of full range naphtha from overseas suppliers on a non-contractual basis. For the year ended December 31, 2003, Formosa Chemicals & Fibre imported a total of 217,040 metric tons of full range naphtha from its overseas suppliers. For the same period, Formosa Chemicals & Fibre obtained all of its requirement of heat cut naphtha from its affiliated company, Formosa Petrochemical. For the year ended December 31, 2003, Formosa Petrochemical supplied a total of 1,041,561 metric tons of heat cut naphtha to Formosa Chemicals & Fibre. For the year ended

December 31, 2003, Formosa Chemicals & Fibre also obtained all of its requirements of pyrolysis gasoline from Formosa Petrochemical. For the year ended December 31, 2003, Formosa Petrochemical supplied a total of 755,030 metric tons of pyrolysis gasoline to Formosa Chemicals & Fibre.

Phenol and Acetone. The principal raw materials required for the production of phenol and acetone are benzene and propylene, which Formosa Chemicals & Fibre either produces internally at its own aromatics plant at Mailiao or obtains from Formosa Petrochemical. For the year ended December 31, 2003, Formosa Chemicals & Fibre utilized a total of 221,137 metric tons of benzene produced at its aromatics plant for the production of phenol and acetone. For the same period, Formosa Petrochemical supplied a total of 106,857 metric tons of propylene to Formosa Chemicals & Fibre for the production of phenol and acetone.

SM. The two principal raw materials required for the production of SM are benzene and ethylene which, because of its vertical integration policy, Formosa Chemicals & Fibre is able to produce internally. For the year ended December 31, 2003, 67.5 per cent. of Formosa Chemicals & Fibre's requirements of benzene for the production of SM was produced internally at its own aromatics plant at Mailiao, with the balance purchased from overseas suppliers. For the year ended December 31, 2003, Formosa Chemicals & Fibre purchased 160,580 metric tons of benzene from its overseas suppliers and utilized 333,333 metric tons of benzene from internal production for its production of SM.

For the year ended December 31, 2003, Formosa Chemicals & Fibre obtained all of its requirements of ethylene from Formosa Petrochemical. For the year ended December 31, 2003, Formosa Petrochemical supplied a total of 177,728 metric tons of ethylene to Formosa Chemicals & Fibre.

Plastics Products

ABS. The three principal raw materials used in the production of ABS are SM, AN and butadiene, all of which Formosa Chemicals & Fibre either produces internally or sources from other companies within the Formosa Group. For the year ended December 31, 2003, Formosa Chemicals & Fibre's SM plant supplied all of its plastics division's requirements of SM. For the same period, Formosa Plastics supplied all of Formosa Chemicals & Fibre's requirements of AN while Formosa Petrochemical supplied all of Formosa Chemicals & Fibre's requirements of butadiene. For the year ended December 31, 2003, Formosa Chemicals & Fibre acquired a total of 71,280 metric tons of AN from Formosa Plastics and 47,766 metric tons of butadiene from Formosa Petrochemical.

PS. For the year ended December 31, 2003, Formosa Chemicals & Fibre's SM plant at Mailiao supplied all of its requirements of SM for the production of PS. For the year ended December 31, 2003, Formosa Chemicals & Fibre's SM plant utilized a total of 249,220 metric tons of SM.

PP. Propylene is the principal raw material used for the production of PP. For the year ended December 31, 2003, Formosa Chemicals & Fibre acquired all of its requirements of propylene from Formosa Petrochemical. For the year ended December 31, 2003, Formosa Chemicals & Fibre acquired a total of 271,589 metric tons of propylene from Formosa Petrochemical for the production of PP.

PC. The principal raw materials used in the production of PC includes bisphenol-A ("BPA"), para-tertiary-butylphenol and carbon monoxide. For the year ended December 31, 2003, Formosa Chemicals & Fibre acquired all of its requirements of BPA from Nan Ya Plastics. For the same period, Formosa Chemicals & Fibre obtained all of its requirements of para-tertiary-butylphenol from several suppliers in Japan. For the year ended December 31, 2003, Formosa Chemicals & Fibre acquired all of its requirements of carbon monoxide from Formosa Petrochemical. For the year ended December 31, 2003, Formosa Chemicals & Fibre acquired a total of 65,920 metric tons, 2,428 metric tons and 11,214 metric tons, of BPA, para-tertiary-butylphenol and carbon monoxide, respectively, from its respective suppliers.

Fiber Products

Rayon Products

Nylon Filament. The principal raw material required for the production of nylon filament is caprolactam. Formosa Chemicals & Fibre purchases both liquid and powdered caprolactam from regular domestic and foreign suppliers with reference to spot market prices. Caprolactam in liquid form is principally supplied domestically by China Petrochemical Development Corp. or imported from Japan. Caprolactam in powder form, which is easier to transport than liquid caprolactam, is imported from Japan and the Netherlands. For the year ended December 31, 2003, Formosa Chemicals & Fibre purchased a total of 198,824 metric tons of caprolactam from domestic and overseas suppliers.

Rayon Staple Fiber. The principal raw material required for the production of rayon staple fiber is wood pulp. Formosa Chemicals & Fibre purchases pulp from several suppliers mainly in South Africa, Spain, Brazil and Canada.

The production of rayon staple fiber also requires sodium hydroxide and molten sulphur for the production of carbon sulphate and sulphuric acid. For the year ended December 31, 2003, Formosa Plastics supplied all of Formosa Chemicals & Fibre's requirements of sodium hydroxide while Formosa Petrochemical supplied Formosa Chemicals & Fibre with all its requirements of molten sulphur. For the year ended December 31, 2003, Formosa Chemicals & Fibre acquired a total of 125,764 metric tons of wood pulp from its overseas suppliers. For the same period, Formosa Chemicals & Fibre acquired a total of 89,943 metric tons of sodium hydroxide and 48,466 metric tons of molten sulphur from its affiliated companies.

Textile Products

Spun Yarn. Spun yarn is manufactured by Formosa Chemicals & Fibre's textiles division, which acquires all of its rayon staple fiber needs from its first chemicals division. For the year ended December 31, 2003, Formosa Chemicals & Fibre purchased all of its requirements of acrylic fiber from Formosa Plastics and all of its requirements of polyester fiber from Nan Ya Plastics. For the same period, Formosa Chemicals & Fibre also purchased all of its requirements of natural cotton from various suppliers in the spot market. For the year ended December 31, 2003, Formosa Chemicals & Fibre acquired a total of 12,972 metric tons of rayon staple fiber, 13,736 metric tons of polyester fiber and 5,313 metric tons of acrylic fiber from its affiliated companies. During the same period, Formosa Chemicals & Fibre purchased 2,764 metric tons of natural cotton from its overseas suppliers.

Rayon Fabric. Rayon fabric is manufactured by Formosa Chemicals & Fibre's textiles division which produces all of its requirement of spun yarn internally.

Nylon Tafetta. Nylon tafetta is manufactured by Formosa Chemicals & Fibre's textiles division which produces all of its requirement of nylon filament internally.

Power

Formosa Chemicals & Fibre owns and operates three coal-fired co-generation power plants at five production sites. Formosa Chemicals & Fibre purchases coal principally from Australia and the PRC.

Sales

Geographical Markets

Formosa Chemicals & Fibre conducts its operations in the PRC and Vietnam principally through non-consolidated subsidiaries and affiliates. As such, sales of products manufactured in its plants in these countries are not reflected in its operating revenues.

The following table sets forth, for the periods indicated, the percentage breakdown of Formosa Chemicals & Fibre's operating revenues by geographic segments for each type of product it manufactures:

	Year ended December 31,			Three Months ended March 31,	
	2001	2002	2003	2003	2004
	%	%	%	%	%
Petrochemical Products					
Taiwan	69.1	60.6	64.8	63.0	72.8
PRC	23.4	34.2	30.8	33.2	24.7
U.S. and Canada	0.7	0.1	0.0	—	—
Others	6.8	5.1	4.3	3.8	2.5
Total	100.0	100.0	100.0	100.0	100.0
Plastics Products					
Taiwan	30.8	35.9	39.2	34.4	37.0
PRC	60.3	53.6	51.0	54.0	54.1
U.S. and Canada	3.5	2.4	2.1	2.7	1.7
Others	5.4	8.1	7.7	8.9	7.2
Total	100.0	100.0	100.0	100.0	100.0
Fiber Products					
Taiwan	72.1	60.2	54.3	53.0	60.8
PRC	11.4	13.8	22.6	21.7	21.6
U.S. and Canada	0.4	0.6	0.6	0.5	0.8
Pakistan	4.9	5.4	5.5	6.9	4.1
Others	11.2	20.1	17.0	17.9	12.7
Total	100.0	100.0	100.0	100.0	100.0
Textiles Products					
Taiwan	84.6	85.8	85.2	89.9	83.9
PRC	4.3	3.7	3.5	1.8	5.2
U.S. and Canada	1.9	1.9	2.1	0.4	1.6
Japan	3.7	3.7	4.4	2.6	5.6
Others	5.4	4.9	4.7	5.3	3.7
Total	100.0	100.0	100.0	100.0	100.0
Power Generation					
Taiwan	100.0	100.0	100.0	100.0	100.0
Total	100.0	100.0	100.0	100.0	100.0

Customers

Formosa Chemicals & Fibre has built an extensive and stable customer base both in Taiwan and overseas. In the export market, Formosa Chemicals & Fibre has been able to grow its exports sales by targeting high growth markets such as the PRC, Indonesia and India. In the domestic market, Formosa Chemicals & Fibre believes that it has built a leading market position in each of its principal product markets. Formosa Chemicals & Fibre's customer base outside of the Formosa Group consists of manufacturers, distributors and sales agents in Taiwan and manufacturers and trading companies outside Taiwan. Formosa Chemicals & Fibre believes that it has good relationships with its customers, and that these relationships provide it with a stable customer base. No single customer (other than members of the Formosa Group) accounted for more than five per cent. of Formosa Chemicals & Fibre's total operating revenues for the year ended December 31, 2003. Formosa Chemicals & Fibre's largest single customer for the year ended December 31, 2003 was Nan Ya Plastics, which accounted for approximately 19 per cent. of Formosa Chemicals & Fibre's total operating revenues for the year. Total sales of its products to companies in the Formosa Group accounted for approximately 31 per cent., of Formosa Chemicals & Fibre's total operating revenues for the year ended December 31, 2003. Exports of Formosa Chemicals & Fibre's products for the year ended December 31, 2003 totalled approximately 40 per cent. of its total operating revenues.

Petrochemical Products

PTA

For the year ended December 31, 2003, Formosa Chemicals & Fibre sold approximately 35 per cent. of the PTA it produced to Nan Ya Plastics. Most of the remaining PTA production (approximately 44 per cent. of its production) was sold to overseas manufacturers in the PRC.

Phenol

For the year ended December 31, 2003, Formosa Chemicals & Fibre sold approximately 74 per cent. of the phenol it produced to domestic customers and approximately 26 per cent. of its production to overseas customers. For the year ended December 31, 2003, Nan Ya Plastics was Formosa Chemicals & Fibre's largest customer for phenol, accounting for approximately 62 per cent. of its production of phenol. The remaining 12 per cent. of its production was sold to domestic customers outside of the Formosa Group. In the export market, most of Formosa Chemicals & Fibre's phenol production was sold to PRC manufacturers, accounting for approximately 22 per cent. of its production for the year ended December 31, 2003. The remaining 4 per cent. of its phenol production was exported to other Asian countries such as Malaysia, Indonesia and Japan.

OX

Formosa Chemicals & Fibre sells the OX it produces to domestic and overseas customers. For the year ended December 31, 2003, approximately 63 per cent. of Formosa Chemicals & Fibre's production was sold to domestic customers, with Nan Ya Plastics being the largest customer, accounting for approximately 62 per cent. of its production of OX for the same period. In the exports market, Formosa Chemicals & Fibre's export customers for OX are primarily manufacturers in Asian countries such as the PRC, Indonesia and Korea, which accounted for approximately 13 per cent., 12 per cent. and 9 per cent., respectively, of Formosa Chemicals & Fibre's sales of OX for the year ended December 31, 2003.

SM

Formosa Chemicals & Fibre utilizes most of the SM it produces internally as raw materials for the production of PS and ABS. For the year ended December 31, 2003, Formosa Chemicals & Fibre utilized 75 per cent. of its production of SM internally. For the same period, most of the remaining production of SM (16 per cent.) was sold to domestic manufacturers in Taiwan, including affiliated companies such as Formosa Plastics and Nan Ya Plastics. The balance of Formosa Chemicals & Fibre's production of SM (9 per cent.) was sold to overseas manufacturers, primarily in the PRC which accounted for 8 per cent. of its SM production for the year ended December 31, 2003.

Acetone

Formosa Chemicals & Fibre sells the acetone it produces to both domestic and export markets. Domestically, Formosa Plastics and Nan Ya Plastics were the two largest customers, accounting for 27 per cent. and 36 per cent. of its production of acetone for the year ended December 31, 2003, respectively, with the remaining production (14 per cent.) sold to domestic companies outside of the Formosa Group. Formosa Chemicals & Fibre's largest export market for its production of acetone is the PRC, accounting for 15 per cent. of its production of acetone for the year ended December 31, 2003. The remaining 8 per cent. of its production was sold to other Asian countries such as Hong Kong, Japan and Korea.

Plastics Products

ABS

For the year ended December 31, 2003, Formosa Chemicals & Fibre sold 89 per cent. of the ABS it produced to overseas manufacturers, primarily in Hong Kong and the PRC (together accounting for 38 per cent. of its total production). The remaining ABS production was sold to domestic customers outside the Formosa Group.

PS

For the year ended December 31, 2003, Formosa Chemicals & Fibre sold 67 per cent. of the PS it produced to overseas distributors and manufacturers, primarily in Hong Kong and the PRC (together accounting for 18 per cent. of its total production). The remaining PS production was sold to domestic customers outside of the Formosa Group.

PP

Formosa Chemicals & Fibre sells the PP it produces to both domestic and overseas manufacturers. For the year ended December 31, 2003, 56 per cent. of the PP produced by Formosa Chemicals & Fibre was sold to domestic customers and 44 per cent. was sold overseas. Nan Ya Plastics was the largest customer, accounting for 19 per cent. of Formosa Chemicals & Fibre's total production of PP for the year ended December 31, 2003. In the export market, Formosa Chemicals & Fibre sold most of the PP it produced to plastics manufacturers in Hong Kong, accounting for 9 per cent. of Formosa Chemicals & Fibre's total production of PP for the year ended December 31, 2003.

PC

For the year ended December 31, 2003, Formosa Chemicals & Fibre sold almost all of the PC it produced to Formosa Idemitsu Petrochemical Corp., a joint venture formed by Formosa Chemicals & Fibre and Idemitsu Petrochemical Co., Ltd. A small remaining percentage of its PC production was consumed internally as raw materials.

Fiber Products

Rayon Staple Fiber

For the year ended December 31, 2003, 28 per cent. of the rayon staple fiber produced by Formosa Chemicals & Fibre was sold to domestic customers and approximately 65 per cent. of its production was sold to overseas customers. For the same period, approximately 7 per cent. of the rayon staple fiber production was supplied to Formosa Chemicals & Fibre's textile division for the production of downstream products. Formosa Chemicals & Fibre's largest export markets for rayon staple fiber include Pakistan, the United States, the Philippines and South Korea and also several European countries.

Nylon Filament

Nylon Filament. Formosa Chemicals & Fibre is one of the world's leading manufacturing of nylon filament. For the year ended December 31, 2003, 64 per cent. and 33 per cent. of Formosa Chemicals & Fibre's nylon filament production was sold to domestic customers and overseas manufacturers, respectively. Formosa Taffeta Co., Limited was the largest customer, accounting for 18 per cent. of Formosa Chemicals & Fibre's sales of nylon filament for the year ended December 31, 2003. As a large proportion of Formosa Chemicals & Fibre's nylon filament customers have relocated parts of their production operations offshore in recent years, primarily to the PRC and Southeast Asia, Formosa Chemicals & Fibre's exports to these geographic areas have increased in recent years, and Formosa Chemicals & Fibre expects they will continue to increase in the future.

Textile Products

Spun Yarn. For the year ended December 31, 2003, 60 per cent. of the spun yarns produced by Formosa Chemicals & Fibre was sold to domestic customers and 12 per cent. of its production was sold to overseas customers. 28 per cent. of Formosa Chemicals & Fibre's production of spun yarn was supplied to its own textiles division for internal consumption for the year ended December 31, 2003. Most of Formosa Chemicals & Fibre's export customers for spun yarn are located in developed countries such as Japan and Australia and in Europe and provide a relatively stable market.

Rayon Fabric. Rayon fabric is sold in both the domestic and export markets. For the year ended December 31, 2003, 90 per cent. of Formosa Chemicals & Fibre's rayon fabric was sold to domestic customers. The remainder of Formosa Chemicals & Fibre's rayon fabric production was exported, principally to Europe and the Middle East. For the same period, Nan Ya Plastics purchased 18 per cent. of Formosa Chemicals & Fibre's total production of rayon fabric for use as backing cloth for PVC leather and polyurethane leather. The remainder of domestic sales and all export sales were to manufacturers.

Nylon Tafetta. For the year ended December 31, 2003, 87 per cent. of Formosa Chemicals & Fibre's production of nylon tafetta was sold to domestic customers, with Nan Ya Plastics purchasing 8 per cent. of its production. Exports of nylon cloth have increased in recent years due primarily to the development of new offshore customers.

Engineering and Utilities

For the year ended December 31, 2003, 24 per cent. and 68 per cent. of Formosa Chemicals & Fibre's engineering and utilities division's total operating revenues were derived from sales of electricity to affiliates within the Formosa Group and to Taiwan Power Company, respectively.

Competition

Formosa Chemicals & Fibre competes primarily on the basis of price and quality of its products as well as the ability to meet customers' demands. Formosa Chemicals & Fibre believes that it enjoys a competitive advantage over competitors in its principal product markets due to its vertically integrated manufacturing process which has resulted in a stable and cost-effective source of supply of raw materials to its downstream production lines which in turn has given Formosa Chemicals & Fibre greater control over the quality of raw materials and reduced its reliance on imports.

Formosa Chemicals & Fibre believes that through its participation in the No. 6 Naphtha Cracker Complex and the construction of additional production plants in the No. 6 Naphtha Cracker Complex, it has been able to increase its production capacity of higher value-added products with special specifications to meet customers' demand which in turn has improved its profitability and competitiveness. Coupled with continued de-bottlenecking activities at its existing plants, it believes it will be able to enjoy further savings in production costs, improved productivity and economies of scale not achievable by plants with smaller capacities. In addition, Formosa Chemicals & Fibre believes that the operation of its in-house co-generation power plants has further lowered its costs of production.

Product Sector	Principal Geographical Markets	Principal Competitors
Petrochemical Products		
PTA	Taiwan, the PRC	CPDC, Samsung, DuPont Far Eastern, Tuntex Petrochemical
Phenol	Taiwan, the PRC	Mitsui, TPCC
OX	Taiwan, the PRC, Korea	CPC, Konap
SM	Taiwan, the PRC	Asahi Kasei, Ellba, Samsung
Acetone	Taiwan, the PRC	Mitsui, TPCC
Plastics Products		
ABS	Taiwan, the PRC	LG, Chi Mei
PS	Taiwan, the PRC	Chi Mei, Asahi Kasei
PP	Taiwan, the PRC	TPC, Formosa Plastics
PC	Taiwan	GE
Fiber Products		
Nylon Filament	Taiwan, the PRC	Kolon, Kohap, Hualon
Rayon Stable Fiber	Taiwan, the PRC, Pakistan	South Pacific, Grasim
Textiles Products		
Spun Yarn	Taiwan, Japan	Far Eastern Apparel, Tainan Textile
Rayon Fabric	Taiwan	Far Eastern Apparel, Ruentex
Nylon Tafetta	Taiwan	Hualon, Lipeng, Formosa Taffeta

Petrochemical Products

PTA

Formosa Chemicals & Fibre believes that it is the second largest manufacturer of PTA in Taiwan, and also the second largest manufacturer of PTA in Asia. For the year ended December 31, 2003, Nan Ya Plastics purchased a major proportion (approximately 35 per cent.) of Formosa Chemicals & Fibre's production of PTA. During the same period, most of the remaining production (approximately 44 per cent.) was sold to manufacturers in the PRC. In the domestic market, Formosa Chemicals & Fibre mainly competes with China Petrochemical Development Corp., DuPont Far Eastern Co. Ltd, Tuntex Petrochemical Inc. and Samsung. In the export market, Formosa Chemicals & Fibre primarily competes with producers of PTA in Japan, Korea, the PRC and Indonesia.

Phenol

Formosa Chemicals & Fibre believes that it is the largest producer of phenol in Taiwan, and the second largest producer of phenol in Asia. In the domestic market, in which it primarily competes with Mitsui & Co., (Taiwan) Ltd and Taiwan Prosperity Chemical Corporation, Formosa Chemicals & Fibre believes that it has an approximately 43 per cent. domestic market share. In the export market, Formosa Chemicals & Fibre mainly competes with producers in the PRC, Japan, India and Korea.

OX

Formosa Chemicals & Fibre is one of the largest producers of OX in Taiwan and in Asia. It believes that it has an approximately 14 per cent. share of the OX market in Asia and a 69 per cent. share of the domestic market in Taiwan. In the domestic market, Formosa Chemicals & Fibre primarily competes with China Petrochemical Development Corp. In the export market, Formosa Chemicals & Fibre primarily competes with producers in the PRC, Korea, Japan and India.

SM

Formosa Chemicals & Fibre believes that it is one of the largest manufacturers of SM in Taiwan, with approximately 36 per cent. market share in the domestic market. For the year ended December 31, 2003, Formosa Chemicals & Fibre utilized a major proportion (75 per cent.) of its production of SM internally as raw materials for production of PS and ABS and sold 16 per cent. in the domestic market, in which it competes with a few large manufacturers. For the same period, only approximately 11 per cent. of Formosa Chemicals & Fibre's production of SM was sold in the export market, in which it competes primarily with Korean and Japanese manufacturers.

Acetone

Formosa Chemicals & Fibre is one of the largest producers of acetone in Taiwan, with a 48 per cent. share in the domestic market, in which it primarily competes with Mitsui & Co., (Japan) Ltd. and Taiwan Prosperity Chemical Corporation and other large domestic manufacturers. In the export market, it primarily competes against producers of acetone in Japan, the PRC and Korea.

Plastics Products

ABS

With the completion of the No. 6 Naphtha Cracker Complex, and the construction of its new ABS plants within the complex, Formosa Chemicals & Fibre believes that it is able to compete effectively with existing manufacturers of ABS in Taiwan and other producers in the export market. In the domestic market, Formosa Chemicals & Fibre believes that it has an approximately 20 per cent. market share and competes against several large manufacturers and other smaller companies including Chi Mei Corporation. In the export market, it competes primarily with other producers in the United States and other European countries.

PS

Formosa Chemicals & Fibre believes that it is the second largest producer of polystyrene in Taiwan, having a 33 per cent. share of the domestic market. Formosa Chemicals & Fibre primarily competes with Chi Mei Corporation in the domestic market in Taiwan. In the Asian export market, Formosa Chemicals & Fibre primarily competes with producers in Japan, the PRC and Korea. Outside of Asia, Formosa Chemicals & Fibre primarily competes with producers in the United States and several European countries.

PP

Formosa Chemicals & Fibre believes that it is the third largest producer of PP in Taiwan, with a domestic market share of approximately 22 per cent.. Formosa Chemicals & Fibre primarily competes with Taiwan Polypropylene Co., Ltd. and Formosa Plastics in the domestic market in Taiwan. In the export market, it primarily competes with producers in Japan, Korea and the PRC.

PC

Formosa Chemicals & Fibre believes that it is the largest producer of PC in Taiwan, with approximately 31 per cent. of the domestic market. Formosa Chemicals & Fibre sells almost all of its production of PC to Formosa Idemitsu Petrochemical Corp., a joint venture formed by Formosa Chemicals & Fibre and Indemitsu Petrochemical Co., Ltd., and does not consider itself to be in competition with other producers in the market.

Fiber Products

Nylon Filament

Formosa Chemicals & Fibre believes it has an approximately 35 per cent. share of the domestic nylon filament market, in which it competes against a few large manufacturers and many smaller companies including Hualon Corporation. In the overseas market, it competes with producers from Japan, South Korea and the PRC. Formosa Chemicals & Fibre believes that its ability to produce a wide range of diversified nylon products to satisfy customer demands gives it a competitive advantage over other nylon producers.

Rayon Staple Fiber

Formosa Chemicals & Fibre is the sole producer of rayon staple fiber in Taiwan and primarily competes with overseas-based producers which export into Taiwan. Competition is primarily on the basis of price, quality and ability to respond to customers' needs. Formosa Chemicals & Fibre believes that it has advantages over its competitors due to the low cost of its manufacturing operations and in terms of the quality and range of its products. In the export market, Formosa Chemicals & Fibre's main competitors include producers in India and Indonesia.

Textile Products

Spun Yarn

Formosa Chemicals & Fibre believes it has an approximately 6 per cent. share of the domestic spun yarn market. It believes that it is the second largest producer in Taiwan and primarily competes against Far Eastern Apparel Co., Ltd. and Taiwan Textile Industry Co., and a few smaller companies. In export markets, Formosa Chemicals & Fibre competes with PRC, Indonesian, Indian and Vietnamese producers that benefit from significantly lower labor costs. Formosa Chemicals & Fibre competes on the basis of the quality and diversity of its products, which, it believes, allow it to obtain prices higher than those charged by other producers and maintain profitability. It emphasizes higher value-added products that are not currently produced in the PRC or other less developed Asian countries.

Rayon Fabric

Formosa Chemicals & Fibre believes its share of the domestic rayon fabric market is approximately 14 per cent., in which it competes with Far Eastern Apparel and Ruentex Industries Limited. Formosa Chemicals & Fibre has been facing increased competition from producers of rayon fabric in southeast Asia (especially Indonesia) and the PRC who enjoy the benefit of lower labor costs and, in response, has focused on higher value-added, small-batch production products. Approximately 60 per cent. of Formosa Chemicals & Fibre's sales of rayon fabric for the year ended December 31, 2003 were of such higher value products.

Nylon Tafetta

Formosa Chemicals & Fibre is one of largest producers of nylon tafetta in Taiwan. Formosa Taffeta Co., Limited, 37.4 per cent. of the capital stock of which is owned by Formosa Chemicals & Fibre as at March 31, 2004, is the largest producer of nylon tafetta in Taiwan, with a market share of approximately 15 per cent. Formosa Chemicals & Fibre primarily competes with Formosa Taffeta Co., Limited and a small number of other producers including Hualon Corporation and Lipeng Enterprise Co., Ltd. There is no dominant manufacturer of nylon cloth in Taiwan. In the export market, Formosa Chemicals & Fibre sells its nylon cloth primarily to manufacturers in countries such as Hong Kong, the United States and Russia.

Research and Development; Intellectual Property Rights

Formosa Chemicals & Fibre's research and development activities are conducted at two levels. Each manufacturing facility has its own research and development staff generally devoted to improving production processes and addressing specific technical problems. In addition, Formosa Chemicals & Fibre has a separate research and development department which, as at December 31, 2003 was comprised of approximately 40 staff members responsible for developing new products and assisting the research and development staffs at the manufacturing facilities with respect to specific projects.

For the year ended December 31, 2003, the total amount spent on research and development by Formosa Chemicals & Fibre was NT$400 million, including costs for personnel and facilities.

All of the technology and technical know-how currently used by Formosa Chemicals & Fibre for its production processes has been developed or is owned by Formosa Chemicals & Fibre. There are licensing arrangements for the ARO-2, SM, phenol, PP and PC manufacturing processes. The ARO-2 manufacturing process of Formosa Chemicals & Fibre is currently licensed from UOP-USA. Formosa Chemicals & Fibre has entered into a non-exclusive licensing agreement with Raytheon-USA for the SM manufacturing process flow design at its SM plant in Mailiao. Formosa Chemicals & Fibre has also entered into a non-exclusive licence agreement with Lummus-USA for the manufacturing process and flow design, consultation and testing services relating to the production of phenol.

In the plastics segment, Formosa Chemicals & Fibre has also entered into licence agreements with Japanese manufacturers, namely, CHISSO and Idemitsu Petrochemical Co., Ltd. for the production technologies for PP and PC, respectively.

Properties and Facilities

Formosa Chemicals & Fibre operates 28 manufacturing plants and three co-generation power plants at five production sites in Taiwan: Changhwa, Ilan, Dongshan, Chiayi Hsin Kang and Mailiao. Formosa Chemicals & Fibre's manufacturing plants may be classified into the following general categories: aromatics (two), SM (one), phenol (one), PTA (two), DMF (one), ABS (two), PP (one), PC (one), PS (one), rayon staple fiber (two), spun yarn (three), rayon fabric (three), rayon and blended dyed cloth (one), nylon filament (four), nylon tafetta (one), nylon dyed cloth (one) and nylon chip (one). Formosa Chemicals & Fibre owns all of the facilities, property and equipment at all of its production sites and has its own maintenance crew for each site.

Production Capacity

The following table sets forth Formosa Chemicals & Fibre's annual production capacity for its principal products and average utilization rate of its production facilities for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2001	**2002**	**2003**	**2003**	**2004**
Petrochemical Product					
Aromatic					
Capacity (MTY)	1,481,000	1,481,000	1,762,000	1,481,000	1,762,000
Average Utilization Rate	96%	96%	100%	100%	91%
SM					
Capacity (MTY)	565,000	600,000	600,000	600,000	600,000
Average Utilization Rate	96%	98%	100%	100%	100%
Phenol & Acetone					
Capacity (MTY)	323,000	323,000	323,000	323,000	323,000
Average Utilization Rate	93%	100%	100%	100%	100%
PTA					
Capacity (MTY)	840,000	1,400,000	1,500,000	1,400,000	1,500,000
Average Utilization Rate	100%	100%	89%	93%	100%
Plastics Product					
PS					
Capacity (MTY)	260,000	260,000	260,000	260,000	260,000
Average Utilization Rate	84%	93%	100%	98%	100%
ABS					
Capacity (MTY)	250,000	250,000	390,000	250,000	390,000
Average Utilization Rate	96%	93%	100%	100%	100%
PP					
Capacity (MTY)	300,000	300,000	300,000	300,000	300,000
Average Utilization Rate	64%	75%	87%	77%	96%
PC					
Capacity (MTY)	—	50,000	100,000	50,000	100,000
Average Utilization Rate	—	92%	100%	23%	100%
Fiber Product					
Rayon Staple Fiber					
Capacity (MTY)	152,000	152,000	152,000	152,000	152,000
Average Utilization Rate	87%	75%	78%	78%	88%
Nylon filament					
Capacity (MTY)	204,000	204,000	204,000	204,000	204,000
Average Utilization Rate	76%	82%	86%	87%	91%
Textile Product					
Spun yarn					
Capacity (Bales)	346,000	200,000	200,000	200,000	200,000
Average Utilization Rate	60%	85%	90%	85%	88%
Rayon Fabric					
Capacity (k-yards)	144,000	100,000	84,000	100,000	84,000
Average Utilization Rate	61%	66%	89%	70%	92%
Taffeta					
Capacity (k-yards)	155,000	155,000	75,000	155,000	75,000
Average Utilization Rate	78%	69%	90%	83%	57%
Engineering & Utilities					
Power generation					
Capacity (mW)	831	831	831	831	831
Average Utilization Rate	96%	96%	96%	93%	97%

Expansion Plans

As part of its overall development plan, Formosa Chemicals & Fibre is actively planning to expand its production activities in Taiwan and overseas, in particular, Southeast Asia and seeking new investment opportunities with a view to expand its scale of production and market share.

In the petrochemicals business, Formosa Chemicals & Fibre has commenced to establish two additional plants for the production of SM and aromatics, both of which are expected to be in operation by 2006. Formosa Chemicals & Fibre expects that the proposed additional plants will increase annual production capacities of SM and aromatics, to 600,000 metric tons and 1,270,000 metric tons, respectively. In addition, Formosa Chemicals & Fibre has also commenced expansion plans for the second production line of phenol and acetone, which Formosa Chemicals & Fibre expects will increase annual production capacity of phenol and acetone to 400,000 metric tons and 246,000 metric tons, respectively.

In the plastics business, Formosa Chemicals & Fibre has commenced to increase another production line for each of its PS plant and PP plant at Mailiao, which will increase annual production capacity of PS and PP to 320,000 metric tons and 460,000 metric tons, respectively.

To meet the PRC's increasing demand for petrochemical products, Formosa Chemicals & Fibre also plans to build a new PTA plant in the PRC with an annual capacity of 600,000 metric tons.

Employees

For the year ended March 31, 2004, the cost of labor accounted for 4.7 per cent. of Formosa Chemicals & Fibre's production costs. As of March 31, 2004, Formosa Chemicals & Fibre had 6,462 employees. The average employment period of its employees as of March 31, 2004 was approximately fifteen years and their average age was approximately 40. Approximately 70 per cent. of these employees belonged to a union and four unions represented these workers, one at each production site. To maintain good relations with its workforce, Formosa Chemicals & Fibre's management gives serious consideration to the views of the unions and frequently consults with the unions concerning such matters as the workers' needs and the direction of Formosa Chemicals & Fibre. Formosa Chemicals & Fibre has not had any strikes, and management believes that it enjoys good relations with its employees.

Taiwan has experienced labor shortages in recent years and Formosa Chemicals & Fibre has permission to invite foreign workers into Taiwan in order to deal with the general domestic labor shortage in Taiwan. As at March 31, 2004, Formosa Chemicals & Fibre employed approximately 30 foreign workers.

Wage levels have increased in Taiwan in recent years such that Taiwan is no longer considered a low wage manufacturing base. The average annual compensation for Formosa Chemicals & Fibre's employees was NT$997,000 (U.S.$29,332.2) as at December 31, 2003. Additional bonuses are available for middle management and profit sharing bonuses are used to provide incentives for top level management in the corporate staff. Many of Formosa Chemicals & Fibre's workers are highly skilled and Formosa Chemicals & Fibre seeks to achieve the appropriate balance between automation of its factories and the use of skilled employees to monitor its production processes.

Environmental and Other Regulatory Matters

Formosa Chemicals & Fibre is committed to environmental protection and invests heavily in waste reduction by recycling waste water and waste gas. Formosa Chemicals & Fibre is subject to regulation by the Environmental Protection Administration of the ROC. The Taiwan Provincial Environmental Department and the county environmental protection bureau in each county where

Formosa Chemicals & Fibre conducts manufacturing operations are responsible for enforcing such regulations. Except as discussed below, Formosa Chemicals & Fibre believes it is currently in substantial compliance with all applicable material environmental regulations. However, there can be no assurance that the ROC government will not impose new, stricter environmental regulations in the future which could require additional expenditure by Formosa Chemicals & Fibre on environmental protection.

The three main environmental concerns for Formosa Chemicals & Fibre are air emissions (from rayon staple fiber production and power generation), wastewater discharges (from rayon and nylon production, dyeing processes, PTA production and phenol production) and solid waste disposal from all production sites.

Air Emissions

Since 1969, Formosa Chemicals & Fibre has invested NT$5,180 million to reduce the emission of hydrogen sulphide and carbon disulphide from its rayon staple fiber production to reduce the SOX emission from power generation. As a result, the current emissions of hydrogen sulphide, carbon disulphide and SOX from its co-generation power plants are all considerably below applicable national standards and regulatory agency requirements.

Formosa Chemicals & Fibre plans to incur additional capital expenditure in the aggregate amount of approximately NT$4 million in 2004 relating to air emission control, which should ensure Formosa Chemicals & Fibre's compliance with applicable national standards regarding NOX.

Waste Water

Formosa Chemicals & Fibre's main sources of waste water result from rayon staple fiber production, PTA production and phenol production, the dyeing process and nylon production, especially from the recovery of caprolactam. Formosa Chemicals & Fibre has invested an aggregate amount of NT$4,330 million to date for waste water treatment and expects to incur additional expenditure in the amount of approximately NT$133 million for all of its production sites in 2004.

Solid Waste Disposal

For the disposal of miscellaneous solid waste, Formosa Chemicals & Fibre has installed a solid waste incinerator at each of its production sites.

Other Matters

Formosa Chemicals & Fibre believes it is in compliance with all material regulations regarding noise pollution and vibrations. Formosa Chemicals & Fibre has developed most of its environmental technology internally but to a limited extent is utilizing certain licensed technologies.

Legal Proceedings

Formosa Chemicals & Fibre is not involved in any material litigation or proceedings, nor is Formosa Chemicals & Fibre aware that any such proceedings are pending or threatened.

SUBSIDIARIES AND INVESTEE COMPANIES

The following table sets forth certain information as of March 31, 2004 regarding Formosa Chemicals & Fibre's principal subsidiaries and investee companies:

Name	Registered Office	Book Value of Formosa Chemicals & Fibre's Investment	Percentage Interest Held by Formosa Chemicals & Fibre's	Principal Business
		NT$ million		
Formosa Biomedical Technology Corporation	201 Tung Hwa North Road Taipei Taiwan, ROC	255.3	99.99	Biomedical products
Tah Shin Spinning Corporation	201 Tung Hwa North Road Taipei Taiwan, ROC	195.0	84.10	Textiles
Formosa BP Chemicals Corporation	1-1 Formosa Plastics Group Industrial Zone Mailiao Shiang Yunlin Hsien Taiwan, ROC	541.3	50.00	Chemical and petrochemical
Formosa Idemitsu Petrochemical Corporation	201 Tung Hwa North Road Taipei Taiwan, ROC	257.3	50.00	Petrochemical and plastics raw materials
Formosa Industries Corporation	Nhon Trach 3 Industrial Zone, Tong Nai Province, Vietnam	2,122.1	42.50	Textiles, polyester fiber, polyester chips and BOPP
Formosa Taffeta Co., Limited	317 Shu Liu Rd. Touliu City, Yunlin Hsien	7,991.2	37.40	Textiles
Formosa Heavy Industries Corporation	201 Tung Hwa North Road Taipei Taiwan, ROC	2,981.4	32.91	Machinery equipment and construction
Formosa Petrochemical	1-1 Formosa Plastics Group Industrial Zone Mailiao Shiang Yunlin Hsien Taiwan, ROC	40,799.5	27.57	Oil refining, distribution, naphtha cracking and utilities
Mailiao Power Corporation	1-1 Formosa Plastics Group Industrial Zone Mailiao Shiang Yunlin Hsien Taiwan, ROC	8,716.4	24.94	Power generation
Mailiao Harbor Administration Corporation	1-1 Formosa Plastics Group Industrial Zone Mailiao Shiang Yunlin Hsien Taiwan, ROC	539.3	17.98	Harbor administration

Formosa Biomedical Technology Corp. ("Formosa Biomedical Technology") engages in the production and distribution of biomedical products. As of March 31, 2004, the company had an issued share capital of NT$200 million. Formosa Chemicals & Fibre did not receive any dividends from Formosa Biomedical Technology in 2003. As of March 31, 2004, there was no intercompany debt between Formosa Chemicals & Fibre and Formosa Biomedical Technology and Formosa Chemicals & Fibre did not provide any guarantee for Formosa Biomedical Technology.

Tah Shin Spinning Corporation ("Tah Shin Spinning") engages in the production of textiles. As of March 31, 2004, the company had an issued share capital of NT$213.7 million. Formosa Chemicals & Fibre did not receive any dividends from Tah Shin Spinning in 2003. As of March 31, 2004, Formosa Chemicals & Fibre owed Tah Shin Spinning NT$57.5 million. Formosa Chemicals & Fibre did not provide any guarantee for Tah Shin Spinning. For the year ended December 31, 2003 Tah Shin Spinning made a net income of NT$0.1 million.

Formosa BP Chemicals Corporation ("Formosa BP") engages in the manufacturing and sale of chemicals and petrochemical products. As of March 31, 2004, the company had an issued share capital of NT$1,170 million. Formosa Chemicals & Fibre did not receive any dividends from Formosa BP in 2003. As of March 31, 2004, Formosa BP owed Formosa Chemicals & Fibre NT$96.2 million. Formosa Chemicals & Fibre provided guarantee up to an aggregate amount of NT$2,205.6 million for Formosa BP.

Formosa Idemitsu Petrochemical Corporation ("Formosa Idemitsu") engages in the production and sale of raw materials for the production of petrochemical and plastics products. As of March 31, 2004, the company had an issued share capital of NT$600 million. Formosa Chemicals & Fibre did not receive any dividends from Formosa Idemitsu in 2003. As of March 31, 2004, there was no intercompany debt between Formosa Chemicals & Fibre and Formosa Idemitsu and Formosa Chemicals & Fibre did not provide any guarantee for Formosa Idemitsu. For the year ended December 31, 2003, Formosa Idemitsu made a net loss of NT$35 million.

Formosa Industries Corporation ("Formosa Industries") engages in the production of textiles, polyester fiber, polyester chips and BOPP. As of March 31, 2004, the company had an issued share capital of U.S.$156.9 million. Formosa Chemicals & Fibre did not receive any dividends from Formosa Industries in 2003. As of March 31, 2004, there was no intercompany debt between Formosa Chemicals & Fibre and Formosa Industries and Formosa Chemicals & Fibre provided guarantee up to an aggregate amount of NT$2,792.9 million for Formosa Industries. For the year ended December 31, 2003, Formosa Industries made a net loss of NT$63.1 million.

Formosa Taffeta Co., Limited ("Formosa Taffeta") engages in the production of textiles products. As of March 31, 2004, the company had an issued share capital of NT$15,875 million. Formosa Chemicals & Fibre received dividends of NT$403.5 million from Formosa Taffeta in 2003. As of March 31, 2004, there was no intercompany debt between Formosa Chemicals & Fibre and Formosa Taffeta and Formosa Chemicals & Fibre did not provide any guarantee for Formosa Taffeta. For the year ended December 31, 2003, Formosa Taffeta made a net income of NT$1,588.6 million.

Formosa Heavy Industries Corporation ("Formosa Heavy Industries") engages in the production and sale of machinery and equipment. As of March 31, 2004, the company had an issued share capital of NT$6,020.0 million. Formosa Chemicals & Fibre did not receive any dividends from Formosa Heavy Industries in 2003. As of March 31, 2004, there was no intercompany debt between Formosa Chemicals & Fibre and Formosa Heavy Industries and Formosa Chemicals & Fibre did not provide any guarantee for Formosa Heavy Industries. For the year ended December 31, 2003, Formosa Heavy Industries made a net income of NT$151.3 million.

Formosa Petrochemical engages in the manufacturing and sale of refined petroleum products and petrochemical products. As of March 31, 2004, the company had an issued share capital of NT$78,400.0 million. Formosa Chemicals & Fibre received dividends of NT$2,362.5 million from Formosa Petrochemical in 2003. As of March 31, 2004, there was no intercompany debt between Formosa Chemicals & Fibre and Formosa Petrochemical and Formosa Chemicals & Fibre did not provide any guarantee for Formosa Petrochemical. For the year ended December 31, 2003, Formosa Petrochemical made a net income of NT$18,934.9 million.

Mailiao Power Corporation ("Mailiao Power") engages in the sale of electricity. As of March 31, 2004, the company had an issued share capital of NT$20,000.0 million. Formosa Chemicals & Fibre received dividends of NT$498.8 million from Mailiao Power in 2003. As of March 31, 2004, Mailiao Power owed Formosa Chemicals & Fibre NT$495.4 million and Formosa Chemicals & Fibre provided guarantee up to an aggregate amount of NT$7,422.5 million for Mailiao Power. For the year ended December 31, 2003, Mailiao Power made a net income of NT$3,508.7 million.

Mailiao Harbor Administration Corporation ("Mailiao Harbor Administration") engages in the administration of harbor facilities. As of March 31, 2004, the company had an issued share capital of NT$2,200.0 million. Formosa Chemicals & Fibre received dividends of NT$79.1 million from Mailiao Harbor Administration in 2003. As of March 31, 2004, there was no intercompany debt between Formosa Chemicals & Fibre and Mailiao Harbor Administration, and Formosa Chemicals & Fibre provided a guarantee up to an aggregate amount of NT$2,098.4 million for Mailiao Harbor Administration. For the year ended December 31, 2003, Mailiao Harbor Administration made a net income of NT$520 million.

Formosa Chemicals & Fibre's equity interests in all of the subsidiaries and investee companies listed above have been paid in full.

MANAGEMENT OF FORMOSA CHEMICALS & FIBRE CORPORATION

Directors and Supervisors

The ROC Company Law and the Articles of Incorporation of Formosa Chemicals & Fibre provide that its Board of Directors is to be elected by its shareholders for three-year terms in a general shareholders' meeting at which a quorum, consisting of a majority of all issued and outstanding shares, is present. The Chairman is a Director elected by the Board. The nineteen-member Board of Directors of Formosa Chemicals & Fibre is responsible for the management of the business of Formosa Chemicals & Fibre.

Formosa Chemicals & Fibre currently has three Supervisors. Supervisors are typically elected at the time that Directors are elected. The Supervisors' duties and powers include, but are not limited to, investigation of Formosa Chemicals & Fibre's condition, inspection of Formosa Chemicals & Fibre's corporate records, attending meetings of the Board of Directors, verification of some statements by the Board of Directors prior to the regular shareholders' meetings, calling of shareholders' meetings, representing Formosa Chemicals & Fibre in negotiations with its Directors and notification, when appropriate, to the Board of Directors to cease acting in contravention of any applicable law or regulation or in contravention of its Articles of Incorporation or beyond the scope of its business. In accordance with the laws of the ROC relating to corporations, a Supervisor cannot concurrently serve as a Director, managerial officer or other staff member. The ROC Company Law requires at least one Supervisor be appointed at all times.

The term of office for the Directors and Supervisors is three years from the date of election. They may serve any number of consecutive terms and may be removed from office at any time by a resolution adopted at a shareholders' meeting. A Director or Supervisor being removed without a reason could claim for damages from Formosa Chemicals & Fibre. Normally, all Directors and Supervisors are elected at the same time.

Of the current Directors and Supervisors, Jaw-Lin Yang was elected in his capacity as a representative of Chang Gung Memorial Hospital, Chiu-Ming Chen was elected in his capacity as a representative of Formosa Plastics, and Wen-Yaung Chen was elected in his capacity as a representative of Formosa Petrochemical. A Director or Supervisor who serves as a representative of a legal entity may be removed or replaced at any time at the discretion of that legal entity, and the replacement Director or Supervisor may serve the remainder of the term of the office of the replaced Director or Supervisor.

The following table sets forth certain information relating to the Directors and Supervisors of Formosa Chemicals & Fibre as of March 31, 2004.

Name	Position	Age	Number of Shares Held Directly(1)	Number of Shares Held Through Spouse and Minor Children(2)	Percentage of Total Shares Issued and Outstanding(3)
Yeong-Ching Wang	Chairman	87	314,215,001		6.96
Yeong-Tsai Wang.	Vice Chairman	82	319,076,808		7.63
Yu-Sung Yeh	Director and Senior Consultant	79	414,675	120,860	*
Wen-Yuan Wang	Director	58	48,646,244	70,933	1.08
Fu-Yuan Hong	Director	59	210,149	854	*
Kang-Shin Liu	Director	65	306,375	108,418	*
Yih-Tzong Wu	Director	56	38,086	20,437	*
Wen-Hsiung Hung	Director	66	67,463		*
Hung-Chi Yang.	Director	57	120,583	474	*
R. C. Wang	Director	58	114,571	5,186	*
Yuan-Ji Li	Director	58	61,912	1,054	*
Jiann-Jn Wu.	Director	56	22,046	13,599	*
Dong-Terng Huang	Director	57	18,509	2,089	*
Yuang-Fang Chen	Director	57	74,169		*
Ching-Shih Lin	Director	50	11,274		*
Shen-Fu Lu	Director	60	150,363		*
Kuang-Be Chang	Director	57	83,962	10,935	*
Chiu-Ming Chen(4)	Director	58	141,786,982		3.14
Wen-Yaung Chen(5)	Director	56	3,928,947		*
Jaw-Lin Yang(6)	Supervisor	69	1,167,822,386		25.87
Ying-Hwang Yang.	Supervisor	56	30,205	39,034	*
Zo-Chun Jen	Supervisor	66	50,322	14,379	*

Notes:

* Less than 1 per cent..

(1) In the case of a Director who is a representative of a legal entity, the number in this column only includes the number of shares held by the corporate shareholder.

(2) Applies to a Director or Supervisor serving in his or her individual capacity only.

(3) Calculated by dividing the number of shares held by such person and such person's spouse and minor children as indicated above, by the number of total issued and outstanding shares in each case as of March 31, 2004.

(4) Representative of Formosa Plastics.

(5) Representative of Formosa Petrochemical.

(6) Representative of Chang Gung Memorial Hospital.

The business address of each Director and Supervisor is the registered office of Formosa Chemicals & Fibre.

Set forth below is a short biography of each of the Directors and Supervisors of Formosa Chemicals & Fibre. All of them were elected for their present term on May 29, 2003.

Mr. Yeong-Ching Wang is the Chairman of the Board of Directors of Formosa Chemicals & Fibre. He is also the Chairman of the Formosa Group and the chairman of many companies in the Formosa Group. He graduated from elementary school in Taiwan during the Japanese occupation era. Mr. Yeong-Ching Wang is the brother of Mr. Yeong-Tsai Wang.

Mr. Yeong-Tsai Wang is the Vice Chairman of Formosa Chemicals & Fibre. He is also the Vice Chairman of Formosa Group and the vice chairman of many members of the Formosa Group. He graduated from high school in Taiwan during the Japanese occupation era. Mr. Yeong-Tsai Wang is the younger brother of Mr. Yeong-Ching Wang, the Chairman of Formosa Chemicals & Fibre.

Mr. Yu-Sung Yeh is a Director. He also serves as a Senior Consultant of Formosa Chemicals & Fibre. He assists in the day-to-day operations of the Textile Division of Formosa Chemicals & Fibre. He graduated from a University in Japan.

Mr. Wen-Yuan Wang is a Director. He also serves as President of Formosa Chemicals & Fibre. He is also the Chairman of Formosa Taffeta Co., Limited, the President of Mailiao Power Corporation and also the director of many members of the Formosa Group. He graduated from the University of Houston, Texas.

Mr. Fu-Yuan Hong is a Director. He also serves as an Executive Vice President of Formosa Chemicals & Fibre. He is also the director of many affiliated companies of Formosa Chemicals & Fibre. He assists Mr. Wen-Yuan Wong, the President of Formosa Chemicals & Fibre in managing the whole business. He graduated from Chung Yuan Christian University in Taiwan.

Mr. Kang-Shin Liu is a Director. He also serves as a Senior Vice President of Formosa Group. He assists Mr. Yeong-Tsai Wang, the Chairman of Formosa Group in carrying the business of the Formosa Group. He graduated from the National Taiwan Ocean University in Taiwan.

Mr. Yih-Tzong Wu is a Director. He also serves as an Executive Administrator of Formosa Group. He assists the Senior Vice President of Formosa Group in carrying some of the business of the Formosa Group. He graduated from the Ming-Chi Institute of Technology in Taiwan.

Mr. Wen-Hsiung Hung is a Director. He also serves as a Consultant of Formosa Group. He graduated from the high school in Taiwan.

Mr. Hung-Chi Yang is a Director. He also serves as a Senior Vice President of Formosa Chemicals & Fibre. He assists the Executive Vice President of Formosa Chemicals & Fibre in managing the business as well as the business of the Engineering & Utilities Division of Formosa Chemicals & Fibre. He graduated from the National Cheng Kung University in Taiwan.

Mr. R. C. Wang is a Director. He also serves as a Vice President of First Chemicals Division of Formosa Chemicals & Fibre. He graduated from the National Taipei University of Technology in Taiwan.

Mr. Yuan-Ji Li is a Director. He also serves as a Vice President of Second Chemicals Division of Formosa Chemicals & Fibre. He graduated from the Chung Yuan Christian University in Taiwan.

Mr. Jiann-Jn Wu is a Director. He also serves as a Vice President of Plastic Division of Formosa Chemicals & Fibre. He graduated from the National Cheng Kung University in Taiwan.

Mr. Dong-Terng Huang is a Director. He also serves as a Vice President of Third Chemicals Division of Formosa Chemicals & Fibre. He graduated from the National Taipei University of Technology in Taiwan.

Mr. Yuang-Fang Chen is a Director. He also serves as a Vice President of Textile Division of Formosa Chemicals & Fibre. He graduated from the Ming-Chi Institute of Technology in Taiwan.

Mr. Ching-Shih Lin is a Director. He also serves as a Vice President of Nylon Division of Formosa Chemicals & Fibre. He graduated from the National Chung Hsing University in Taiwan.

Mr. Shen-Fu Lu is a Director. He also serves as a President of Formosa Chemicals & Fibre. He graduated from the Aletheia University in Taiwan.

Mr. Kuang-Be Chang is a Director. He also serves as an Executive Administrator of Formosa Chemicals & Fibre. He graduated from the National Cheng Kung University in Taiwan.

Mr. Chiu-Ming Chen is a Director. He also serves as an Assistant Vice President of Formosa Chemicals & Fibre. He graduated from the National Taiwan University in Taiwan.

Mr. Wen-Yaung Chen is a Director. He also serves as an Assistant Vice President of Formosa Chemicals & Fibre. He graduated from the Feng Chia University in Taiwan.

Mr. Jaw-Lin Yang is the Executive Vice President of Formosa Group. He graduated from the National Cheng Kung University in Taiwan.

Mr. Ying-Hwang Yang is the Senior Vice President of Formosa Group. He graduated from the National Chung Hsing University in Taiwan.

Mr. Zo-Chun Jen is the Senior Vice President of Nan Ya Plastics. He graduated from the Tatung University in Taiwan.

Executive Officers

The executive officers of Formosa Chemicals & Fibre are appointed by the Board of Directors of Formosa Chemicals & Fibre. The following table sets forth certain information relating to the executive officers of Formosa Chemicals & Fibre as of May 29, 2004.

Name	Position	Age	Number of Shares Held Directly	Number of Shares Held Through Spouse and Minor Children	Percentage of Total Shares Issued and Outstanding[(1)]
Wen-Yuan Wong	President	58	48,646,244	70,933	1.08
Fu-Yuan Hong	Executive Vice President	59	210,149	854	*
Hung-Chi Yang	Senior Vice President	57	120,583	474	*
R. C. Wang	Vice President	58	114,571	5,186	*
Yuan-Ji Li	Vice President	58	61,912	1,054	*
Jiann-Jn Wu	Vice President	56	22,046	13,599	*
Dong-Terng Huang	Vice President	57	18,509	2,089	*
Yuang-Fang Chen	Vice President	57	74,169		*
Ching-Shih Lin	Vice President	50	11,274		*
Kuang-Be Chang	Executive Administrator	57	83,962	10,935	*

Notes:

* Less than 1 per cent..

(1) Calculated by dividing the number of shares held by such person and such person's spouse and minor children as indicated above, by the number of total issued and outstanding shares in each case as of May 29, 2004.

The business address of each executive officer is the registered office of Formosa Chemicals & Fibre.

For a short biography of the executive officers, see "— Directors and Supervisors".

Compensation of Directors, Supervisors and Executive Officers

The aggregate remuneration paid to the Directors, Supervisors and Executive Officers of Formosa Chemicals & Fibre for the year ended December 31, 2003 was NT$20.8 million. Formosa Chemicals & Fibre does not have a stock option plan.

Interests of Management in Certain Transactions

Certain of the Directors, Supervisors and executive officers of Formosa Chemicals & Fibre also serve as directors, supervisors or executive officers of companies with which it does business. These companies include the affiliates of Formosa Chemicals & Fibre. See "— Principal shareholders of Formosa Chemicals & Fibre Corporation", "Related party transactions" and Note 5 to Formosa Chemicals & Fibre's Audited Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003 and Note 4 to Formosa Chemicals & Fibre's Unaudited Financial Statements as at and for the three months ended March 31, 2003 and 2004 included in the Offering Circular. Formosa Chemicals & Fibre conducts these transactions on an arms' length commercial basis. There are no outstanding loans or loan guarantees granted by Formosa Chemicals & Fibre to any Directors, Supervisor or executive officer of Formosa Chemicals & Fibre.

PRINCIPAL SHAREHOLDERS OF FORMOSA CHEMICALS & FIBRE CORPORATION

The following table sets forth certain information as of March 30, 2004 with respect to shares owned by each person who, according to the records of Formosa Chemicals & Fibre, beneficially owned two per cent. or more of the shares of Formosa Chemicals & Fibre and by all Directors, Supervisors and executive officers as a group. Beneficial ownership includes ownership by such person's spouse and minor children.

Name of Shareholder	Number of Shares	Percentage of Total Issued and Outstanding Shares
Chang Gung Memorial Hospital	1,167,822,386	25.9%
Yeong-Tsai Wang	319,076,808	7.1%
Yeong-Ching Wang	314,215,001	7.0%
Chindwell International Investment Corporation	303,347,398	6.7%
Vanson International Investment Corporation	188,195,778	4.2%
Formosa Plastics	141,786,982	3.1%
Nan Ya Plastics	94,697,864	2.1%
Directors, Supervisors and executive officers as a group(1)	684,120,969	15.2%

Note:

(1) Includes shares held by Directors and Supervisors serving in their individual capacities and executive officers through their respective spouses and minor children. Excludes shares held by legal entities for which Directors and Supervisors are acting as representatives.

Apart as set out above, no shareholder owns more than two per cent. of the outstanding shares of Formosa Chemicals & Fibre.

RELATED PARTY TRANSACTIONS

Overview

Companies within the Formosa Group, including Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre, are dependent upon one another for significant portions of their purchases of raw materials and for their sales.

The following table sets forth the percentage of net purchases for the year ended December 31, 2003 of Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre (and their consolidated subsidiaries, if any) that were made from each other:

	Percentage of net purchases for the year ended December 31, 2003, *from*:			
	Formosa Petrochemical	Formosa Plastics	Nan Ya Plastics	Formosa Chemicals & Fibre
Formosa Petrochemical	—	1.5	0.3	2.1
Formosa Plastics	53.3	—	1.1	1.9
Nan Ya Plastics	11.6	11.5	—	19.9
Formosa Chemicals & Fibre	38.3	3.9	3.0	—

The following table sets forth the percentage of net purchases for the three months ended March 31, 2004 of Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre (and their consolidated subsidiaries, if any) that were made from each other:

	Percentage of net purchases for the three months ended March 31, 2004, *from*:			
	Formosa Petrochemical	Formosa Plastics	Nan Ya Plastics	Formosa Chemicals & Fibre
Formosa Petrochemical	—	0.9	0.2	1.4
Formosa Plastics	63.6	—	1.3	2.2
Nan Ya Plastics	14.0	12.7	—	20.2
Formosa Chemicals & Fibre	39.5	3.5	2.2	—

The following table sets forth the percentage of total net sales for the year ended December 31, 2003 of Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre (and their consolidated subsidiaries, if any) that were made to each other:

	Percentage of net sales for the year ended December 31, 2003, *to*:			
	Formosa Petrochemical	Formosa Plastics	Nan Ya Plastics	Formosa Chemicals & Fibre
Formosa Petrochemical	—	13.6	5.7	14.8
Formosa Plastics	2.9	—	12.5	3.7
Nan Ya Plastics	0.4	0.5	—	1.7
Formosa Chemicals & Fibre	3.7	1.1	19.0	—

The following table sets forth the percentage of net sales for the three months ended March 31, 2004 of Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre (and their consolidated subsidiaries, if any) that were made to each other:

	Percentage of net sales for the three months ended March 31, 2004, *to*:			
	Formosa Petrochemical	Formosa Plastics	Nan Ya Plastics	Formosa Chemicals & Fibre
Formosa Petrochemical	—	15.1	6.4	14.7
Formosa Plastics	2.6	—	14.9	3.7
Nan Ya Plastics	0.4	0.7	—	1.7
Formosa Chemicals & Fibre	3.7	1.3	20.4	—

In addition, companies in the Formosa Group lend money to and borrow money from, and carry out various other business transactions with other companies in the Formosa Group, and generally co-operate with each other in the running of their businesses. See "— The Formosa Group" and the Notes to the respective financial statements of Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre, contained elsewhere in this Offering Circular.

Formosa Petrochemical

Formosa Petrochemical has from time to time engaged in a variety of transactions with its affiliates. Formosa Petrochemical's policy on transactions with affiliates is that the transactions must be conducted on terms that are substantially the same as those for comparable transactions with non-affiliates on an arm's length basis. Material related party transactions, depending on the nature and size of the transaction, must be approved in writing by a majority of the members of the board of directors of Formosa Petrochemical.

Purchases

The following table sets forth the purchases made by Formosa Petrochemical from related parties and the purchase amount expressed as a percentage of Formosa Petrochemical's net purchases for the years ended December 31, 2001, 2002 and 2003:

	Year ended December 31,						
	2001		2002		2003		
	NT$ (thousands)	% of net purchases	NT$ (thousands)	% of net purchases	NT$ (thousands)	U.S.$ (thousands)	% of net purchases
Formosa Chemicals & Fibre	3,025,197	2.3	2,945,308	2.1	3,943,238	116,012	2.1
Formosa Plastics	2,250,364	1.7	2,192,185	1.6	2,800,702	82,398	1.5
Nan Ya Plastics	176,574	0.1	526,077	0.4	608,544	17,903	0.3
Simosa Oil Corp.	—	—	—	—	139,704	4,110	0.1
Total	**5,452,135**	**4.1**	**5,663,570**	**4.1**	**7,492,188**	**220,423**	**4.0**

The following table sets forth the purchases made by Formosa Petrochemical from related parties and the purchase amount expressed as a percentage of Formosa Petrochemical's net purchases for the three months ended March 31, 2003 and 2004:

	Three months ended March 31,				
	2003		2004		
	NT$ (thousands)	% of net purchases	NT$ (thousands)	U.S.$ (thousands)	% of net purchases
Formosa Chemicals & Fibre	961,592	1.6	1,109,321	33,616	1.4
Formosa Plastics	670,227	1.2	689,707	20,900	0.8
Nan Ya Plastics	108,731	0.2	150,623	4,564	0.2
Simosa Oil	133,052	0.2	—	—	—
Total	**1,873,602**	**3.2**	**1,949,651**	**59,080**	**2.4**

Formosa Petrochemical did not receive special discounts when purchasing goods or services from the related parties, and the payment term is typically 30 days after receiving the goods or services.

Sales

The following table sets forth the sales by Formosa Petrochemical to related parties and the sales amount expressed as a percentage of Formosa Petrochemical's net sales for the years ended December 31, 2001, 2002 and 2003:

	Year ended December 31,						
	2001		2002		2003		
	NT$ (thousands)	% of net sales	NT$ (thousands)	% of net sales	NT$ (thousands)	U.S.$ (thousands)	% of net sales
Formosa Chemicals & Fibre	21,164,251	16.5	25,959,551	15.3	34,948,954	1,028,213	14.8
Formosa Plastics	22,873,667	17.8	24,330,375	14.4	32,095,156	944,253	13.6
Nan Ya Plastics	11,121,899	8.6	9,213,566	5.5	13,492,225	396,947	5.7
Formosa Oil	541,698	0.4	3,280,224	1.9	7,482,202	220,129	3.2
Formosa Taffeta	1,553,713	1.2	3,472,853	2.1	4,988,123	146,752	2.1
Nan Chung Petrochemical	3,914,517	3.0	3,531,263	2.1	4,410,440	129,757	1.9
Simosa Oil	—	—	395,698	0.2	1,199,840	35,300	0.5
Whale Home International	—	—	484,908	0.3	800,048	23,538	0.3
Mailiao Power	201,539	0.2	211,752	0.1	193,809	5,702	0.1
Other related parties	25,537	—	57,499	—	114,343	3,364	—
Total	**61,396,821**	**47.7**	**70,937,689**	**41.9**	**99,725,140**	**2,933,955**	**42.2**

The following table sets forth the sales by Formosa Petrochemical to related parties and the sales amount expressed as a percentage of Formosa Petrochemical's net sales for the three months ended March 31, 2003 and 2004:

	Three months ended March 31,				
	2003		2004		
	NT$ (thousands)	% of net sales	NT$ (thousands)	U.S.$ (thousands)	% of net sales
Formosa Chemicals & Fibre	7,887,541	14.4	10,839,538	328,471	14.7
Formosa Plastics	6,365,413	11.7	11,185,789	338,963	15.1
Nan Ya Plastics	2,765,990	5.1	4,745,814	143,813	6.4
Formosa Oil	1,657,974	3.0	2,787,067	84,457	3.8
Formosa Taffeta	1,189,579	2.2	1,387,678	42,051	1.9
Nan Chung Petrochemical	751,463	1.4	1,325,867	40,178	1.8
Simosa Oil	182,994	0.3	189,713	5,749	0.2
Whale Home International	191,072	0.4	224,240	6,795	0.3
Mailiao Power	68,172	0.1	53,207	1,612	0.1
Other related parties	20,621	—	28,066	850	—
Total	**21,080,819**	**38.6**	**32,766,979**	**992,939**	**44.3**

The terms and conditions of sales to related parties are the same with those for non-related parties. The credit term is typically 30 days from the date when the counterparty receives the payment advice.

Construction in progress

Formosa Petrochemical bought "construction in progress" from related parties for the construction and on-going expansion of its facilities in the No. 6 Naphtha Cracking Complex and else-where. The following table sets forth the details:

	Items	Year ended December 31,			
		2001	2002	2003	
		NT$ (thousands)	NT$ (thousands)	NT$ (thousands)	U.S.$ (thousands)
Formosa Heavy Industries	Construction in progress	6,675,927	2,327,581	2,248,905	66,164
Nan Ya Plastics	Construction in progress	733,915	275,535	36,363	1,070
Total		**7,409,842**	**2,603,116**	**2,285,268**	**67,234**

	Items	Three months ended March 31,		
		2003	2004	2004
		NT$ (thousands)	NT$ (thousands)	U.S.$ (thousands)
Formosa Heavy Industries	Construction in progress	789,731	1,117,940	33,877
Nan Ya Plastics	Construction in progress	5,593	—	—
Mailiao Power	Equipment	—	8,507,307	257,797
Total		**795,324**	**9,625,247**	**291,674**

Purchases of the "construction in progress" from Formosa Heavy Industries Corporation and Nan Ya Plastics were based on their general terms and conditions. Payment is made within one month after the relevant project is completed and inspected by Formosa Petrochemical.

As of March 31, 2004, the equipment purchased from Mailiao Power Corp amounted to NT$8,507,307 thousand, of which NT$850,731 thousand was paid.

Sales of assets

The following table sets forth the details of sales of assets by Formosa Petrochemical to its related parties, for the years ended December 31, 2001, 2002 and 2003:

	Items	Acquisition Cost	Sales Price	Gain (Loss) on Asset Sold
		(Audited)		
		NT$ (thousands)	NT$ (thousands)	NT$ (thousands)
Year ended December 31, 2001				
Formosa Chemicals & Fibre	Transportation equipment	497	190	(307)
Formosa Transport	Transportation equipment	208	214	6
Formosa Heavy Industries	Transportation equipment	12	12	—
Total		**717**	**416**	**(301)**
Year ended December 31, 2002				
Formosa Chemicals & Fibre	Transportation equipment	98	28	(70)
Total		98	28	(70)
Year ended December 31, 2003				
Formosa Chemicals & Fibre	Transportation equipment	1,408	1,836	428
Formosa Oil	Machinery	173	165	(8)
Total		**1,581**	**2,001**	**420**

	Items	Acquisition Cost	Sales Price	Gain (Loss) on Asset Sold
		U.S.$ (thousands)	U.S.$ (thousands)	U.S.$ (thousands)
Year ended December 31, 2003				
Formosa Chemicals & Fibre	Transportation equipment	42	54	12
Formosa Oil	Machinery	5	5	—
Total		47	59	12

The following table sets forth the details of sales of assets by Formosa Petrochemical to its related parties, for the three months ended March 31, 2003 and 2004:

	Items	Acquisition Cost	Sales Price	Gain (Loss) on Asset Sold
		(Unaudited)		
		NT$ (thousands)	NT$ (thousands)	NT$ (thousands)
Three months ended March 31, 2003				
Formosa Oil	Machinery	53	44	(9)
Three months ended March 31, 2004				
Formosa Oil	Machinery	14	14	—

	Items	Acquisition Cost	Sales Price	Gain (Loss) on Asset Sold
		U.S.$ (thousands)	U.S.$ (thousands)	U.S.$ (thousands)
Three months ended March 31, 2004				
Formosa Oil	Machinery	1	1	—

Endorsements and guarantees

The following table sets forth the details of outstanding endorsements and guarantees made by Formosa Petrochemical on behalf of its related parties as at December 31, 2001, 2002 and 2003:

	December 31,			
	2001	2002	2003	
	NT$ (thousands)	NT$ (thousands)	NT$ (thousands)	U.S.$ (thousands)
Mailiao Power	$ 5,485,000	$ 6,735,000	$ 6,735,000	$ 198,146
Simosa Oil	—	99,000	99,000	2,913
Whale Home International	—	80,000	80,000	2,354
Formosa Oil	—	—	40,000	1,177
Total	$ 5,485,000	$ 6,914,000	$ 6,954,000	$ 204,590

The following table sets forth the details of outstanding endorsements and guarantees made by Formosa Petrochemical on behalf of its related parties as at March 31, 2003 and 2004:

	March 31,		
	2003	2004	
	NT$ (thousands)	NT$ (thousands)	U.S.$ (thousands)
Mailiao Power	$ 6,735,000	$ 5,910,000	$ 179,091
Simosa Oil	99,000	99,000	3,000
Whale Home International	80,000	80,000	2,424
Formosa Oil	—	40,000	1,212
Total	$ 6,914,000	$ 6,129,000	$ 185,727

Formosa Plastics

Formosa Plastics has from time to time engaged in a variety of transactions with its affiliates. Formosa Plastics' policy on transactions with affiliates is that the transactions must be conducted on terms that are substantially the same as those for comparable transactions with non-affiliates on an arm's length basis. Material related party transactions, depending on the nature and size of the transaction, must be approved in writing by a majority of the members of the board of directors of Formosa Plastics.

Purchases

The following table sets forth the purchases made by Formosa Plastics from related parties and the purchase amount expressed as a percentage of Formosa Plastics' net purchases for the years ended December 31, 2001, 2002 and 2003:

	Consolidated						
	Year ended December 31,						
	2001		2002		2003		
	NT$ (thousands)	% of net purchases	NT$ (thousands)	% of net purchases	NT$ (thousands)	U.S.$ (thousands)	% of net purchases
Formosa Petrochemical	22,550,737	50.4	23,963,864	45.5	32,095,156	944,253	53.3
Formosa Heavy Industries	498,366	1.1	633,967	1.2	670,453	19,725	1.1
Formosa Chemicals & Fibre	330,959	0.7	682,652	1.3	1,157,931	34,067	1.9
FPC USA — Texas	4,760,044	10.7	4,483,430	8.5	5,492,866	161,602	9.1
Nan Ya Plastics	432,803	1.0	464,830	0.9	663,796	19,530	1.1
Formosa Plastics Marine (Liberia)	193,972	0.4	—	—	465,521	13,696	0.8
Yungchia Chemical Industries	25,113	0.1	41,051	0.1	27,566	811	0.1
Formosa Utility	3,781,463	8.5	3,318,199	6.3	4,422,387	130,108	7.3
Ya Tai Development	1,524		1,866	—	—	—	—
Total	**32,574,981**	**72.9**	**33,589,859**	**63.8**	**44,995,676**	**1,323,792**	**74.7**

The following table sets forth the purchases made by Formosa Plastics from related parties and the purchase amount expressed as a percentage of Formosa Plastics' net purchases for the three months ended March 31, 2003 and 2004:

	Non-consolidated				
	Three months ended March 31,				
	2003		2004		
	NT$ (thousands)	% of net purchases	NT$ (thousands)	U.S.$ (thousands)	% of net purchases
Formosa Petrochemical	6,365,413	60.8	11,185,789	338,963	63.6
Formosa Heavy Industries	185,236	1.8	669,109	20,276	3.8
Formosa Chemicals & Fibre	203,559	1.9	388,730	11,780	2.2
FPC America	499,403	4.8	244,494	7,409	1.4
Nan Ya Plastics	137,536	1.3	221,443	6,710	1.3
Formosa Plastics Marine (Liberia)	105,020	1.0	113,945	3,453	0.7
Yungchia Chemical Industries	11,633	0.1	—	—	—
Total	**7,507,800**	**71.7**	**12,823,510**	**388,591**	**73.0**

Sales

The following table sets forth the sales by Formosa Plastics to related parties and the sales amount expressed as a percentage of Formosa Plastics' net sales for the years ended December 31, 2001, 2002 and 2003:

	Consolidated						
	Year ended December 31,						
	2001		2002		2003		
	NT$ (thousands)	% of net sales	NT$ (thousands)	% of net sales	NT$ (thousands)	U.S.$ (thousands)	% of net sales
Nan Ya Plastics	8,524,778	12.4	9,663,109	12.7	11,864,207	349,050	12.5
Formosa Chemicals & Fibre	2,153,476	3.1	2,529,157	3.3	3,546,295	104,333	3.7
FPC America	1,503,039	2.2	3,173,802	4.2	3,470,641	102,108	3.6
Formosa Petrochemical	2,250,364	3.3	2,192,185	2.9	2,800,702	82,398	3.0
FPC USA — Louisiana	1,456,157	2.1	2,554,438	3.4	2,367,707	69,659	2.5
Nan Ya Rigid Film (Guangzhou)	—	—	528,226	0.7	1,012,631	29,792	1.1
Nan Ya Plastics (Guangzhou)	—	—	671,420	0.9	803,585	23,642	0.9
Nan Ya Plastics Construction Materials (Nantong)	—	—	325,373	0.4	447,310	13,160	0.5
Nantong Plastics	—	—	355,056	0.5	421,041	12,387	0.4
Yungchia Chemical Industries	405,404	0.6	388,179	0.5	228,243	6,715	0.2
Formosa Heavy Industries	161,425	0.2	111,030	0.2	212,127	6,241	0.2
Nan Ya Plastics Construction Materials (Guangzhou)	—	—	38,731	0.1	87,751	2,582	0.1
Hwa Ya Plastics (Xiamen)	—	—	84,345	0.1	67,391	1,983	0.1
Mailiao Power	78,459	0.1	47,879	0.1	59,446	1,749	0.1
Hwa Ya Plastics Fittings (Xiamen)	—	—	37,338	0.1	57,645	1,696	0.1
Formosa Daikin Advanced Chemical	16,678	—	29,364	—	48,859	1,437	—
Formosa Plasma Display	—	—	7,406	—	32,195	947	—
Nantong Huafu	—	—	2,772	—	30,372	894	—
Nan Ya Plastics (Huizhou)	—	—	—	—	12,080	355	—
Formosa Asahi Spandex	8,139	—	22,232	—	1,562	46	—
Formosa Teletek Corp.	—	—	10,806	0.01	1,430	42	—
Formosa Plastics Marine (Liberia)	7,688	—	9,378	—	—	—	—
Pei Jen	39	—	36	—	—	—	—
Ya Tai Development	8,414	—	4,792	—	—	—	—
Others	16,465	—	9,383	—	985	29	—
Total	**16,590,525**	**24.2**	**22,796,437**	**29.7**	**27,574,205**	**811,245**	**29.0**

The following table sets forth the sales by Formosa Plastics to related parties and the sales amount expressed as a percentage of Formosa Plastics' net sales for the three months ended March 31, 2003 and 2004:

	Non-consolidated				
	Three months ended March 31,				
	2003		2004		
	NT$ (thousands)	% of net sales	NT$ (thousands)	U.S.$ (thousands)	% of net sales
Nan Ya Plastics	2,948,305	16.5	3,935,877	119,269	14.9
Formosa Chemicals & Fibre	775,130	4.3	969,927	29,392	3.7
Formosa Petrochemical	670,228	3.7	689,707	20,900	2.6
Nan Ya Rigid Film (Guangzhou)	257,136	1.4	374,413	11,346	1.4
Nan Ya Plastics (Guangzhou)	170,223	1.0	351,620	10,655	1.3
Nantong Plastics	243,988	1.4	199,263	6,038	0.8
Nan Ya Plastics Construction Materials (Nantong)	100,811	0.6	163,132	4,943	0.6
FPC America	100,051	0.6	120,871	3,663	0.5
Nantong Huafu Co., Ltd.	3,610	—	23,130	701	0.1
Nan Ya Plastics Construction Materials (Guangzhou)	12,096	0.1	22,220	674	0.1
Formosa Daikin Advanced Chemical	11,449	0.1	20,841	632	0.1
Formosa Heavy Industries	26,265	0.2	19,380	587	0.1
Mailiao Power	9,433	0.1	13,699	415	0.1
Nan Ya Plastics (Huizhou)	—	—	12,986	394	—
Hwa Ya Plastics Fittings (Xiamen)	9,246	0.1	11,392	345	—
Formosa Plasma Display Corporation	7,107	—	577	17	—
Formosa Asahi Spandex	473	—	306	9	—
Formosa Teletek Corporation	1,049	—	9	—	—
Yungchia Chemical Industries	96,336	0.5	—	—	—
Hwa Ya Plastics (Xiamen)	9,246	0.1	—	—	—
Total	**5,452,182**	**30.6**	**6,929,350**	**209,980**	**26.3**

Formosa Plastics pays for its purchases from its related parties by drawing cheques on the 15th day of the month immediately following the month of purchase.

Construction contract

Formosa Plastics appoints Formosa Heavy Industries from time to time to undertake the construction of Formosa Plastics' factory expansion projects. For the years ended December 31, 2001, 2002, and 2003, the total invoices for these construction and expansion projects amounted to NT$498,366 thousand, NT$633,967 thousand, and NT$670,453 thousand, respectively. For the three months ended March 31, 2003 and 2004, the total invoices for these construction and expansion projects amounted to NT$185,236 thousand and NT$669,109 thousand, respectively.

Fixed assets

(a) For the years ended December 31, 2001, 2002, and 2003, Formosa Plastics purchased machinery and accessories from Nan Ya Plastics amounting to NT$50,810 thousand, NT$121,806 thousand, and NT$209,050 thousand, respectively.

For the three months ended March 31, 2003 and 2004, Formosa Plastics purchased machinery and accessories from Nan Ya Plastics amounting to NT$104,632 thousand and NT$25,141 thousand, respectively.

(b) In April 2002, Formosa Plastics sold a piece of land located in Hsin Kang Hsiang, Chiayi-Hsien, to Nan Ya Plastics for NT$553,302 thousand.

(c) Formosa Plastics purchased a piece of land and a building located in Jenwu Syang, Kahsiung-Hsien, from Nan Ya Plastics for NT$157,957 thousand. The title was transferred on August 14, 2003.

(d) In September 2003, Formosa Plastics purchased some land and buildings located in Yi-Lan and Kaohsiung from Taishih Textile for NT$230,050 thousands. The title transfer had not been completed as of March 31, 2004.

Endorsements and guarantees

The following table set forth the details of outstanding endorsements and guarantees made by Formosa Plastics on behalf of its related parties as at December 31, 2001, 2002 and 2003:

	Consolidated			
	December 31,			
	2001	2002	2003	
	NT$ (thousands)	NT$ (thousands)	NT$ (thousands)	U.S.$ (thousands)
FPC U.S.A.	10,499,700	10,425,900	—	—
Formosa Petrochemical	3,000,000	3,000,000	3,000,000	88,261
Mailiao Harbor Administration	2,098,426	2,098,426	2,098,426	61,737
Mailiao Power	11,172,500	6,099,500	5,486,000	161,400
Formosa Plastics Marine (Liberia)	1,259,964	1,251,108	1,223,208	35,987
Formosa Daikin Advanced Chemical	505,000	475,000	475,000	13,975
Formosa Plasma Display	—	—	2,000,000	58,841
Formosa Komatsu Silicon Wafer	—	300,000	—	—
Formosa Utility Venture	—	—	8,154,720	239,915
Hangzhou Tai Shin Textile	168,870	—	—	—
Total	**28,704,460**	**23,649,934**	**22,437,354**	**660,116**

The following table sets forth the details of outstanding endorsements and guarantees made by Formosa Plastics on behalf of its related parties as at March 31, 2003 and 2004:

	Non-consolidated		
	March 31,		
	2003	2004	
	NT$ (thousands)	NT$ (thousands)	U.S.$ (thousands)
FPC U.S.A.	10,425,000	—	—
Formosa Petrochemical	3,000,000	3,000,000	90,909
Mailiao Harbor Administration	2,098,426	2,098,426	63,589
Mailiao Power	6,099,500	4,048,000	122,667
Formosa Plastics Marine (Liberia)	1,251,000	1,188,720	36,022
Formosa Daikin Advanced Chemical	475,000	325,000	9,848
Formosa Plasma Display Corporation	—	2,000,000	60,606
Formosa Komatsu Silicon Wafer	300,000	—	—
	23,648,926	**12,660,146**	**383,641**

To assist Formosa Industries (Ningbo) Co. Ltd. to contract with Citibank for a US dollar loan amounting to U.S.$85,000 thousand as of March 31, 2004, Formosa Plastics guaranteed the completion of construction, providing management support, and repaying the loan if necessary.

Nan Ya Plastics

Nan Ya Plastics has from time to time engaged in a variety of transactions with its affiliates. Nan Ya Plastics' policy on transactions with affiliates is that the transactions must be conducted on terms that are substantially the same as those for comparable transactions with non-affiliates on an arm's length basis. Material related party transactions, depending on the nature and size of the transaction, must be approved in writing by a majority of the members of the board of directors of Nan Ya Plastics.

Purchases

The following table sets forth the purchases made by Nan Ya Plastics from related parties and the purchase amount expressed as a percentage of Nan Ya Plastics' net purchases for the years ended December 31, 2001, 2002 and 2003:

	Consolidated						
	Year ended December 31,						
	2001		2002		2003		
	NT$ (thousands)	% of net purchases	NT$ (thousands)	% of net purchases	NT$ (thousands)	U.S.$ (thousands)	% of net purchases
Formosa Chemicals & Fibre	12,675,586	17.2	16,679,467	19.8	20,227,966	595,115	19.9
Formosa Petrochemical	10,028,472	13.6	7,815,210	9.3	11,743,371	345,495	11.6
Formosa Plastics	8,321,581	11.3	9,482,400	11.3	11,695,473	344,086	11.5
Formosa Plastics U.S.A.	3,791,053	5.1	3,888,007	2.8	3,828,051	112,623	3.8
Nan Chung Petrochemical	2,472,193	3.4	2,323,008	4.6	2,699,247	79,413	2.7
PFG Fiber Glass	2,516,928	3.4	1,993,097	2.4	2,046,387	60,205	2.0
Yung Chia Chemical Industries	2,062,691	2.8	1,493,174	1.8	950,851	27,974	0.9
Formosa Utility	556,068	0.7	417,724	0.5	480,636	14,141	0.5
Formosa Plastics Marine	—	—	72,910	0.1	469,348	13,808	0.4
Formosa Idemitsu Petrochemical	—	—	—	—	162,886	4,792	0.2
Nan Ya Electronic Materials (KunShan)	—	—	—	—	123,301	3,628	0.1
Other	763	—	3,332	—	713	21	—
Total	**42,425,335**	**57.5**	**44,168,329**	**52.5**	**54,428,230**	**1,601,301**	**53.6**

The following table sets forth the purchases made by Nan Ya Plastics from related parties and the purchase amount expressed as a percentage of Nan Ya Plastics' net purchases for the three months ended March 31, 2003 and 2004:

	Non-consolidated				
	Three months ended March 31,				
	2003		2004		
	NT$ (thousands)	% of net purchases	NT$ (thousands)	U.S.$ (thousands)	% of net purchases
Formosa Chemicals & Fibre	5,479,262	23.8	6,153,906	186,482	20.2
Formosa Petrochemical	2,425,461	10.5	4,270,379	129,405	14.0
Formosa Plastics	2,908,020	12.6	3,895,634	118,050	12.7
Nan Chung Petrochemical	561,793	2.4	855,310	25,919	2.8
PFG Fiber Glass	404,063	1.8	694,820	21,055	2.3
Yung Chia Chemical Industries	421,299	1.8	—	—	—
Formosa Idemitsu Petrochemical	—	—	53,394	1,618	0.2
Nan Ya Plastics America	155,174	0.7	—	—	—
Total	**12,355,072**	**53.6**	**15,923,443**	**482,529**	**52.2**

Nan Ya Plastics pays for its purchases from its related parties by drawing cheques on the 15th day of the month immediately following the month of purchase. The purchase prices and payment terms of Nan Ya Plastics' purchases from its related parties are not materially different from those for Nan Ya Plastics' non-related general suppliers.

Sales

The following table sets forth the sales by Nan Ya Plastics to related parties and the sales amount expressed as a percentage of Nan Ya Plastics' net sales for the years ended December 31, 2001, 2002 and 2003:

	Consolidated						
	Year ended December 31,						
	2001		2002		2003		
	NT$ (thousands)	% of net sales	NT$ (thousands)	% of net sales	NT$ (thousands)	U.S.$ (thousands)	% of net sales
Formosa Plastics	483,613	0.4	586,636	0.4	872,845	25,679	0.5
Formosa Chemicals & Fibre	1,124,898	0.9	1,090,753	0.8	2,854,571	83,983	1.7
Nan Ya Plastics H.K.	443,643	0.3	411,138	0.3	315,737	9,289	0.2
PFG Fiber Glass	106,776	0.1	—	—	—	—	—
Formosa Petrochemical	910,488	0.7	801,612	0.6	644,907	18,973	0.4
Mailiao Power	109,590	0.1	—	—	—	—	—
Formosa Automobile Corp.	132,372	0.1	—	—	—	—	—
Formosa Plastics, U.S.A.	159,670	0.1	192,308	0.1	241,327	7,100	0.1
Chang Gung Memorial Hospital	315,099	0.2	439,293	0.3	219,113	6,446	0.1
Nanya Technology	—	—	436,132	0.3	377,845	11,116	0.2
Formosa Asahi Spandex	145,905	0.1	277,246	0.2	362,391	10,662	0.2
Formosa Heavy Industries	237,878	0.2	8,913	—	270,617	7,962	0.2
Nan Ya Plastics (Guang Zhou)	—	—	196,706	0.1	263,916	7,765	0.2
Nan Ya Rigid Film (Guang Zhou)	—	—	329,066	0.2	190,955	5,618	0.1
Nan Ya Plastics (Nan Tong)	—	—	146,230	0.1	186,666	5,492	0.1
Nan Ya Synthetic Leather (Nan Tong)	—	—	—	—	122,393	3,601	0.1
Nan Ya Plastics Construction Materials (Nan Tong)	—	—	—	—	145,372	4,277	0.1
Nan Ya Plastics Film (Hui Zhou)	—	—	904,520	0.7	194,483	5,722	0.1
Nan Ya Electronic Materials (Kun Shan)	—	—	602,000	0.4	108,705	3,198	0.1
Nan Ya Copper Foil (Kun Shan)	—	—	—	—	1,185,521	34,878	0.7
Nan Ya Glass Fabrics (Kun Shan)	—	—	221,991	0.2	1,055,819	31,063	0.6
Nan Ya Co-Generation Plant (Kun Shan)	—	—	—	—	804,290	23,662	0.5
Formosa Industries	—	—	—	—	2,216,681	65,216	1.3
Inotera Memories	—	—	—	—	154,823	4,555	0.1
Other	118,650	0.1	654,462	0.5	428,721	12,613	0.3
Total	**4,288,582**	**3.3**	**7,299,006**	**5.2**	**13,217,698**	**388,870**	**7.8**

The following table sets forth the sales by Nan Ya Plastics to related parties and the sales amount expressed as a percentage of Nan Ya Plastics' net sales for the three months ended March 31, 2003 and 2004:

	Non-consolidated				
	Three months ended March 31,				
	2003		2004		
	NT$ (thousands)	% of net sales	NT$ (thousands)	U.S.$ (thousands)	% of net sales
Formosa Plastics	242,169	0.9	246,584	7,472	0.7
Formosa Chemicals & Fiber	238,243	0.8	618,118	18,731	1.7
Nan Ya Printed Circuit Board	565,152	2.0	506,012	15,334	1.4
Formosa Petrochemical	114,324	0.4	150,623	4,564	0.4
Formosa Asahi Spandex	53,315	0.2	162,209	4,916	0.4
Formosa Industries	79,929	0.3	965,547	29,259	2.7
Nan Ya Glass Fabrics (Kun Shan)	266,214	1.0	28,461	863	0.1
Nan Ya Copper Foil (Kun Shan)	281,808	1.0	2,192	66	—
Other	582,035	2.0	578,133	17,519	1.6
Total	**2,423,189**	**8.6**	**3,257,879**	**98,724**	**9.0**

Acquisition of plant and equipment

Na Ya Plastics appoints Formosa Heavy Industries from time to time to undertake the construction of Nan Ya Plastics' factory expansion projects. The contract price for such construction and expansion projects for the years ended December 31, 2001, 2002 and 2003 were NT$909,394 thousand, NT$662,603 thousand and NT$1,080,317 thousand, respectively. The contract price for the three months ended March 31, 2003 and 2004 were NT$267,281 thousand and NT$189,266 thousand, respectively. As of March 31, 2003 and 2004, the unpaid contract price amounted to NT$28,015 thousand and NT$19,424 thousand, respectively.

Utility expenses

Part of the utilities requirement of Nan Ya Plastics' Lin-Yuan plant and all of the utilities requirement of Nan Ya Plastics' Ren-Wu plant, including power, water and steam, are supplied by the utility plants of Formosa Plastics. Such utility expenses are calculated monthly and paid in the month following the usage of such utilities, and amounted to NT$203,219 thousand, NT$185,359 thousand and NT$177,070 thousand for the years ended December 31, 2001, 2002 and 2003, respectively. For the three months ended March 31, 2003 and 2004, such utility expenses amounted to NT$40,285 thousand and NT$40,242 thousand respectively.

The utilities requirement of Nan Ya Plastics' Mailiao plant, including power, water and steam, are supplied by Formosa Petrochemical, and Nan Chung Petrochemical Corp. The expenses for utilities supplied by Formosa Petrochemical amounted to NT$1,093,427 thousand, NT$1,398,355 thousand and NT$1,748,854 thousand for the years ended December 31, 2001, 2002 and 2003, respectively. For the three months ended March 31, 2003 and 2004, the expenses for utilities supplied by Formosa Petrochemical amounted to NT$340,529 thousand and NT$475,435 thousand, respectively.

The expenses for utilities supplied by Nan Chung Petrochemical Corp. amounted to NT$20,151 thousand, NT$23,102 thousand and NT$31,966 thousand for the years ended December 31, 2001, 2002 and 2003, respectively. For the three months ended March 31, 2003 and 2004, the expenses for utilities supplied by Nan Chung Petrochemical Corp. amounted to NT$1,863 thousand and NT$6,271 thousand, respectively.

Fixed assets

Nan Ya Plastics signed a contract with Formosa Plastics in April 2002 to purchase parcels of land located in the Sen Kong industrial zone. The total contract price of NT$553,302 thousand had been paid in full as of December 31, 2002.

In April 2002, Nan Ya Plastics sold a piece of land and building located in Jenwu Syang to Formosa Plastics for NT$157,957 thousand.

Nan Ya Plastics purchased a piece of land and an office located in Taipei City from First International Computer Inc in June 2002. The total contract price of NT$159,566 thousand had been paid in full as of December 31, 2002.

In 2001, Nan Ya Plastics sold a parcel of land located in the Lin Kou industrial zone to Formosa Plastics Transportation Crop. For 2001, the gain derived from sale of land recognized by Nan Ya Plastics amounted to NT$142,860 thousand.

Endorsements and guarantees

The following table sets forth the details of outstanding endorsements and guarantees made by Nan Ya Plastics on behalf of its related parties as at December 31, 2001, 2002 and 2003:

	Consolidated			
	December 31,			
	2001	2002	2003	
	NT$ (thousands)	NT$ (thousands)	NT$ (thousands)	U.S.$ (thousands)
Nan Ya Plastics (H.K.) Co., Ltd.	4,530,263	938,331	543,648	15,994
Formosa Industries	—	—	2,757,315	81,121
Indonesia P.T. Nan Ya Indah Plastics Co.	—	556,048	543,648	15,994
Mailiao Power	6,172,500	5,485,000	5,485,000	161,371
Mailiao Harbor Administration	2,098,426	2,098,426	2,098,426	61,737
Nanya Technology	33,237,374	21,000,000	24,400,000	717,858
Total	**46,038,563**	**30,077,805**	**35,828,037**	**1,054,075**

In 2002 and 2003, the short-term loan of Nan Ya Printed Circuit Board (Kunshan) Co., Ltd. from Citic Industrial Bank was guaranteed by Nan Ya Electronic Materials (Kunshan) Co., Ltd., and the guaranteed credit line amounted to U.S.$25,000 thousand and U.S.$30,000 thousand, respectively.

The long-term syndicated loan headed by ABN AMRO Bank to Nan Ya Printed Circuit Board (Kunshan) Co., Ltd. was guaranteed by Nan Ya Plastics and Nan Ya Plastics (H.K.) Co., Ltd.'s providing a comfort letter.

As of December 31, 2002, the guarantees provided by Nan Ya Printed Circuit Board (Kunshan) Co., Ltd. to secure loans of related parties amounted to U.S.$25,000 thousand.

The following table sets forth the details of outstanding endorsements and guarantees made by Nan Ya Plastics on behalf of its related parties as at March 31, 2003 and 2004:

	Non-consolidated		
	March 31,		
	2003	2004	
	NT$ (thousands)	NT$ (thousands)	U.S.$ (thousands)
Nan Ya Plastics (H.K.) Co., Ltd.	556,000	—	—
Formosa Industries	—	2,679,573	81,199
Indonesia P.T. Nan Ya Indah Plastics	556,000	528,320	16,010
Mailiao Power	5,485,000	4,660,000	141,212
Mailiao Harbor Administration	2,098,426	2,098,426	63,589
Nanya Technology	21,000,000	28,900,000	875,757
Inotera Memories	—	7,726,680	234,142
	29,695,426	46,592,999	1,411,909

Formosa Chemicals & Fibre

Formosa Chemicals & Fibre has from time to time engaged in a variety of transactions with its affiliates. Formosa Chemicals & Fibre's policy on transactions with affiliates is that the transactions must be conducted on terms that are substantially the same as those for comparable transactions with non-affiliates on an arm's length basis. Material related party transactions, depending on the nature and size of the transaction, must be approved in writing by a majority of the members of the board of directors of Formosa Chemicals & Fibre.

Purchases

The following table sets forth the purchases made by Formosa Chemicals & Fibre from related parties and the purchase amount expressed as a percentage of Formosa Chemicals & Fibre's net purchases for the years ended December 31, 2001, 2002 and 2003:

	Year ended December 31,						
	2001		2002		2003		
	NT$ (thousands)	% of net purchases	NT$ (thousands)	% of net purchases	NT$ (thousands)	U.S.$ (thousands)	% of net purchases
Formosa Petrochemical	21,164,251	36.1	25,875,419	39.5	34,948,954	1,028,212	38.2
Formosa Plastics	2,153,476	3.6	2,529,157	3.9	3,546,295	104,333	3.9
Nan Ya Plastics	812,975	1.4	1,025,507	1.6	2,768,474	81,450	3.0
Tah Shin Spinning	58,418	0.1	40,839	0.1	58,690	1,727	0.1
Total	**24,189,120**	**41.2**	**29,470,922**	**45.1**	**41,322,413**	**1,215,722**	**45.2**

Formosa Chemicals & Fibre purchased polyester from Nan Ya Plastics and the purchase prices ranged from NT$32 to NT$43 per kilogram and from NT$31 to NT$36.5 per kilogram in 2003 and 2002, respectively. Formosa Chemicals & Fibre purchased polypropylene from Formosa Plastics and the purchase prices ranged from NT$45.5 to NT$47 per kilogram and from NT$38.5 to NT$46.4 per kilogram in 2003 and 2002, respectively. Formosa Chemicals & Fibre purchased acylic from Formosa Plastics and the purchase prices ranged from NT$25.42 to NT$32.38 per kilogram, and from NT$17.23 to NT$31.93 per kilogram in 2003 and 2002, respectively. Formosa Chemicals & Fibre purchased rayon cotton from Tah Shin Spinning Corp and the purchase prices ranged from NT$8,200 to NT$9,750 per piece, and NT$8,679 per piece in 2003 and 2002, respectively. Formosa Chemicals & Fibre purchased power of steam from Formosa Petrochemical and the purchase prices ranged from NT$317.83 to NT$326.38 per ton and NT$326.46 per ton in 2003 and 2002, respectively. Formosa Chemicals & Fibre purchased naphtha from Formosa Petrochemical and the purchase prices ranged from NT$7.95 to NT$12.43 per kilogram, and from NT$6.12 to NT$9.16 per kilogram in 2003 and 2002, respectively. Formosa Chemicals & Fibre purchased ethylene from Formosa Petrochemical and the purchase prices ranged from NT$16.32 to NT$22.44 per kilogram, and from NT$11.28 to NT$17.12 per kilogram in 2003 and 2002, respectively. Formosa Chemicals & Fibre purchased by-gas from Formosa Petrochemical and that the purchase prices ranged from NT$8.37 to NT$12.92 per kilogram and from NT$6.33 to NT$9.41 per kilogram in 2003 and 2002, respectively. The purchase price and payment terms with related parties were not different from those with non-related parties.

The following table sets forth the purchases made by Formosa Chemicals & Fibre from related parties and the purchase amount expressed as a percentage of Formosa Chemicals & Fibre's net purchases for the three months ended March 31, 2003 and 2004:

	Three months ended March 31,				
	2003		2004		
	NT$ (thousands)	% of net purchases	NT$ (thousands)	U.S.$ (thousands)	% of net purchases
Formosa Petrochemical	7,887,541	35.4	10,839,538	328,471	39.5
Formosa Plastics	775,130	3.4	969,927	29,392	3.5
Nan Ya Plastics	217,137	1.0	613,030	18,576	2.2
Tah Shin Spinning	40,839	0.2	13,633	413	0.1
Total	**8,920,647**	**40.0**	**12,436,128**	**376,852**	**45.3**

Formosa Chemicals & Fibre purchased polyester from Nan Ya Plastics and the purchase prices ranged from NT$32 to NT$42 per kilogram and from NT$40 to NT$45 per kilogram in the first quarter of 2003 and 2004, respectively. Formosa Chemicals & Fibre purchased polypropylene from Formosa Plastics and the purchase prices ranged from NT$45.5 to NT$47 per kilogram and from NT$46.1 to NT$50.1 per kilogram in the first quarter of 2003 and 2004, respectively. Formosa Chemicals & Fibre purchased acylic from Formosa Plastics and the purchase prices ranged from NT$29.42 to NT$31.60 per kilogram and from NT$28.31 to NT$34.22 per kilogram in the first quarter of 2003 and 2004, respectively. Formosa Chemicals & Fibre purchased rayon cotton from Tah Shin Spinning, and the purchase prices ranged from NT$9,133 per piece, and from NT$9,750 per piece in the first quarter of 2003 and 2004, respectively. Formosa Chemicals & Fibre purchased power of steam from Formosa Petrochemical and the purchase prices ranged from NT$327.97 per ton and NT$326.14 per ton in the first quarter of 2003 and 2004, respectively. Formosa Chemicals & Fibre purchased naphtha from Formosa Petrochemical and the purchase prices ranged from NT$10,360 to NT$12,431 per ton and from NT$11,184 to NT$11,526 per ton in the first quarter of 2003 and 2004, respectively. Formosa Chemicals & Fibre purchased ethylene from Formosa Petrochemical and the purchase prices ranged from NT$19,757 to NT$22,437 per kilogram and from NT$22,173 to NT$23,260 per ton in the first quarter of 2003 and 2004, respectively. Formosa Chemicals & Fibre purchased by-gas from Formosa Petrochemical and the purchase prices ranged from NT$10,724 to NT$12,917 per ton and from NT$11,598 to NT$12,237 per ton in the first quarter of 2003 and 2004, respectively. The purchase price and payment terms with related parties were not different from those with non-related parties.

Sales

The following table sets forth the sales by Formosa Chemicals & Fibre to related parties and the sales amount expressed as a percentage of Formosa Chemicals & Fibre's net sales for the years ended December 31, 2001, 2002 and 2003:

	Year ended December 31,						
	2001		2002		2003		
	NT$ (thousands)	% of net sales	NT$ (thousands)	% of net sales	NT$ (thousands)	U.S.$ (thousands)	% of net sales
Nan Ya Plastics	12,675,586	18.8	16,679,466	19.2	20,227,966	595,115	19.0
Formosa Idemitsu Petrochemical	—	—	822,745	0.9	4,019,710	118,261	3.8
Formosa Petrochemical	3,025,197	4.5	2,945,308	3.4	3,943,239	116,012	3.7
Formosa Taffeta	2,364,917	3.5	2,701,127	3.1	3,066,466	90,217	2.8
Formosa Plastics	330,959	0.5	682,652	0.8	1,157,931	34,067	1.1
Tah Shin Spinning	55,395	0.1	53,553	0.1	56,718	1,669	0.1
Others	28,725	—	72,268	0.1	138,576	4,077	0.1
Total	**18,480,779**	**27.4**	**23,957,119**	**27.6**	**32,610,606**	**959,418**	**30.6**

The following table sets forth the sales by Formosa Chemicals & Fibre to related parties and the sales amount expressed as a percentage of Formosa Chemicals & Fibre's net sales for the three months ended March 31, 2003 and 2004:

	Three months ended March 31,				
	2003		2004		
	NT$ (thousands)	% of net sales	NT$ (thousands)	U.S.$ (thousands)	% of net sales
Nan Ya Plastics	5,479,262	21.1	6,153,906	186,482	20.4
Formosa Petrochemical	961,591	3.7	1,109,321	33,616	3.6
Formosa Taffeta	677,087	2.6	1,099,257	33,311	3.6
Formosa Idemitsu Petrochemical	118,806	0.5	840,879	25,481	2.8
Formosa Plastics	203,559	0.8	388,730	11,780	1.3
Others	25,736	0.1	62,803	1,903	0.2
Total	**7,466,041**	**28.8**	**9,654,896**	**292,573**	**31.9**

The accounts receivable due from Formosa Taffeta Co., Limited are collected in the following month of delivery by 60-day notes issued by Formosa Taffeta Co., Limited. The selling prices and collection terms of sales to other related parties are the same as those for non-related clients, that is, collections are made in the end of the month of delivery by 30-day notes.

Acquisition and disposals of property, plant and equipment

The following table sets forth the machinery purchased by Formosa Chemicals & Fibre from related parties and the ending balances of the Construction Contracts payable by Formosa Chemicals & Fibre as of and for the year ended December 31, 2001, 2002 and 2003:

	Year ended December 31,			
	2001	2002	2003	
	NT$ (thousands)	NT$ (thousands)	NT$ (thousands)	U.S.$ (thousands)
Purchased machinery				
Formosa Heavy Industries	1,277,348	412,830	546,762	16,086
Nan Ya Plastics	311,923	65,246	86,096	2,533
Total	**1,539,270**	**478,076**	**632,859**	**18,619**

	December 31,			
	2001	2002	2003	
	NT$ (thousands)	NT$ (thousands)	NT$ (thousands)	U.S.$ (thousands)
Construction contracts payable				
Formosa Heavy Industries	286,762	24,783	17,034	501
Nan Ya Plastics	70,981	8,762	33,661	990
Total	**357,743**	**33,545**	**50,695**	**1,491**

The following table sets forth the machinery purchased by Formosa Chemicals & Fibre from related parties and the ending balances of the Construction Contracts payable by Formosa Chemicals & Fibre for the three months ended March 31, 2003 and 2004:

	Three months ended March 31,		
	2003	2004	
	NT$ (thousands)	NT$ (thousands)	U.S.$ (thousands)
Purchased machinery			
Formosa Heavy Industries	58,545	83,984	2,545
Nan Ya Plastics	21,106	49,905	1,512
Total	**79,651**	**133,889**	**4,057**

	March 31,		
	2003	2004	
	NT$ (thousands)	NT$ (thousands)	U.S.$ (thousands)
Construction contracts payable			
Formosa Heavy Industries	23,271	780	24
Nan Ya Plastics	17,483	42,094	1,275
Total	**40,754**	**42,874**	**1,299**

Formosa Chemicals & Fibre has signed contract with Nanya Technology to sell land located in Lin-Ko industrial area on November 6, 2000. The total contract price amounted to NT$896,600 thousand, which was based on the value appraised by a professional appraisal company "China Credit Reference Agency". The gain resulted from the transaction excluding 45 per cent. of land without transferring ownership amounted to NT$361,950 thousand, which was equal to the contract price deducting the cost of land and related taxes. The receivables resulted from the above transaction amounted to NT$896,600 thousand, has been collected, but NT$322,505 thousands, the contract price of land without transferring ownership, was accounted for as "Advance receipt" on other liabilities as of December 31, 2003 and also as of March 31, 2004.

Formosa Chemicals & Fibre has signed contract with Formosa Petrochemical to sell land located in Tong Sam village on August 8, 2000. The total contract price amounted to NT$127,190 thousands, which was based on the value appraised by a professional appraised company. Formosa Chemicals & Fibre transferred ownership of land on August 14, 2002 except 7 per cent. of land. The gain resulted from the transaction excluding the land without transferring ownership amounted to NT$85,876 thousand, which equals the contract price deducting the cost of land and related taxes. The contract price for non-transferring ownership was NT$9,282 thousand, and was booked as "Advance receipt" under other liabilities as of December 31, 2003 and also as of March 31, 2004.

Formosa Chemicals & Fibre sold machinery and equipments to Formosa BP Chemicals in December 2002. The contract price was U.S.$22,821 thousand (equivalent to NT$784,228 thousand). According to the contract, the machinery and equipment should be transferred to Formosa BP Chemicals in three months after the contract date. Formosa BP Chemicals paid all amount according to the contract in July 2003.

Formosa Chemicals & Fibre sold machinery and equipments to Formosa Industries in 2003. The contract price was NT$120,167 thousand. Formosa Industries Corp had paid all according to the contract as of December 31, 2003. The Company sold supplies to Formosa Industries Co. in 2003. The total selling price was NT$168,510 thousand, and Formosa Chemicals & Fibre had not collected this amount at the end of March 2004.

Formosa Chemicals & Fibre has signed contract with Nan Ya Plastics to sell land located in Lin-Ko industrial area on December 3, 2003. The total contract price amounted to NT$5,261 thousand and the gain resulted from the transaction amounted to NT$3,553 thousand, which equals the contract price deducting the cost of land and related taxes. Nan Ya Plastics had paid all amount according to the contract as of January 31, 2003. Formosa Chemicals & Fibre transferred ownership of land at the same time.

Formosa Chemicals & Fibre sold land to Chang Gung Memorial Hospital located in Tao-yuan County on December 16, 2003. The total contract price amounted to NT$17,872 thousand and the gain resulted from the transaction amounted to NT$1,533 thousand, which equals the contract price deducting the cost of land and related taxes. Formosa Chemicals & Fibre collected NT$17,872 thousand in January 2004.

Endorsements and guarantees

The following table sets forth the details of outstanding endorsements and guarantees made by Formosa Chemicals & Fibre on behalf of its related parties as at December 31, 2001, 2002 and 2003:

	December 31,			
	2001	**2002**	**2003**	**2003**
	NT$ (thousands)	**NT$ (thousands)**	**NT$ (thousands)**	**U.S.$ (thousands)**
Formosa Chemicals & Fibre (Nan Tong)	$ 97,312	$ —	$ —	$ —
Formosa BP Chemicals	—	—	2,205,566	64,889
Mailiao Power	6,172,500	7,422,500	7,422,500	218,373
Mailiao Harbor Administration	2,098,426	2,098,426	2,098,426	61,736
Formosa Industries	—	—	2,792,940	82,169
	$ 8,368,238	$ 9,520,926	$ 14,519,432	$ 427,167

The following table sets forth the details of outstanding endorsements and guarantees made by Formosa Chemicals & Fibre on behalf of its related parties as at March 31, 2003 and 2004:

	March 31,		
	2003	**2004**	
	NT$ (thousands)	**NT$ (thousands)**	**U.S.$ (thousands)**
Formosa BP Chemicals	$ —	$ 2,205,566	$ 66,835
Mailiao Power	7,422,500	7,422,500	224,924
Mailiao Harbor Administration	2,098,426	2,098,426	63,589
Formosa Industries	—	2,792,940	84,635
	$ 9,520,926	$ 14,519,432	$ 439,983

DESCRIPTION OF THE COMMON SHARES

The following is a summary of certain provisions of Formosa Petrochemical's Articles of Incorporation (the "Articles"), the ROC Securities and Exchange Law (the "ROC Securities and Exchange Law") and regulations promulgated thereunder, and the ROC Company Law, all as currently in effect.

General

Formosa Petrochemical's authorized share capital is 9,000,000,000 Common Shares with a par value of NT$10 per Common Share. Formosa Petrochemical has an issued and paid-up capital of NT$78,400,000,000, representing 7,840,000,000 Common Shares in registered form issued and outstanding as of March 29, 2004. Save as disclosed in this Offering Circular, no person has been granted any preferential right to subscribe the Common Shares of Formosa Petrochemical.

The ROC Company Law and the ROC Securities and Exchange Law provide that any change in the issued share capital of a public company, such as Formosa Petrochemical, requires the approval of the Board of Directors of such company, an amendment to its articles of incorporation (if it also involves a change in the authorized share capital of the public company which requires stockholder approval), and, in general, the approvals of the ROC SFC and the MOEA.

Dividends

Under the ROC Company Law, except under certain limited circumstances, a ROC company is not permitted to distribute dividends or make any other distributions to stockholders at any time other than when it is generating net profits ("Earnings"). Before distributing a dividend or making any other distribution to stockholders from Earnings, a company must first apply such Earnings to its losses suffered in previous years (if any), pay all outstanding taxes and set aside the legal reserve referred to below.

Following approval of the financial statements for the preceding fiscal year by the stockholders in an annual stockholders' meeting, dividends are, unless otherwise stipulated under that company's articles of incorporation, distributed in proportion to the number of shares owned by each stockholder as listed on the register of stockholders as at the relevant record date determined by the Board of Directors ("Annual Dividends"). Annual Dividends may be distributed either in cash or in the form of common shares or a combination thereof. The ratio between any cash dividend and stock dividend is proposed by the Board of Directors and is determined by the stockholders at a stockholders' meeting. The practice of Formosa Petrochemical during the past years with respect to the payment of cash dividends and stock dividends is referred to above in the section headed "Dividends and Dividend Policy of Formosa Petrochemical Corporation".

The ROC Company Law provides that a company is required to set aside a legal reserve in an amount equal to 10 per cent. of its Earnings (less losses, if any, suffered in previous years and applicable taxes) until such time as its legal reserve equals its capital. The Articles further provide that, after paying all taxes in accordance with ROC law, recovering any past losses, deducting the legal reserve and special reserve, if necessary, distributing 1 per cent. of dividend interest, the remaining portion of Earnings together with the undistributed retained earning of the previous fiscal years may be allocated (subject to proposal by the Board of Directors and approval by stockholders) as follows:

(i) no more than 1.0 per cent. for remuneration to Directors and Supervisors;

(ii) at least 0.1 per cent. for employee bonuses; and

(iii) the balance thereof will be allocated for bonuses to stockholders.

Distribution of Additional Common Shares

In addition to dividends paid out of Earnings of a company, the ROC Company Law also permits a company to make distributions to stockholders in the form of additional shares from reserves (including its legal reserve referred to above, any special reserve and capital reserve). However, in the case of distributions out of its legal reserve, the amount payable is limited to 50 per cent. of the total accumulated legal reserve and only if the accumulated legal reserve exceeds 50 per cent. of the capital of the company. (For information as to ROC taxes on cash and stock dividends, see "Taxation — ROC Taxation of Non-Residents".)

Pre-emptive Rights and Issue of Additional Common Stock

The ROC Company Law provides that between 10 per cent. and 15 per cent. of any new issue of shares of capital stock sold for cash must be offered first to the issuing company's employees. In addition, the ROC Securities and Exchange Law and the relevant securities regulations require that, if a public company listed on the TSE or whose shares are traded on the Gre Tai Securities Market intends to offer new shares for cash, at least 10 per cent. of such issue must be offered to the public except under certain circumstances or when exempted by the ROC SFC. This percentage can be increased by a resolution passed at a stockholders' meeting, thereby reducing the number of new shares subject to the pre-emptive rights of existing stockholders. Unless the percentage of shares to be offered to the public is increased by stockholders, existing stockholders who are listed on the stockholders' register as of the record date have a preemptive right to acquire the remaining 75 per cent. to 80 per cent. of the issue. The shares not subscribed for by the employees and stockholders at the expiration of the period for the exercise of their rights may be sold at the discretion of the Board of Director of Formosa Petrochemical (subject to ROC law) to the public or specific persons. The pre-emptive rights provisions will not apply to offering of new shares through a private placement approved at a shareholders' meeting.

Meetings of Stockholders

The ordinary meeting of stockholders of Formosa Petrochemical is usually held in Taipei, Taiwan, as determined by the Board of Directors, within six months of the end of the previous fiscal year. Extraordinary meetings of stockholders may be convened by resolution of the Board of Directors whenever they consider it necessary or by stockholders under certain circumstances. Extraordinary meetings of stockholders may also be convened by a Supervisor of Formosa Petrochemical. Notice in writing of ordinary and extraordinary stockholders' meetings stating the place, time and purpose thereof must be dispatched to each stockholder of Formosa Petrochemical at least 30 days and 15 days, respectively, prior to the date set for the meeting.

Voting Rights

A holder of common shares has one vote for each share of common stock. Except as otherwise provided by law, a stockholders' resolution is passed or adopted if voted in favor by the majority present at a stockholders' meeting at which a quorum is present (being holders of more than 50 per cent. of the issued and outstanding common stock present in person or by proxy). Under the ROC Company Law, however, unless otherwise provided in the Articles, election of Directors and Supervisors by stockholders is carried out on a cumulative voting basis.

When one company and another company hold more than one-third of the total outstanding shares in each other, the votes cast by one company in the shareholders' meeting of the other company shall not exceed one-third of the total number of the voting shares (or one third of the total amount of the equity capital of the other company), if both companies are aware of the fact of such relationship, provided, however, that such limitation will not apply to the votes in respect of new shares issued by way of the capitalization of the retained earnings or the legal reserves.

Notwithstanding the above, in order to approve certain major corporate actions, including any amendment to the Articles (which is required for, inter alia, any increase in authorized share capital), the dissolution or amalgamation of a company, the transfer of all or an important part of its business or its properties, the taking over of the whole of the business or properties of any other company which would have a significant impact on the acquiring company's operations, or the distribution of any stock dividend, the ROC Company Law provides that a resolution has to be passed at a meeting of the stockholders with a quorum of holders of at least two-thirds of all issued and outstanding common stock at which the majority present vote in favor thereof. Alternatively, in the case of a public company, such as Formosa Petrochemical, such a resolution may be approved by the holders of at least two-thirds of the common stock represented at a meeting of stockholders with a quorum of holders of at least a majority of issued and outstanding common stock.

A stockholder may be represented at an ordinary or extraordinary stockholders' meeting by proxy. A valid proxy form must be delivered to Formosa Petrochemical at least five days prior to the date fixed for the ordinary or extraordinary meeting.

Registration of Stockholders and Record Dates

Formosa Petrochemical maintains the register of stockholders of Formosa Petrochemical at its office in Taipei, Taiwan, and enters transfers of Common Shares in the register of stockholders upon presentation of the certificates in respect of the Common Shares transferred accompanied by other required documents.

As mentioned above, the record date for an Annual Dividend will be determined and announced by Formosa Petrochemical. For the purpose of determining the holders of common shares entitled to Annual Dividends and other rights pertaining to the common shares, Formosa Petrochemical shall, by giving advance public notice, set a record date and close the register of stockholders for a specified period (sixty days, thirty days and five days immediately before the date of each ordinary stockholders' meeting, extraordinary stockholders' meeting and the relevant record date, respectively).

Annual Financial Statements

Under the ROC Company Law, ten days before the ordinary stockholders' meeting, Formosa Petrochemical's annual audited financial statements must be available at the principal office of Formosa Petrochemical in Taipei for inspection by the stockholders.

Transfers of Common Stock

Under the ROC Company Law, the transfer of common stock (in registered form) is effected by endorsement of the transferor's seal or chop on the back of the relevant share certificate and delivery of such share certificate to the transferee. In order to assert stockholders' rights against Formosa Petrochemical, the transferee must have his name and address registered on Formosa Petrochemical's register of stockholders. Stockholders are required to register their respective specimen seal or chop with Formosa Petrochemical. The settlement of trading of the Common Shares is normally carried out on the book-entry system maintained by Taiwan Securities Central Depository Co., Ltd..

Transfer Restrictions

According to Article 10 of the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings ("Criteria"), since Formosa Petrochemical has filed a listing application with the Taiwan Stock Exchange, the Directors, the Supervisor and each shareholder holding more than ten percent of Formosa Petrochemical were required to place all of their respectively owned Formosa Petrochemical share certificates in central custody. Pursuant to a complex series of regulations, a portion of the share certificates may not be released (and thus the shares they represent will be locked-up) until after the lapse of one full year from the listing date on the Taiwan Stock Exchange. The remaining share certificates will be released over a period of two years beginning after the lapse of two full years from the listing date.

Pursuant to the regulations outlined in the preceding sentence, there are currently 3,917,920,239 shares of Formosa Petrochemical, the share certificates for which are currently held in central custody, and which may not be transferred. These shares will be released from such transfer restrictions as follows:

Date Transfer Restrictions Expire	Number of Shares
December 26, 2004	481,046,447
December 26, 2005	687,373,000
June 26, 2006	687,373,000
December 26, 2006	687,373,000
June 26, 2007	687,373,000
December 26, 2007	687,381,792
Total	3,917,920,239

In addition, there currently are 2,796,200,000 shares which have been pledged to financial institutions. If the pledge is released prior to December 26, 2004, the shareholder must deposit the same amount of shares into centralized custody, which shares could not be transferred until December 26, 2004. If the subject of the pledge is disposed by the financial institution prior to December 26, 2004, Formosa Petrochemical shall contact other directors, supervisors or major shareholders to deposit the same amount of shares into centralized custody, which shares could not be transferred until December 26, 2004.

Formosa Petrochemical's Directors, Supervisors, managers and shareholders holding more than 10 per cent. of Formosa Petrochemical's Common Shares are required to report any changes in their shareholding to Formosa Petrochemical on a monthly basis. In addition, the number of shares that such shareholders can sell or transfer on the Taiwan Stock Exchange on a daily basis is limited by ROC law. Further, such shareholders may only sell or transfer Formosa Petrochemical's shares on the Taiwan Stock Exchange after they have reported such intent to the ROC SFC at least three days before the transfer or sale, provided that such reporting is not required if the number of shares transferred or sold does not exceed 10,000.

Acquisition by Formosa Petrochemical of its own Common Stock

With minor exceptions, Formosa Petrochemical cannot acquire its own Common Shares. Under the ROC Company Law, any shares purchased by Formosa Petrochemical must be sold at the current market price within 6 months from the purchase. Under the ROC Securities and Exchange Law, Formosa Petrochemical may, by resolution adopted by a majority of Formosa Petrochemical's Board of Directors at a meeting where more than two-thirds of the directors are present, repurchase Formosa Petrochemical's Common Shares on the Taiwan Stock Exchange or by a tender offer in accordance with the ROC SFC's procedures, for the following purposes:

- for delivery upon conversion of notes with warrants, preferred shares with warrants, convertible notes and convertible preferred shares or certificates of warrants issued by Formosa Petrochemical, into capital stock of Formosa Petrochemical;

- to transfer to Formosa Petrochemical's employees; or

- if necessary, to maintain Formosa Petrochemical's credit and Formosa Petrochemical shareholders' equity, provided that the shares so repurchased shall be cancelled thereafter.

The number of total shares repurchased by Formosa Petrochemical in any one year may not exceed 10 per cent. of Formosa Petrochemical's total issued and outstanding shares. In addition, the total cost of the purchased shares may not exceed the aggregate amount of Formosa Petrochemical's retained earnings, any premium from share issuance and the realized portion of its capital reserve. Common Shares repurchased in the first two instances mentioned above are to be transferred to the intended transferees within three years from the repurchase, failing which they will be cancelled and Formosa Petrochemical is required to complete an amended registration for the cancellation. In the third instance mentioned above, the shares repurchased by Formosa Petrochemical must be cancelled within six months after the repurchase. The shares repurchased by Formosa Petrochemical may not be pledged or hypothecated. In addition, Formosa Petrochemical may not exercise any of the shareholder's rights attached to these shares. Formosa Petrochemical's affiliates, as defined in Article 369-1 of the ROC Company Law, Directors, Supervisors, managers and their respective spouses and minor children and nominees, are prohibited from selling Formosa Petrochemical's shares until Formosa Petrochemical's repurchase period has lapsed.

Liquidation Rights

In the event of the liquidation of Formosa Petrochemical, the assets remaining after payment of all debts, liquidation expenses, taxes and distributions to holders of preference shares, if any, will be distributed pro rata to the stockholders in accordance with the ROC Company Law.

CHANGES IN ISSUED SHARE CAPITAL OF FORMOSA PETROCHEMICAL CORPORATION

The following table sets out the changes in the issued share capital of Formosa Petrochemical since April 6, 1992:

Date of issue	Number of Common Shares issued	Type of issue	Total number of issued Common Shares after the issue
1992 (original capital)	1.5 billion	Cash	15 billion
1996	1.25 billion	Cash	27.5 billion
1998	1.5 billion	Cash	42.5 billion
1999	1.75 billion	Cash	60 billion
2001	1 billion	Cash	70 billion
2003	0.84 billion	(stock dividends for the year ended December 31, 2002 from retained earnings and capital reserves)	78.4 billion

The net income for Earnings per Common Share is set out elsewhere in this Offering Circular in respect of both the audited financial statements for the three years ended December 31, 2001, 2002 and 2003 and the unaudited financial statements for the three-month periods ended March 31, 2003 and 2004.

THE GLOBAL CERTIFICATES

THE GLOBAL CERTIFICATE FOR THE FORMOSA PETROCHEMICAL CONVERTIBLE NOTES

Except in certain limited circumstances, interests in the Formosa Petrochemical Convertible Notes may only be held through interests in the Formosa Petrochemical Global Certificate. Such interests in the Formosa Petrochemical Global Certificate will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear and Clearstream, International and their respective direct and indirect participants.

The Formosa Petrochemical Global Certificate contains provisions which apply to the Formosa Petrochemical Convertible Notes in respect of which the Formosa Petrochemical Global Certificate is issued, some of which modify the effect of the terms and conditions of the Formosa Petrochemical Convertible Notes (the "Terms and Conditions of the Formosa Petrochemical Convertible Notes") set out in this Offering Circular. Terms defined in the Terms and Conditions of the Formosa Petrochemical Convertible Notes have the same meaning in the paragraphs below. The following is a summary of those provisions:

General

The Formosa Petrochemical Convertible Notes will be represented by interests in the Formosa Petrochemical Global Certificate which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear and/or Clearstream, International (the "Relevant Nominee") and interests therein will be credited to the securities clearance accounts of the relevant Noteholders with Euroclear and/or Clearstream, International. A beneficial interest in the Formosa Petrochemical Global Certificate may at all times be held only through Euroclear and Clearstream, International.

The respective nominees of Euroclear and Clearstream, International are referred to as the "Relevant Nominee".

Accountholders

For so long as any of the Formosa Petrochemical Convertible Notes is represented by the Formosa Petrochemical Global Certificate, each person who is for the time being shown in the records of Euroclear or Clearstream, International (as the case may be) as the holder of a particular principal amount of such Formosa Petrochemical Convertible Notes (each an "Accountholder") (in which regard any certificate or other document issued by Euroclear or Clearstream, International (as the case may be) as to the principal amount of such Formosa Petrochemical Convertible Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Formosa Petrochemical Convertible Notes (and the expression "Noteholders" and references to "holding of Formosa Petrochemical Convertible Notes" and to "holder of Formosa Petrochemical Convertible Notes" shall be construed accordingly) for all purposes other than with respect to the payment of principal, premium (if any) and interest on such Formosa Petrochemical Convertible Notes, the right to which shall be vested, as against Formosa Petrochemical, solely in the Relevant Nominee in accordance with and subject to the terms of the Formosa Petrochemical Global Certificate and the terms of the Indenture. Each Accountholder must look solely to Euroclear or Clearstream, International (as the case may be) for its share of each payment made to the Relevant Nominee.

Individual definitive certificates for Formosa Petrochemical Convertible Notes

Registration of title to Formosa Petrochemical Convertible Notes initially represented by the Formosa Petrochemical Global Certificate in a name other than the nominee for Euroclear and Clearstream, International will not be permitted unless Euroclear or Clearstream, International is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

In such circumstances, Formosa Petrochemical will, at its own expense, cause sufficient definitive certificates (the "Formosa Petrochemical Definitive Certificates") to be executed and delivered to the Registrar for completion and dispatch to all Noteholders. A person having an interest in a Formosa Petrochemical Global Certificate must provide the Registrar with a written order containing instructions and such other information as Formosa Petrochemical and the Registrar may require to complete, execute and deliver such Formosa Petrochemical Definitive Certificates.

The Registrar will not register the exchange of interests in a Formosa Petrochemical Global Certificate for Formosa Petrochemical Definitive Certificates for a period of 15 calendar days preceding the due date for any payment of principal in respect of the Formosa Petrochemical Convertible Notes.

So long as the Formosa Petrochemical Convertible Notes are listed on the SGX-ST and the rules of SGX-ST so require, Formosa Petrochemical shall appoint and maintain a Paying Agent in Singapore, where the Formosa Petrochemical Convertible Notes may be presented or surrendered for payment or redemption, in the event that a Formosa Petrochemical Global Certificate is exchanged for Formosa Petrochemical Definitive Certificates in the circumstances set out above. In addition, in the event that a Formosa Petrochemical Global Certificate is exchanged for Formosa Petrochemical Definitive Certificates in the circumstances set out above, announcement of such exchange shall be made through the SGX-ST and such announcement will include all material information with respect to the delivery of the Formosa Petrochemical Definitive Certificates, including details of the Paying Agent in Singapore.

Payments

Distributions of principal and interest with respect to book-entry interests in the Formosa Petrochemical Convertible Notes held through Euroclear or Clearstream, International will be credited, to the extent received by the Principal Agent to the cash accounts of Euroclear or Clearstream, International participants in accordance with the relevant system's rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the Formosa Petrochemical Global Certificate by or on behalf of Formosa Petrochemical and shall be prima facie evidence that payment has been made.

Meetings

The registered holder (as defined in the Terms and Conditions of the Formosa Petrochemical Convertible Notes) of the Formosa Petrochemical Global Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each U.S.$1,000 in principal amount of Formosa Petrochemical Convertible Notes for which the Formosa Petrochemical Global Certificate are issued. The Trustee may allow a person with an interest in Formosa Petrochemical Convertible Notes in respect of which the Formosa Petrochemical Global Certificate has been issued to attend and speak at a meeting of Noteholders on appropriate proof of his identity and interest.

Cancellation

Cancellation of any Formosa Petrochemical Convertible Note following its redemption, conversion or purchase by Formosa Petrochemical will be effected by reduction in the principal amount of the Formosa Petrochemical Convertible Notes in the register of Noteholders.

Trustee's powers

In considering the interests of Noteholders while the Formosa Petrochemical Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, without being obliged to do so, have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to Formosa Petrochemical Convertible Notes and may consider such interests as if such accountholders were the holders of the Formosa Petrochemical Convertible Notes in respect of which the Formosa Petrochemical Global Certificate is issued.

Conversion

Subject to the requirements of Euroclear and Clearstream, International, the Conversion Right attaching to a Formosa Petrochemical Convertible Note in respect of which the Formosa Petrochemical Global Certificate is issued may be exercised by the presentation to or to the order of the Principal Agent of one or more Conversion Notices duly completed by or on behalf of a holder of a book-entry interest in such Formosa Petrochemical Convertible Note. Deposit of the Formosa Petrochemical Global Certificate with the Principal Agent together with the relevant Conversion Notice shall not be required. The exercise of the Conversion Right shall be notified by the Principal Agent to the Registrar and the holders of the Formosa Petrochemical Global Certificate.

Notices

So long as the Formosa Petrochemical Convertible Notes are represented by the Formosa Petrochemical Global Certificate and the Formosa Petrochemical Global Certificate is held on behalf of Euroclear or Clearstream, International, notices to Noteholders may be given by delivery of the relevant notice to Euroclear or Clearstream, International for communication by it to entitled accountholders in substitution for notification as required by the Terms and Conditions of the Formosa Petrochemical Convertible Notes.

Put Option

The Noteholders' put option in Condition 7(D) may be exercised by the holder of the Formosa Petrochemical Global Certificate giving notice to the Principal Agent of the principal amount of Formosa Petrochemical Convertible Notes in respect of which the option is exercised and presenting the Formosa Petrochemical Global Certificate for endorsement or exercise within the time limits specified in Condition 7(D).

Call Option

Formosa Petrochemical's call option in Condition 7(B) shall be exercised by the Formosa Petrochemical giving notice to the Noteholders within the time limits set out in and containing the information required by that Condition and Condition 7(G) except that the notice shall not be required to contain the serial numbers of Formosa Petrochemical Convertible Notes drawn for redemption in the case of a partial redemption of Formosa Petrochemical Convertible Notes and accordingly no drawing of Formosa Petrochemical Convertible Notes for redemption shall be required.

Transfers

Transfers of interests in the Formosa Petrochemical Convertible Notes will be effected through the records of Euroclear and Clearstream, International and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, International and their respective direct and indirect participants.

Enforcement

For the purposes of enforcement of the provisions of the Indenture, the persons named in a certificate of the holder of the Formosa Petrochemical Convertible Notes in respect of which a Formosa Petrochemical Global Certificate is issued shall be recognized as the beneficiaries of the trusts set out in the Indenture, to the extent of the principal amount of their interest in the Formosa Petrochemical Convertible Notes set out in the certificate of the holder, as if they were themselves the holders of Formosa Petrochemical Convertible Notes in such principal amounts.

References to Euroclear and Clearstream International

Any references to Euroclear and/or Clearstream, International shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system ("Alternative Clearing System") approved by Formosa Petrochemical and the Trustee.

THE GLOBAL CERTIFICATE FOR THE FORMOSA PLASTICS EXCHANGEABLE NOTES

Except in certain limited circumstances, interests in the Formosa Plastics Exchangeable Notes may only be held through interests in the Formosa Plastics Global Certificate. Such interests in the Formosa Plastics Global Certificate will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear and Clearstream, International and their respective direct and indirect participants.

The Formosa Plastics Global Certificate contains provisions which apply to the Formosa Plastics Exchangeable Notes in respect of which the Formosa Plastics Global Certificate is issued, some of which modify the effect of the terms and conditions of the Formosa Plastics Exchangeable Notes (the “Terms and Conditions of the Formosa Plastics Exchangeable Notes”) set out in this Offering Circular. Terms defined in the Terms and Conditions of the Formosa Plastics Exchangeable Notes have the same meaning in the paragraphs below. The following is a summary of those provisions:

General

The Formosa Plastics Exchangeable Notes will be represented by interests in the Formosa Plastics Global Certificate which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear and/or Clearstream, International (the “Relevant Nominee”) and interests therein will be credited to the securities clearance accounts of the relevant Noteholders with Euroclear and/or Clearstream, International. A beneficial interest in the Formosa Plastics Global Certificate may at all times be held only through Euroclear and Clearstream, International.

The respective nominees of Euroclear and Clearstream, International are referred to as the “Relevant Nominee”.

Accountholders

For so long as any of the Formosa Plastics Exchangeable Notes is represented by the Formosa Plastics Global Certificate, each person who is for the time being shown in the records of Euroclear or Clearstream, International (as the case may be) as the holder of a particular principal amount of such Formosa Plastics Exchangeable Notes (each an “Accountholder”) (in which regard any certificate or other document issued by Euroclear or Clearstream, International (as the case may be) as to the principal amount of such Formosa Plastics Exchangeable Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Formosa Plastics Exchangeable Notes (and the expression “Noteholders” and references to “holding of Formosa Plastics Exchangeable Notes” and to “holder of Formosa Plastics Exchangeable Notes” shall be construed accordingly) for all purposes other than with respect to the payment of principal, premium (if any) and interest on such Formosa Plastics Exchangeable Notes, the right to which shall be vested, as against Formosa Plastics, solely in the Relevant Nominee in accordance with and subject to the terms of the Formosa Plastics Global Certificate and the terms of the Indenture. Each Accountholder must look solely to Euroclear or Clearstream, International (as the case may be) for its share of each payment made to the Relevant Nominee.

Individual definitive certificates for Formosa Plastics Exchangeable Notes

Registration of title to Formosa Plastics Exchangeable Notes initially represented by the Formosa Plastics Global Certificate in a name other than the nominee for Euroclear and Clearstream, International will not be permitted unless Euroclear or Clearstream, International is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

In such circumstances, Formosa Plastics will, at its own expense, cause sufficient definitive certificates (the "Formosa Plastics Definitive Certificates") to be executed and delivered to the Registrar for completion and dispatch to all Noteholders. A person having an interest in a Formosa Plastics Global Certificate must provide the Registrar with a written order containing instructions and such other information as Formosa Plastics and the Registrar may require to complete, execute and deliver such Formosa Plastics Definitive Certificates.

The Registrar will not register the exchange of interests in a Formosa Plastics Global Certificate for Formosa Plastics Definitive Certificates for a period of 15 calendar days preceding the due date for any payment of principal in respect of the Formosa Plastics Exchangeable Notes.

So long as the Formosa Plastics Exchangeable Notes are listed on the SGX-ST and the rules of SGX-ST so require, Formosa Plastics shall appoint and maintain a Paying Agent in Singapore, where the Formosa Plastics Exchangeable Notes may be presented or surrendered for payment or redemption, in the event that the Formosa Plastics Global Certificate is exchanged for Formosa Plastics Definitive Certificates in the circumstances set out above. In addition, in the event that the Formosa Plastics Global Certificate is exchanged for Formosa Plastics Definitive Certificates in the circumstances set out above, announcement of such exchange shall be made through the SGX-ST and such announcement will include all material information with respect to the delivery of the Formosa Plastics Definitive Certificates, including details of the Paying Agent in Singapore.

Payments

Distributions of principal and interest with respect to book-entry interests in the Formosa Plastics Exchangeable Notes held through Euroclear or Clearstream, International will be credited, to the extent received by the Principal Agent to the cash accounts of Euroclear or Clearstream, International participants in accordance with the relevant system's rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the Formosa Plastics Global Certificate by or on behalf of Formosa Plastics and shall be prima facie evidence that payment has been made.

Meetings

The registered holder (as defined in the Terms and Conditions of the Formosa Plastics Exchangeable Notes) of the Formosa Plastics Global Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each U.S.$1,000 in principal amount of Formosa Plastics Exchangeable Notes for which the Formosa Plastics Global Certificate are issued. The Trustee may allow a person with an interest in Formosa Plastics Exchangeable Notes in respect of which the Formosa Plastics Global Certificate has been issued to attend and speak at a meeting of Noteholders on appropriate proof of his identity and interest.

Cancellation

Cancellation of any Formosa Plastics Exchangeable Note following its redemption, exchange or purchase by Formosa Plastics will be effected by reduction in the principal amount of the Formosa Plastics Exchangeable Notes in the register of Noteholders.

Trustee's powers

In considering the interests of Noteholders while the Formosa Plastics Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, without being obliged to do so, have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to Formosa

Plastics Exchangeable Notes and may consider such interests as if such accountholders were the holders of the Formosa Plastics Exchangeable Notes in respect of which the Formosa Plastics Global Certificate is issued.

Exchange

Subject to the requirements of Euroclear and Clearstream, International, the Exchange Right attaching to a Formosa Plastics Exchangeable Note in respect of which the Formosa Plastics Global Certificate is issued may be exercised by the presentation to or to the order of the Principal Agent of one or more Exchange Notices duly completed by or on behalf of a holder of a book-entry interest in such Formosa Plastics Exchangeable Note. Deposit of the Formosa Plastics Global Certificate with the Principal Agent together with the relevant Exchange Notice shall not be required. The exercise of the Exchange Right shall be notified by the Principal Agent to the Registrar and the holders of the Formosa Plastics Global Certificate.

Notices

So long as the Formosa Plastics Exchangeable Notes are represented by the Formosa Plastics Global Certificate and the Formosa Plastics Global Certificate is held on behalf of Euroclear or Clearstream, International, notices to Noteholders may be given by delivery of the relevant notice to Euroclear or Clearstream, International for communication by it to entitled accountholders in substitution for notification as required by the Terms and Conditions of the Formosa Plastics Exchangeable Notes.

Put Option

The Noteholders' put option in Condition 7(D) may be exercised by the holder of the Formosa Plastics Global Certificate giving notice to the Principal Agent of the principal amount of Formosa Plastics Exchangeable Notes in respect of which the option is exercised and presenting the Formosa Plastics Global Certificate for endorsement or exercise within the time limits specified in Condition 7(D).

Call Option

Formosa Plastics' call option in Condition 7(B) shall be exercised by the Formosa Plastics giving notice to the Noteholders within the time limits set out in and containing the information required by that Condition and Condition 7(G) except that the notice shall not be required to contain the serial numbers of Formosa Plastics Exchangeable Notes drawn for redemption in the case of a partial redemption of Formosa Plastics Exchangeable Notes and accordingly no drawing of Formosa Plastics Exchangeable Notes for redemption shall be required.

Transfers

Transfers of interests in the Formosa Plastics Exchangeable Notes will be effected through the records of Euroclear and Clearstream, International and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, International and their respective direct and indirect participants.

Enforcement

For the purposes of enforcement of the provisions of the Indenture, the persons named in a certificate of the holder of the Formosa Plastics Exchangeable Notes in respect of which a Formosa Plastics Global Certificate is issued shall be recognized as the beneficiaries of the trusts set out in the Indenture, to the extent of the principal amount of their interest in the Formosa Plastics Exchangeable Notes set out in the certificate of the holder, as if they were themselves the holders of Formosa Plastics Exchangeable Notes in such principal amounts.

References to Euroclear and Clearstream International

Any references to Euroclear and/or Clearstream, International shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system ("Alternative Clearing System") approved by Formosa Plastics and the Trustee.

GLOBAL CERTIFICATES FOR THE NAN YA PLASTICS EXCHANGEABLE NOTES

Except in certain limited circumstances, interests in the Nan Ya Plastics Exchangeable Notes may only be held through interests in the Nan Ya Plastics Global Certificate. Such interests in the Nan Ya Plastics Global Certificate will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear and Clearstream, International and their respective direct and indirect participants.

The Nan Ya Plastics Global Certificate contains provisions which apply to the Nan Ya Plastics Exchangeable Notes in respect of which the Nan Ya Plastics Global Certificate is issued, some of which modify the effect of the terms and conditions of the Nan Ya Plastics Exchangeable Notes (the "Terms and Conditions of the Nan Ya Plastics Exchangeable Notes") set out in this Offering Circular. Terms defined in the Terms and Conditions of the Nan Ya Plastics Exchangeable Notes have the same meaning in the paragraphs below. The following is a summary of those provisions:

General

The Nan Ya Plastics Exchangeable Notes will be represented by interests in the Nan Ya Plastics Global Certificate which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear and/or Clearstream, International (the "Relevant Nominee") and interests therein will be credited to the securities clearance accounts of the relevant Noteholders with Euroclear and/or Clearstream, International. A beneficial interest in the Nan Ya Plastics Global Certificate may at all times be held only through Euroclear and Clearstream, International.

The respective nominees of Euroclear and Clearstream, International are referred to as the "Relevant Nominee".

Accountholders

For so long as any of the Nan Ya Plastics Exchangeable Notes is represented by the Nan Ya Plastics Global Certificate, each person who is for the time being shown in the records of Euroclear or Clearstream, International (as the case may be) as the holder of a particular principal amount of such Nan Ya Plastics Exchangeable Notes (each an "Accountholder") (in which regard any certificate or other document issued by Euroclear or Clearstream, International (as the case may be) as to the principal amount of such Nan Ya Plastics Exchangeable Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Nan Ya Plastics Exchangeable Notes (and the expression "Noteholders" and references to "holding of Nan Ya Plastics Exchangeable Notes" and to "holder of Nan Ya Plastics Exchangeable Notes" shall be construed accordingly) for all purposes other than with respect to the payment of principal, premium (if any) and interest on such Nan Ya Plastics Exchangeable Notes, the right to which shall be vested, as against Nan Ya Plastics, solely in the Relevant Nominee in accordance with and subject to the terms of the Nan Ya Plastics Global Certificate and the terms of the Indenture. Each Accountholder must look solely to Euroclear or Clearstream, International (as the case may be) for its share of each payment made to the Relevant Nominee.

Individual definitive certificates for Nan Ya Plastics Exchangeable Notes

Registration of title to Nan Ya Plastics Exchangeable Notes initially represented by the Nan Ya Plastics Global Certificate in a name other than the nominee for Euroclear and Clearstream, International will not be permitted unless Euroclear or Clearstream, International is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

In such circumstances, Nan Ya Plastics will, at its own expense, cause sufficient definitive certificates (the "Nan Ya Plastics Definitive Certificates") to be executed and delivered to the Registrar for completion and dispatch to all Noteholders. A person having an interest in a Nan Ya Plastics Global Certificate must provide the Registrar with a written order containing instructions and such other information as Nan Ya Plastics and the Registrar may require to complete, execute and deliver such Nan Ya Plastics Definitive Certificates.

The Registrar will not register the exchange of interests in a Nan Ya Plastics Global Certificate for Nan Ya Plastics Definitive Certificates for a period of 15 calendar days preceding the due date for any payment of principal in respect of the Nan Ya Plastics Exchangeable Notes.

So long as the Nan Ya Plastics Exchangeable Notes are listed on the SGX-ST and the rules of SGX-ST so require, Nan Ya Plastics shall appoint and maintain a Paying Agent in Singapore, where the Nan Ya Plastics Exchangeable Notes may be presented or surrendered for payment or redemption, in the event that the Nan Ya Plastics Global Certificate is exchanged for Nan Ya Plastics Definitive Certificates in the circumstances set out above. In addition, in the event that the Nan Ya Plastics Global Certificate is exchanged for Nan Ya Plastics Definitive Certificates in the circumstances set out above, announcement of such exchange shall be made through the SGX-ST and such announcement will include all material information with respect to the delivery of the Nan Ya Plastics Definitive Certificates, including details of the Paying Agent in Singapore.

Payments

Distributions of principal and interest with respect to book-entry interests in the Nan Ya Plastics Exchangeable Notes held through Euroclear or Clearstream, International will be credited, to the extent received by the Principal Agent to the cash accounts of Euroclear or Clearstream, International participants in accordance with the relevant system's rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the Nan Ya Plastics Global Certificate by or on behalf of Nan Ya Plastics and shall be prima facie evidence that payment has been made.

Meetings

The registered holder (as defined in the Terms and Conditions of the Nan Ya Plastics Exchangeable Notes) of the Nan Ya Plastics Global Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each U.S.$1,000 in principal amount of Nan Ya Plastics Exchangeable Notes for which the Nan Ya Plastics Global Certificate are issued. The Trustee may allow a person with an interest in Nan Ya Plastics Exchangeable Notes in respect of which the Nan Ya Plastics Global Certificate has been issued to attend and speak at a meeting of Noteholders on appropriate proof of his identity and interest.

Cancellation

Cancellation of any Nan Ya Plastics Exchangeable Note following its redemption, exchange or purchase by Nan Ya Plastics will be effected by reduction in the principal amount of the Nan Ya Plastics Exchangeable Notes in the register of Noteholders.

Trustee's powers

In considering the interests of Noteholders while the Nan Ya Plastics Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, without being obliged to do so, have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to Nan Ya Plastics

Exchangeable Notes and may consider such interests as if such accountholders were the holders of the Nan Ya Plastics Exchangeable Notes in respect of which the Nan Ya Plastics Global Certificate is issued.

Exchange

Subject to the requirements of Euroclear and Clearstream, International, the Exchange Right attaching to a Nan Ya Plastics Exchangeable Note in respect of which the Nan Ya Plastics Global Certificate is issued may be exercised by the presentation to or to the order of the Principal Agent of one or more Exchange Notices duly completed by or on behalf of a holder of a book-entry interest in such Nan Ya Plastics Exchangeable Note. Deposit of the Nan Ya Plastics Global Certificate with the Principal Agent together with the relevant Exchange Notice shall not be required. The exercise of the Exchange Right shall be notified by the Principal Agent to the Registrar and the holders of the Nan Ya Plastics Global Certificate.

Notices

So long as the Nan Ya Plastics Exchangeable Notes are represented by the Nan Ya Plastics Global Certificate and the Nan Ya Plastics Global Certificate is held on behalf of Euroclear or Clearstream, International, notices to Noteholders may be given by delivery of the relevant notice to Euroclear or Clearstream, International for communication by it to entitled accountholders in substitution for notification as required by the Terms and Conditions of the Nan Ya Plastics Exchangeable Notes.

Put Option

The Noteholders' put option in Condition 7(D) may be exercised by the holder of the Nan Ya Plastics Global Certificate giving notice to the Principal Agent of the principal amount of Nan Ya Plastics Exchangeable Notes in respect of which the option is exercised and presenting the Nan Ya Plastics Global Certificate for endorsement or exercise within the time limits specified in Condition 7(D).

Call Option

Nan Ya Plastics' call option in Condition 7(B) shall be exercised by the Nan Ya Plastics giving notice to the Noteholders within the time limits set out in and containing the information required by that Condition and Condition 7(G) except that the notice shall not be required to contain the serial numbers of Nan Ya Plastics Exchangeable Notes drawn for redemption in the case of a partial redemption of Nan Ya Plastics Exchangeable Notes and accordingly no drawing of Nan Ya Plastics Exchangeable Notes for redemption shall be required.

Transfers

Transfers of interests in the Nan Ya Plastics Exchangeable Notes will be effected through the records of Euroclear and Clearstream, International and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, International and their respective direct and indirect participants.

Enforcement

For the purposes of enforcement of the provisions of the Indenture, the persons named in a certificate of the holder of the Nan Ya Plastics Exchangeable Notes in respect of which a Nan Ya Plastics Global Certificate is issued shall be recognized as the beneficiaries of the trusts set out in the Indenture, to the extent of the principal amount of their interest in the Nan Ya Plastics Exchangeable Notes set out in the certificate of the holder, as if they were themselves the holders of Nan Ya Plastics Exchangeable Notes in such principal amounts.

References to Euroclear and Clearstream International

Any references to Euroclear and/or Clearstream, International shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system ("Alternative Clearing System") approved by Nan Ya Plastics and the Trustee.

GLOBAL CERTIFICATES FOR THE FORMOSA CHEMICALS & FIBRE EXCHANGEABLE NOTES

Except in certain limited circumstances, interests in the Formosa Chemicals & Fibre Exchangeable Notes may only be held through interests in the Formosa Chemicals & Fibre Global Certificate. Such interests in the Formosa Chemicals & Fibre Global Certificate will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear and Clearstream, International and their respective direct and indirect participants.

The Formosa Chemicals & Fibre Global Certificate contains provisions which apply to the Formosa Chemicals & Fibre Exchangeable Notes in respect of which the Formosa Chemicals & Fibre Global Certificate is issued, some of which modify the effect of the terms and conditions of the Formosa Chemicals & Fibre Exchangeable Notes (the "Terms and Conditions of the Formosa Chemicals & Fibre Exchangeable Notes") set out in this Offering Circular. Terms defined in the Terms and Conditions of the Formosa Chemicals & Fibre Exchangeable Notes have the same meaning in the paragraphs below. The following is a summary of those provisions:

General

The Formosa Chemicals & Fibre Exchangeable Notes will be represented by interests in the Formosa Chemicals & Fibre Global Certificate which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear and/or Clearstream, International (the "Relevant Nominee") and interests therein will be credited to the securities clearance accounts of the relevant Noteholders with Euroclear and/or Clearstream, International. A beneficial interest in the Formosa Chemicals & Fibre Global Certificate may at all times be held only through Euroclear and Clearstream, International.

The respective nominees of Euroclear and Clearstream, International are referred to as the "Relevant Nominee".

Accountholders

For so long as any of the Formosa Chemicals & Fibre Exchangeable Notes is represented by the Formosa Chemicals & Fibre Global Certificate, each person who is for the time being shown in the records of Euroclear or Clearstream, International (as the case may be) as the holder of a particular principal amount of such Formosa Chemicals & Fibre Exchangeable Notes (each an "Accountholder") (in which regard any certificate or other document issued by Euroclear or Clearstream, International (as the case may be) as to the principal amount of such Formosa Chemicals & Fibre Exchangeable Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Formosa Chemicals & Fibre Exchangeable Notes (and the expression "Noteholders" and references to "holding of Formosa Chemicals & Fibre Exchangeable Notes" and to "holder of Formosa Chemicals & Fibre Exchangeable Notes" shall be construed accordingly) for all purposes other than with respect to the payment of principal, premium (if any) and interest on such Formosa Chemicals & Fibre Exchangeable Notes, the right to which shall be vested, as against Formosa Chemicals & Fibre, solely in the Relevant Nominee in accordance with and subject to the terms of the Formosa Chemicals & Fibre Global Certificate and the terms of the Indenture. Each Accountholder must look solely to Euroclear or Clearstream, International (as the case may be) for its share of each payment made to the Relevant Nominee.

Individual definitive certificates for Formosa Chemicals & Fibre Exchangeable Notes

Registration of title to Formosa Chemicals & Fibre Exchangeable Notes initially represented by the Formosa Chemicals & Fibre Global Certificate in a name other than the nominee for Euroclear and Clearstream, International will not be permitted unless Euroclear or Clearstream, International is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

In such circumstances, Formosa Chemicals & Fibre will, at its own expense, cause sufficient definitive certificates (the "Formosa Chemicals & Fibre Definitive Certificates") to be executed and delivered to the Registrar for completion and dispatch to all Noteholders. A person having an interest in a Formosa Chemicals & Fibre Global Certificate must provide the Registrar with a written order containing instructions and such other information as Formosa Chemicals & Fibre and the Registrar may require to complete, execute and deliver such Formosa Chemicals & Fibre Definitive Certificates.

The Registrar will not register the exchange of interests in a Formosa Chemicals & Fibre Global Certificate for Formosa Chemicals & Fibre Definitive Certificates for a period of 15 calendar days preceding the due date for any payment of principal in respect of the Formosa Chemicals & Fibre Exchangeable Notes.

So long as the Formosa Chemicals & Fibre Exchangeable Notes are listed on the SGX-ST and the rules of SGX-ST so require, Formosa Chemicals & Fibre shall appoint and maintain a Paying Agent in Singapore, where the Formosa Chemicals & Fibre Exchangeable Notes may be presented or surrendered for payment or redemption, in the event that the Formosa Chemicals & Fibre Global Certificate is exchanged for Formosa Chemicals & Fibre Definitive Certificates in the circumstances set out above. In addition, in the event that the Formosa Chemicals & Fibre Global Certificate is exchanged for Formosa Chemicals & Fibre Definitive Certificates in the circumstances set out above, announcement of such exchange shall be made through the SGX-ST and such announcement will include all material information with respect to the delivery of the Formosa Chemicals & Fibre Definitive Certificates, including details of the Paying Agent in Singapore.

Payments

Distributions of principal and interest with respect to book-entry interests in the Formosa Chemicals & Fibre Exchangeable Notes held through Euroclear or Clearstream, International will be credited, to the extent received by the Principal Agent to the cash accounts of Euroclear or Clearstream, International participants in accordance with the relevant system's rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the Formosa Chemicals & Fibre Global Certificate by or on behalf of Formosa Chemicals & Fibre and shall be prima facie evidence that payment has been made.

Meetings

The registered holder (as defined in the Terms and Conditions of the Formosa Chemicals & Fibre Exchangeable Notes) of the Formosa Chemicals & Fibre Global Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each U.S.$1,000 in principal amount of Formosa Chemicals & Fibre Exchangeable Notes for which the Formosa Chemicals & Fibre Global Certificate are issued. The Trustee may allow a person with an interest in Formosa Chemicals & Fibre Exchangeable Notes in respect of which the Formosa Chemicals & Fibre Global Certificate has been issued to attend and speak at a meeting of Noteholders on appropriate proof of his identity and interest.

Cancellation

Cancellation of any Formosa Chemicals & Fibre Exchangeable Note following its redemption, exchange or purchase by Formosa Chemicals & Fibre will be effected by reduction in the principal amount of the Formosa Chemicals & Fibre Exchangeable Notes in the register of Noteholders.

Trustee's powers

In considering the interests of Noteholders while the Formosa Chemicals & Fibre Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, without being obliged to do so, have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to Formosa Chemicals & Fibre Exchangeable Notes and may consider such interests as if such accountholders were the holders of the Formosa Chemicals & Fibre Exchangeable Notes in respect of which the Formosa Chemicals & Fibre Global Certificate is issued.

Exchange

Subject to the requirements of Euroclear and Clearstream, International, the Exchange Right attaching to a Formosa Chemicals & Fibre Exchangeable Note in respect of which the Formosa Chemicals & Fibre Global Certificate is issued may be exercised by the presentation to or to the order of the Principal Agent of one or more Exchange Notices duly completed by or on behalf of a holder of a book-entry interest in such Formosa Chemicals & Fibre Exchangeable Note. Deposit of the Formosa Chemicals & Fibre Global Certificate with the Principal Agent together with the relevant Exchange Notice shall not be required. The exercise of the Exchange Right shall be notified by the Principal Agent to the Registrar and the holders of the Formosa Chemicals & Fibre Global Certificate.

Notices

So long as the Formosa Chemicals & Fibre Exchangeable Notes are represented by the Formosa Chemicals & Fibre Global Certificate and the Formosa Chemicals & Fibre Global Certificate is held on behalf of Euroclear or Clearstream, International, notices to Noteholders may be given by delivery of the relevant notice to Euroclear or Clearstream, International for communication by it to entitled accountholders in substitution for notification as required by the Terms and Conditions of the Formosa Chemicals & Fibre Exchangeable Notes.

Put Option

The Noteholders' put option in Condition 7(D) may be exercised by the holder of the Formosa Chemicals & Fibre Global Certificate giving notice to the Principal Agent of the principal amount of Formosa Chemicals & Fibre Exchangeable Notes in respect of which the option is exercised and presenting the Formosa Chemicals & Fibre Global Certificate for endorsement or exercise within the time limits specified in Condition 7(D).

Call Option

Formosa Chemicals & Fibre's call option in Condition 7(B) shall be exercised by the Formosa Chemicals & Fibre giving notice to the Noteholders within the time limits set out in and containing the information required by that Condition and Condition 7(G) except that the notice shall not be required to contain the serial numbers of Formosa Chemicals & Fibre Exchangeable Notes drawn for redemption in the case of a partial redemption of Formosa Chemicals & Fibre Exchangeable Notes and accordingly no drawing of Formosa Chemicals & Fibre Exchangeable Notes for redemption shall be required.

Transfers

Transfers of interests in the Formosa Chemicals & Fibre Exchangeable Notes will be effected through the records of Euroclear and Clearstream, International and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, International and their respective direct and indirect participants.

Enforcement

For the purposes of enforcement of the provisions of the Indenture, the persons named in a certificate of the holder of the Formosa Chemicals & Fibre Exchangeable Notes in respect of which a Formosa Chemicals & Fibre Global Certificate is issued shall be recognized as the beneficiaries of the trusts set out in the Indenture, to the extent of the principal amount of their interest in the Formosa Chemicals & Fibre Exchangeable Notes set out in the certificate of the holder, as if they were themselves the holders of Formosa Chemicals & Fibre Exchangeable Notes in such principal amounts.

References to Euroclear and Clearstream International

Any references to Euroclear and/or Clearstream, International shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system ("Alternative Clearing System") approved by Formosa Chemicals & Fibre and the Trustee.

TAXATION

ROC Taxation

The following discussion is a summary of the material ROC tax considerations relevant to an investment decision by non-ROC holders.

The following summary addresses the principal ROC tax consequences of the ownership and disposition of the Notes or the Common Shares to a non-resident individual or non-resident entity that holds such Notes or Common Shares (a "Non-ROC Holder"). "Non-resident individual" (a "Non-ROC Individual Holder") is a foreign national individual who is not physically present in the ROC for 183 days or more during any calendar year in which he or she owns the Notes or the Common Shares and a "non-resident entity" (a "Non-ROC Entity Holder") is a corporation or a non-corporate body that is organized under the laws of a jurisdiction other than the ROC for profit-making purposes and does not have a fixed place of business or other permanent establishment in the ROC.

Notes

Interest

Payments of stated interest or premium (if any) on a Note to a Non-ROC Holder are subject to ROC withholding tax at the rate of 20 per cent. at the time of payment.

Sale

Securities transaction tax will be imposed on the transfer of equity securities issued by ROC companies at the rate of 0.3 per cent., which is payable by the seller. However, according to the amended Statute of Upgrading Industries effective as of 1 February 2002, no securities transaction tax will be imposed on the transfer of corporate notes and financial debentures, including the Notes, until December 31, 2009.

However, securities transaction tax, gift tax and/or income tax may be imposed in relation to the converting holder's designation of other persons to be the holder of Common Shares upon conversion or exchange of the Notes.

Under current ROC laws, capital gains on transactions of securities issued by ROC companies are exempt from income tax. This exemption applies to capital gains derived from the sale of Notes.

Conversion into Common Shares

ROC law currently provides no specific provisions regarding the ROC income tax consequences of a conversion of Notes into Common Shares or cash. Without further clarification from the ROC tax authorities, it is impossible to conclude with certainty that gain on the conversion of Notes into Common Shares or cash will not be deemed a taxable gain, be subject to additional interest income (subject to the 20 per cent. withholding tax) or otherwise be subject to other ROC tax.

Transfer of Notes by Non-ROC Holders are regarded as transactions outside the ROC and thus any gains derived therefrom are not subject to ROC income.

Stamp Duty

There is no ROC stamp, issue or registration tax imposed on the delivery of Common Shares upon conversion of the Notes.

Common Shares

Dividends

Dividends (whether in cash or shares) declared by Formosa Petrochemical out of retained earnings and distributed to a Non-ROC Holder in respect of Common Shares are subject to ROC withholdings tax, currently at the rate of 20 per cent., on the amount of the distribution (in the case of cash dividends) or on the par value of the Common Shares (in the case of stock dividends).

Distributions of Common Shares declared by Formosa Petrochemical out of capital reserves are not subject to ROC withholding tax.

Sale

Securities transaction tax will be withheld at the rate of 0.3 per cent. of the transaction price upon a sale of Common Shares.

Under current ROC laws, capital gains on transactions in securities issued by ROC companies are exempt from income tax. This exemption applies to capital gains derived from the sale of Common Shares.

Pre-emptive Rights

Distributions of statutory subscription rights for the Common Shares in compliance with the ROC Company Law are not subject to ROC tax. Proceeds derived from sales of statutory subscription rights evidenced by securities are currently exempted from income tax but are subject to securities transaction tax, currently at the rate of 0.3 per cent. of the gross sales amount. Proceeds derived from sales of statutory subscription rights which are not evidenced by securities are subject to capital gains tax at the rate of (1) 25 per cent. of the gains realized by Non-ROC Entity Holders and (2) 35 per cent. of gains realized by Non-ROC Individual Holders. Subject to compliance with ROC laws, Formosa Petrochemical has the sole discretion to determine whether statutory subscription rights shall be evidenced by the issuance of securities.

Inheritance Tax and Gift Tax

ROC inheritance tax is payable on any property located within ROC of a deceased Non-ROC individual, and ROC gift tax is payable on any property located within ROC donated by such person. Inheritance tax is payable at rates ranging from 2 per cent. of the first NT$0.6 million to 50 per cent. of amounts over NT$100 million. Gift tax is payable at rates ranging from 4 per cent. of the first NT$0.6 million to 50 per cent. of amounts over NT$45 million. Under ROC inheritance and gift tax law, notes and shares issued by ROC companies are deemed located within the ROC regardless of the location of the owner.

Tax Treaties

The United States does not have an income tax treaty with the ROC. At present, the ROC has income tax treaties with Australia, Gambia, Indonesia, Malaysia, Macedonia, the United Kingdom, the Netherlands, New Zealand, Singapore, South Africa, Swaziland and Vietnam, which limit the rate of withholding tax on dividends or interest paid with respect to shares or Notes in ROC companies. It is unclear whether a Non-ROC Holder will be considered to own Notes or Common Shares for the purposes of such income tax treaties. Accordingly, holders of Notes or Common Shares who are otherwise entitled to the benefits of a relevant income tax treaty should consult their own tax advisors concerning their eligibility for benefits under the treaty with respect to the Notes or Common Shares.

Tax Reform

In order to increase ROC's competitiveness, an amendment to the ROC Income Tax Law (the "Amendment") was enacted on January 1, 1998 to integrate corporate income tax with shareholder dividend tax with the aim of eliminating the double taxation effect for resident shareholders of ROC companies. According to the Amendment, a 10 per cent. retained earnings tax is imposed on a company for its after-tax earnings generated after 1 January 1998 which are not distributed in the following year. The retained earnings tax so paid will further reduce the retained earnings available for further distribution. When Formosa Petrochemical declares dividends out of Formosa Petrochemical's retained earnings, a maximum amount of 10 per cent. of the declared dividends will be credited against the ROC 20 per cent. withholding tax, so that the actual withholding tax imposed on Non-ROC Holders may be less than 20 per cent..

UNDERWRITING

The purchasers set out in the tables below (the "Purchasers") and the Issuers have entered into a Subscription Agreement dated June 28, 2004 with respect to the Notes. Subject to certain conditions set forth in the Subscription Agreement, each Purchaser has severally, but not jointly, agreed to procure purchasers for or failing which to purchase the aggregate principal amount of Notes indicated opposite its name in the following tables. Goldman Sachs International is acting as the Global Coordinator in this Offering and is the representative (the "Representative") of the Purchasers.

Purchasers for Formosa Petrochemical Convertible Notes	**Aggregate Principal Amount of Formosa Petrochemical Convertible Notes**
	(U.S.$)
Goldman Sachs International	118,000,000
ABN AMRO Rothschild*	40,000,000
Citigroup Global Markets Limited	40,000,000
Capital Securities (Hong Kong) Ltd.	2,000,000
Total	200,000,000

* ABN AMRO Bank N.V. and NM Rothschild & Sons Limited, each trading as ABN AMRO Rothschild.

Purchasers for Formosa Plastics Exchangeable Notes	**Aggregate Principal Amount of Formosa Plastics Exchangeable Notes**
	(U.S.$)
Goldman Sachs International	118,000,000
ABN AMRO Rothschild*	40,000,000
Citigroup Global Markets Limited	40,000,000
Capital Securities (Hong Kong) Ltd.	2,000,000
Total	200,000,000

* ABN AMRO Bank N.V. and NM Rothschild & Sons Limited, each trading as ABN AMRO Rothschild.

Purchasers for Nan Ya Plastics Exchangeable Notes	**Aggregate Principal Amount of Nan Ya Plastics Exchangeable Notes**
	(U.S.$)
Goldman Sachs International	118,000,000
ABN AMRO Rothschild*	40,000,000
Citigroup Global Markets Limited	40,000,000
Capital Securities (Hong Kong) Ltd.	2,000,000
Total	200,000,000

* ABN AMRO Bank N.V. and NM Rothschild & Sons Limited, each trading as ABN AMRO Rothschild.

Purchasers for Formosa Chemicals & Fibre Exchangeable Notes	**Aggregate Principal Amount of Formosa Chemicals & Fibre Exchangeable Notes**
	(U.S.$)
Goldman Sachs International	118,000,000
ABN AMRO Rothschild*	40,000,000
Citigroup Global Markets Limited	40,000,000
Capital Securities (Hong Kong) Ltd.	2,000,000
Total	200,000,000

* ABN AMRO Bank N.V. and NM Rothschild & Sons Limited, each trading as ABN AMRO Rothschild.

The Subscription Agreement provides that the obligations of the Purchasers are subject to certain conditions precedent, and entitles the Purchasers to terminate the Subscription Agreement in certain circumstances prior to payment being made to the Issuers.

The Representative may, at its option, purchase up to an additional U.S.$50,000,000 in aggregate principal amount of the Formosa Petrochemical Convertible Notes from Formosa Petrochemical, and/or up to an additional U.S.$50,000,000 in aggregate principal amount of the Formosa Plastics Exchangeable Notes from Formosa Plastics, and/or up to an additional U.S.$50,000,000 in aggregate principal amount of the Nan Ya Plastics Exchangeable Notes from Nan Ya Plastics and/or up to an additional U.S.$50,000,000 in aggregate principal amount of the Formosa Chemicals & Fibre Exchangeable Notes from Formosa Chemicals & Fibre. The Representative may exercise these options for 30 days from the Closing Date.

The purchase price per Note will be the initial offering price set forth on the cover page of this Offering Circular less the underwriting discount of 0.5 per cent. of the principal amount of Notes purchased. The Purchasers propose to offer the Notes at the Offering Price. After the Notes are released for sale, the Representative may change the Offering Price and the other selling terms.

The Notes, the New Shares to be issued upon conversion of the Formosa Petrochemical Convertible Notes and the Reference Shares to be delivered upon exchange of the Exchangeable Notes have not been and will not be registered under the Securities Act or any state securities laws and subject to certain exceptions may not be offered or sold within the United States or to or for the account or benefit of U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of this Offering or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States.

No action has been or will be taken in any jurisdiction that would permit a public offering, or any other offering under circumstances not permitted by applicable law, of the Notes, or possession or distribution of this Offering Circular, in connection with the proposed resale of the Notes or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required, except such actions as may be required under state securities or Blue Sky laws of the United States in connection with the purchase and distribution of the Notes by or for the account of the Purchasers.

The Notes are being sold outside of the United States to non-U.S. persons in reliance on Regulation S under the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the Offering, any offer or sale of Notes, the New Shares to be issued upon conversion of the Formosa Petrochemical Convertible Notes or the Reference Shares to be delivered upon exchange of the Exchangeable Notes within the United States by any dealer not participating in the Offering may violate the registration requirements of the Securities Act.

This Offering Circular has not been approved by an authorized person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The Notes may not be offered or sold, prior to the expiry of a period of six months from the latest date of the issue of the Notes, or offered or sold to any persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended), and where applicable, provisions of the Financial Services and Markets Act 2000 ("FSMA") of the United Kingdom with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom have been complied with. In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by such person in connection with the issue or sale of any Notes except in circumstances in which section 21(1) of the FSMA does not apply to the Issuers.

The Notes may not be offered or sold in Hong Kong, by means of any document, other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32) of Hong Kong. No advertisement, invitation or document relating to the Notes may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of any to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

This Offering Circular has not been, and will not be, registered as a prospectus with the Monetary Authority of Singapore. The Notes may not be offered or sold, or be the subject of an invitation for subscription or purchase and this Offering Circular or any other document or material relating to the Notes may not be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

The Notes may not be offered, sold, transferred or delivered in or from within The Netherlands as part of their initial distribution or at any time thereunder, directly or indirectly, and neither this Offering Circular nor any other document in respect of the Offering may be distributed or circulated in The Netherlands other than to individuals or legal entities who or which trade or invest in securities in the conduct of a profession or business within the meaning of the Netherlands Securities Transactions Supervision Act 1995 (*Vrijstellingsregeling wer foezicht effectenverkeer 1995*) and its implementing regulations (which includes banks, brokers, securities institutions, insurance companies, pension funds, investment institutions, other institutional investors and other parties including treasury departments of commercial enterprises and finance companies of groups which are regularly active in the financial markets in a professional manner).

The Notes have not been and will not be registered under the Securities and Futures Law of Japan (the "Securities and Exchange Law") and may not be, directly or indirectly, offered or sold in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other applicable laws and regulations of Japan. As used in this paragraph "resident of Japan" means any person residing in Japan, including any corporation or other entity organized under the laws of Japan.

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("CONSOB") pursuant to Italian securities legislation. Accordingly, the Notes have not been and will not be offered in the Republic of Italy ("Italy") in a solicitation to the public (*sollecitazione all'investimento*), and the Notes may only be offered in Italy to "professional investors", as defined under Article 31, paragraph 2, of CONSOB Regulation No. 11,522 of July 1, 1998, as amended, or pursuant to another exemption from the requirements set forth by Articles 94 et seq. of Legislative Decree No. 58 of February 24, 1998 ("Legislative Decree No. 58") and CONSOB Regulation No. 11,971 of May 14, 1999 ("Regulation No. 11,971"). In any event the offering of the Notes must be effected in accordance with all Italian securities, tax and exchange controls and other applicable Italian laws and regulations. Accordingly, the Notes may not be offered and neither the Offering Circular nor any other material relating to the Notes may be distributed or made available in Italy, unless such offer of the Notes or distribution or availability of copies of the Offering Circular or any other material relating to the Notes in Italy is (i) made by an investment firm, a bank or a financial intermediary permitted to conduct such activities in Italy in accordance with Legislative Decree No. 385 of September 1, 1993 (the "Banking Law"), Legislative Decree No. 58, Regulation No. 11,971 and any other applicable Italian laws and regulations; (ii) in compliance with Article 129 of the Banking Law and the implementing instructions of the Bank of Italy, pursuant to which the issue or offer of securities in Italy is subject to prior notification to the Bank of Italy, unless an exemption, depending *inter alia* on the amount of the issue and the features of the securities, applies; and (iii) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy. The Notes should not be offered, sold or delivered on a retail basis, either in the primary or secondary market, to any individuals residing in Italy.

The Notes may not be offered, sold or delivered, directly or indirectly, in the ROC.

Each of the Issuers have agreed with the Purchasers that from the date of this Offering Circular until 90 days after the Closing Date, they will not, directly or indirectly, issue, offer for sale, sell or otherwise dispose of (or enter into any transaction or device which is designed to, or could be expected to, result in the disposition by any person at any time in the future of) (a) any convertible bonds, exchangeable bonds or straight bonds denominated in U.S. dollars, and (b) any Notes or Common Shares or securities of the same class as the Notes or Common Shares (other than (i) the issuance and sale of the Notes under the Subscription Agreement; (ii) the issuance of New Shares by Formosa Petrochemical upon conversion of the Formosa Petrochemical Convertible Notes; (iii) pursuant to employee benefits plans or distributions of stock dividends or employee dividends in the form of Common Shares) or in any securities convertible into, exchangeable for or which carry rights to subscribe for or purchase the Notes, Common Shares or securities of the same class as the Notes, Common Shares or other instruments representing interests in the Notes, Common Shares or other securities of the same class as them, or announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Representative.

Buyers of the Notes sold by the Purchasers may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price of the Notes.

In connection with the Offering, the Purchasers (through the Representative) may purchase or sell Notes or Common Shares in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the Purchasers of a greater number of Notes than they are required to purchase in the Offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the Notes while this Offering is in progress.

The Purchasers also may impose a penalty bid. This occurs when a particular Purchaser repays to the other Purchasers a portion of the underwriting discount received by it because the other Purchasers have repurchased Notes or Common Shares sold by or for the account of such Purchaser in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of the Notes and together with the imposition of a penalty bid, may stabilize, maintain or otherwise affect the market price of the Notes. As a result, the price of the Notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Purchasers at any time. These transactions may be effected in the over-the-counter market or otherwise.

In connection with this Offering, certain of the Purchasers (or their affiliates) have, for their own accounts, entered into asset swaps, credit derivatives or other derivative transactions relating to the Notes and/or the underlying Common Shares at the same time as the offer and sale of the Notes or in secondary market transactions. As a result of such transactions, a Purchaser may hold long or short positions in such Notes or derivatives or in the underlying Common Shares. No disclosure will be made of any such positions. In addition, an affiliate of a member of the syndicate may purchase Notes in this Offering.

It is expected that delivery of the Notes will be made against payment therefor on or about June 30, 2004, being two days after the date of this Offering Circular.

The Issuers have agreed to indemnify the Purchasers severally and certain other persons severally against certain liabilities, including liabilities under the Securities Act.

LEGAL MATTERS

The Issuers are being represented by Lee & Li regarding matters of ROC law. The Purchasers are being represented by Linklaters regarding matters of English law, United States federal law and New York state law and by Tsar & Tsai regarding matters of ROC law.

INDEPENDENT AUDITORS

The financial statements of Formosa Petrochemical and Formosa Chemicals & Fibre as of and for the years ended December 31, 2001, 2002 and 2003, all of which are included elsewhere in this Offering Circular, have been audited by Diwan, Ernst & Young as indicated in the audit reports included herein. The financial statements of Formosa Petrochemical and Formosa Chemicals & Fibre as of and for the three-month periods ended March 31, 2003 and 2004, all of which are included elsewhere in this Offering Circular, have been reviewed by Diwan, Ernst & Young. The review of such interim financial statements is substantially less in scope than an audit and is conducted in accordance with the review standards generally accepted in the ROC.

Diwan, Ernst & Young is located at 9th Fl., 333 Keelung Rd., Sec. 1, Taipei 110, Taiwan, ROC. They are a member of the Taiwan CPA Association.

The audited consolidated financial statement of Formosa Plastics and Nan Ya Plastics as of and for the years ended December 31, 2001, 2002 and 2003, all of which are included elsewhere in this Offering Circular, have been audited by KPMG as indicated in the audit reports included herein. The non-consolidated financial statements of Formosa Plastics and Nan Ya Plastics as of and for the three-month periods ended March 31, 2003 and 2004, all of which are included elsewhere in this Offering Circular, have been reviewed by KPMG. The review of such interim financial statements is substantially less in scope than an audit and is conducted in accordance with the review standards generally accepted in the ROC.

KPMG is located at 6th Fl. No. 156, Sec. 3, Min-Sheng East Road, Taipei 105, Taiwan, ROC. They are a member of the Taiwan CPA Association.

GENERAL INFORMATION

1. The creation and issue of the Formosa Petrochemical Convertible Notes, the Formosa Plastics Exchangeable Notes, the Nan Ya Plastics Exchangeable Notes and the Formosa Chemicals & Fibre Exchangeable Notes has each been authorized by a resolution of the Board of Directors of Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre, respectively, dated June 4, 2004, April 30, 2004, April 30, 2004 and April 30, 2004, respectively.

2. Save as disclosed in this Offering Circular, there are no legal or arbitration proceedings against or affecting any of the Issuers, any of their respective subsidiaries or any of their respective assets, nor are any of the Issuers aware of any pending or threatened proceedings, which are or might be material in the context of the issue of the Notes.

3. Save as disclosed in this Offering Circular, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of any of the Issuers since December 31, 2003 that is material in the context of the issue of the Notes.

4. For so long as any of the Notes are outstanding, copies of the following documents may be inspected during normal business hours at the specified offices of the Paying Agents:

   (a) the Subscription Agreement; and

   (b) (i) the Indenture and the Agency Agreement in respect of the Formosa Petrochemical Convertible Notes;

   (ii) the Indenture and the Agency Agreement in respect of the Formosa Plastics Exchangeable Notes;

   (iii) the Indenture and the Agency Agreement in respect of the Nan Ya Plastics Exchangeable Notes;

   (iv) the Indenture and the Agency Agreement in respect of the Formosa Chemicals & Fibre Exchangeable Notes.

5. For so long as any of the Notes are outstanding, copies of the following documents (together with English translations thereof, if applicable) may be obtained during normal business hours at the specified offices of the Paying Agents:

   (a) the unaudited interim financial statements of Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre as at and for the three months ended March 31, 2003 and 2004; and

   (b) the audited financial statements of Formosa Petrochemical, Formosa Plastics, Nan Ya Plastics and Formosa Chemicals & Fibre as at and for the years ended December 31, 2001, 2002 and 2003.

6. Approval in-principle has been received for the listing of the Notes on the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of U.S.$200,000 for so long as the Notes are listed on the SGX-ST.

7. The Notes have been accepted for clearance through Euroclear and Clearstream, International.

   (i) The ISIN for the Formosa Petrochemical Convertible Notes is XS0195681563 and the common code for the Formosa Petrochemical Convertible Notes is 019568156.

   (ii) The ISIN for the Formosa Plastics Exchangeable Notes is XS0195682611 and the common code for the Formosa Plastics Exchangeable Notes is 019568261.

   (iii) The ISIN for the Nan Ya Plastics Exchangeable Notes is XS0195684740 and the common code for the Nan Ya Plastics Exchangeable Notes is 019568474.

   (iv) The ISIN for the Formosa Chemicals & Fibre Exchangeable Notes is XS0195684310 and the common code for the Formosa Chemicals & Fibre Exchangeable Notes is 019568431.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN ROC GAAP AND U.S. GAAP

The financial statements of the Issuers are prepared and presented in accordance with ROC GAAP, which differ in certain material respects from United States GAAP ("U.S. GAAP"). Certain differences between ROC GAAP applicable to the Issuers and U.S. GAAP are summarized below. This summary should not be construed as being exhaustive. In making an investment decision, investors must rely upon their own examination of the Issuers, the terms of the offering and the Issuers' financial information. Potential investors should consult their own professional advisors for an understanding of the differences between ROC GAAP and U.S. GAAP, and how these differences might affect the financial information herein. Additionally, no attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in the financial statements or notes thereto. Further, no attempt has been made to identify future differences between ROC GAAP and U.S. GAAP as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate ROC GAAP and U.S. GAAP have significant projects ongoing that could affect future comparisons such as this one. Finally, no attempt has been made to identify all future differences between ROC GAAP and U.S. GAAP that may affect the Issuers' financial information as a result of transactions or events that may occur in the future.

Subject	ROC GAAP	U.S. GAAP
Presentation of Non-consolidated Financial Statements.	Under the ROC SFC requirements, non-consolidated financial statements of a parent company are presented as the primary financial statements and consolidated financial statements as supplemental financial statements.	Under U.S. GAAP, parent-company-only non-consolidated financial statements are not allowed to be presented as the primary financial statements for any period.
Consolidation	Under ROC GAAP, a company is required to include in its annual consolidated financial statements only those subsidiaries which are directly or indirectly owned by the company for over 50% of the ownership. For directly-owned subsidiaries (i) with total assets and total net sales less than 10% of a company's unconsolidated total assets and total net sales, or (ii) which are in a negative equity position, except when the loan of the subsidiary is guaranteed by the parent company or the negative equity position is deemed temporary and there is sufficient evidence indicating that the subsidiary will return to profitability in the near future, a company has the option of whether or not to consolidate such subsidiaries. Under ROC SFC requirements, beginning in 1995, if the combined total net sales or total assets of all such unconsolidated subsidiaries equal to or exceed 30% of a company's unconsolidated total assets or total net sales, then each individual subsidiary with total assets or total net sales greater than 3%, including 3%, of a company's respective unconsolidated amounts shall be included in the consolidated financial statements thereafter, unless the percentage of the combined total assets or total net sales for all such subsidiaries decreases to less than 20%, including 20%, of a company's respective unconsolidated amounts.	Under U.S. GAAP, consolidation is generally required when one of the companies in a group directly or indirectly has a controlling financial interest in the other companies. The usual condition for controlling financial interest is ownership of a majority of the voting interest and, therefore, as a general rule ownership by one company, directly or indirectly, of over fifty percent of the outstanding voting shares of another company is a condition pointing towards consolidation. Consolidation of majority-owned subsidiaries is required in the preparation of consolidated financial statements, unless (i) control is considered temporary or (ii) control does not rest with the majority owner.

Subject	ROC GAAP	U.S. GAAP
	For purposes of consolidated financial statements under ROC GAAP, prior periods' consolidated financial statements are restated to include or exclude the financial results of subsidiaries whose ownership interest has increased to greater than 50% or decreased to 50% or less during the current year, respectively.	Under U.S. GAAP, prior periods' financial statements are not restated for changes in control. The subsidiary would be consolidated from the date the controlling interest was acquired.
Acquisition of Business .	Under ROC GAAP, a company may account for the difference between purchase consideration and historical net assets acquired as a deferred debit or credit which is amortized to income over five to twenty years.	Under U.S. GAAP, generally, the excess of the purchase consideration over the sum of the amounts assigned to assets acquired less liabilities assumed is accounted for as goodwill. In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets". Among other things, Statement 141 includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. Statement 142 prohibits the amortization of goodwill. Statement 142 requires that goodwill be reviewed for impairment at least annually. Statement 142 is effective for the Issuers beginning January 1, 2002. Goodwill recorded prior to June 30, 2001 is amortized through December 31, 2001 based on its estimated useful life. Goodwill recognized after June 30, 2001 is not amortized. Costs assigned to assets to be used in a particular research and development project and that have no alternative future use are charged to expense upon consummation of the acquisition. In a business combination in which the fair value of the identifiable net assets acquired exceeds the cost of the acquired business, the excess over cost (i.e., negative goodwill) should reduce, on a pro rata basis, amounts assigned to all of the acquired assets, including purchased research and development assets required to be written off, with the exception of financial assets (other than investments accounted for by the equity method), assets to be disposed of by sale, deferred tax assets, prepaid assets related to pension or other postretirement benefit plans, and any other current assets. Any remaining "negative goodwill" is recognized as an extraordinary gain.
Transfer of Assets and Transactions Between Entities Under Common Control. . . .	Under ROC GAAP, transfer of assets and transactions between entities under common control are related party transactions, and the nature of the relationship as well as the types of transaction and elements of the transaction should be disclosed. There is no specific guidance on accounting for transfer of assets between entities under common control.	U.S. GAAP generally defines entities under common control as entities with common majority ownership by an individual, a family or a control group. Common control in different companies often exist when one shareholder owns more than 50% of the voting ownership of each company. Generally, U.S. GAAP requires transfer of assets, except for routine transfers, and transactions between companies under common control or between a parent and its subsidiary to be accounted for at historical cost basis in the separate financial statements of each entity that is a party to the transaction.

Subject	ROC GAAP	U.S. GAAP
Land, Property, Plant and Equipment Revaluation	Under ROC GAAP, land, property, plant and equipment may be carried at revalued amounts less any subsequent accumulated depreciation and impairment losses. Any increase in valuation is credited to assets revaluation reserve.	Under U.S. GAAP, land, property, plant and equipment are stated at cost less accumulated depreciation and are subject to provision for impairment loss. Upward revaluations are not permitted.
Capitalization of Interest Costs.	Under ROC GAAP, interest expenses incurred in the period when such fixed assets are in construction or installation are capitalized. There is only a general guidance on the calculation of such capitalized interest expenses.	Under U.S. GAAP, interest shall be capitalized for: a) Assets that are constructed or otherwise produced for an enterprise's own use (including assets constructed or produced for the enterprise by others for which deposits or progress payments have been made); b) Assets intended for sale or lease that are constructed or otherwise produced as discrete projects; and c) Investments (equity, loans, and advances) accounted for by the equity method while the investee has activities in progress necessary to commence its planned principal operations provided that the investee's activities include the use of funds to acquire qualifying assets for its operations.
	Investment income earned on the temporary investment income of funds pending their expenditure on the qualifying assets can be deducted from the amount of eligible borrowing cost to be capitalized.	Netting of investment income earned on the temporary investment income of funds pending their expenditure on the qualifying assets with interest is not permitted. In addition, U.S. GAAP has specific guidelines on calculating the average amount of accumulated expenditures for a qualifying asset during an accounting period, and compounding of interest capitalized.
Gain on Disposal of Fixed Assets	Under ROC GAAP, gains and losses from the disposal of fixed assets are both recognized in the statement of operations, with gains reclassified from retained earnings to capital reserve. However, according to amendments in ROC Company Law, such transfer of gains to capital reserve shall no longer be required with effect on January 1, 2001.	Under U.S. GAAP, the reclassification of the gain from retained earnings is not permitted.
Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of	ROC GAAP has no specific standards which address impairment of long-lived assets and certain identifiable intangibles; normally such assets would be carried at cost less accumulated depreciation or amortization.	U.S. Statement of Financial Accounting Standards No. 121 (U.S. SFAS No. 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Subject	ROC GAAP	U.S. GAAP
		In assessing the recoverability, the entity estimates the future cash flows, un-discounted and without interest charges, expected to result from the use of the asset and its eventual disposal. If the sum of such expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized; otherwise it is not. U.S. SFAS No. 121 also requires that long-lived assets to be disposed of be reported at the lower of carrying amount or fair value less cost to sell. In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which supersedes SFAS No. 121. SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. Among other matters, SFAS No. 144 addresses certain implementation issues related to SFAS No. 121.
Employee Compensation	Under ROC GAAP, employee bonuses and directors and supervisors remuneration paid in accordance with the ROC Company Law, applicable to the distribution of earnings, are recorded as an appropriation from retained earnings in the period shareholder approval is obtained for the distribution of a company's earnings (as opposed to the year the earnings are recognized). If employee bonuses are settled through the issuance of shares of the company, the amount transferred from retained earnings is based on the par value of the shares issued. The remuneration to directors and supervisors must be paid in cash and may not be settled through the issuance of shares.	U.S. GAAP requires that all such bonuses and remuneration be recorded as compensation expense when earned by the recipient, when payment is probable and the amount can be reasonably estimated. In addition, if the employee bonuses are paid in the form of shares, the fair value of the shares issued is used to determine the amount of the expense.
Stockholders Bonuses. .	Stockholders bonuses (also known as stock dividends) are recorded as a reduction to retained earnings for the par value of the shares issued, and a like amount recorded to the common stock account.	Stock dividends for less than 20–25% of the common shares outstanding at the time of the dividend declaration are recorded as a reduction to retained earnings based on the fair value of the shares issued, with the par value recorded in the capital stock account and the excess of fair value over the par value being recorded as additional pain-in capital account. Stock dividend must be paid out of retained earnings, not additional paid-in capital. If a stock dividend is paid out of additional paid-in capital, it will be considered as a "liquidating dividend".
Intercompany Transactions	Intercompany gains or losses arising from sales of property, plant and equipment to subsidiary and investee companies may be deferred and amortized over the remaining economic life of the respective assets.	Intercompany gains or losses arising from sales of property, plant and equipment are either wholly eliminated, or partially eliminated to the extent of the gain or loss which relates to the investor's ownership interest in the investee.

Subject	ROC GAAP	U.S. GAAP
Depreciation of Fixed Assets	ROC SFC regulations applicable to public and listed companies require that when fixed assets have been fully depreciated over the prescribed service life and the underlying asset continues to be used, the remaining unamortized value (i.e. the salvage value portion) is depreciated over the asset's remaining economic life.	No additional depreciation is provided on fully depreciated assets which continue to be used in the business.
Accounting for Pensions	Prior to January 1, 1996, compulsory contributions to the government designated retirement fund were made based on certain percentages of salaries and wages, ranging from 2% to 15%, and accounted for as current period expenses. Such contribution percentages were not determined based on an actuarial study. ROC Statement of Financial Accounting Standards No. 18 (ROC SFAS No. 18), "Accounting for Pensions", became effective on December 3l, 1995. The Issuers account for the net periodic pension costs in its statement of income systematically over the service lives of the employees covered by the pension plan. In determining the net periodic pension costs, ROC SFAS No. 18 is similar in certain respects to U.S. GAAP.	Under U.S. GAAP, the annual pension provision is recognized as a charge to results of operations over the employees' service period in accordance with SFAS No. 87. SFAS No. 87 focuses on the plan's benefit formula as the basis for determining the benefit earned, and therefore the cost incurred, for each year. The determination of the benefit earned is actuarially determined, and includes components for service cost, time value of money, return on plan assets and gains or losses from changes in previous assumptions. In certain cases, a minimum liability is recognized through a direct charge to stockholders' equity.
Long-Term Stock Investment in which the Issuers do not exercise significant influence	Long-term investments in listed equity securities that represent less than 20% of the investee's common stock ownership are stated at the lower of cost or market value, and unrealized losses are deducted from stockholders' equity. Investments in non-listed equity securities that represent less than 20% of the investee's common stock ownership are stated at cost, subject to a permanent impairment test. If an investor company invests in equity securities that are not traded in an open market and uses the cost method for valuation purposes, then an investor company shall recognize losses if evidence suggests that the value of an investment has been impaired and there is little hope that the stock price will recover. An investment in the common stock of a foreign investee is also accounted for by the cost method when there are restrictions on its ability to remit its earnings to the Issuers or when the Issuers cannot exercise significant influence over the financial and operating policy decisions of at least 20%-owned affiliates. Under ROC GAAP, if the foreign long-term stock investments, which is accounted for by the cost method, restated at the prevailing exchange rates are lower than its carrying amount, the carrying amount shall be written down to the lower amount and the differences shall be charged to shareholders' equity.	Investments in equity securities that have readily determinable fair values are classified in one of two categories: trading, or available-for-sale. Marketable equity securities classified as trading securities are reported at fair value with unrealized gains and losses included in earnings; and marketable equity securities classified as available-for-sale securities are reported at fair value with unrealized gains and losses reported in a separate component of stockholders' equity. Fair value is the product of the number of trading units times the quoted market price (i.e., generally closing price at the balance sheet date). Investments in equity securities that do not have readily determinable fair values are recorded at cost, unless there has been a decline in value which is judged to be other than temporary.

Subject	ROC GAAP	U.S. GAAP
Long-Term Stock Investment in which a company exercises significant influence. .	Under ROC GAAP, equity investments where a company has an ownership interest of at least 20% are generally required to be accounted for under the equity method, however, when the company has not received the audited financial statements of the equity-method investee company in time to recognize its equity in the investee company's income/(loss), the company may delay the recognition of its equity in the investee company's income/(loss) if the company's ownership interest is less than 50% until the subsequent year, except to public and listed companies meeting the following criteria, in which case no delay in recognition is possible: (i) the beginning balance of the company's long-term investment balance exceeds NT$50 million and five percent of the investor company's paid-in capital, (ii) direct ownership of the investee company exceeds 30%, or direct ownership plus indirect ownership through directors, supervisors, and management exceeds 50%, and (iii) the investor company is one of the top three shareholders of the investee company or the investee company's chairman or general manager was appointed by the investor company.	Under U.S. GAAP, the equity method of accounting is generally required for investments with an ownership percentage of greater than 20% but less than 50%, unless (i) the investment is considered temporary, or (ii) the investor does not possess the ability to exercise significant influence over the investee.
	The difference between the investment cost and the equity in the book value of the net assets of the investees (except the portion pertaining to the difference between the fair value and the book value of land) when a stock is acquired or when the equity method is first adopted, is amortized over 5 to 20 years.	There are no provisions which allow the investor company to delay recognition of its equity in the investee company's income/(loss).
	If an investee's capital surplus increases because of property revaluation, the investor will recognize an increase in the carrying amount of the investment and capital surplus from long-term stock investment in proportion to its equity interest.	Revaluation of assets is prohibited under U.S. GAAP.
	With respect to intercompany transactions between an investor company and an unconsolidated investee affiliate, ROC GAAP provides that any resulting profit on such transactions be eliminated in the investor company's financial statements. In general, net intercompany profit on such transactions is deferred and offset against the long term investment account, with the deferred net intercompany profit amortized to income over future periods based on the nature of the transaction which gave rise to the deferred intercompany profit.	Under U.S. GAAP, the gross impact as well as the net intercompany profit arising from intercompany transactions between an investor company and an unconsolidated investee affiliate are generally eliminated in the investor company's financial statements. This elimination is either complete, or partial to the extent of the investor company's ownership interest in the investee affiliate.

Subject	ROC GAAP	U.S. GAAP
Accounting for Changes in Ownership Interests in Investee Affiliates .	Under ROC GAAP, when an investee issues additional shares and the investor's ownership interest changes as a result, any resulting difference between the investor's investment balance and proportionate share of investee net equity is adjusted to its investment account with an offsetting entry to the investor's capital reserve or retained earnings. Upon subsequent disposition of the investment, amounts previously recorded to capital reserve or retained earnings relating to the respective investment will be reversed and recorded as part of the gain or loss recorded on disposal.	Under U.S. GAAP, when an investee sells additional shares of stock at a price different from the carrying value of the shares held by the investor and the investor's ownership interest decreases as a result of not fully subscribing to the issue, the resulting difference between the investor's investment balance and its proportionate share of investee net equity is accounted for as either (i) a gain or loss or (ii) paid-in-capital. Once an election is made, the method is to be applied consistently thereafter.
Compensated Absences	ROC GAAP has no specific accounting practice regarding compensated absences.	Compensated absences must be accrued based on the liability for employees' rights to receive compensation for future absences when certain conditions are met.
Inventories.	Under ROC GAAP, inventories are stated at the lower of cost and net realizable value after allowances for obsolete or slow-moving items and the inventory valuation loss is classified as non-operating expenses. A new assessment is made of net realizable value in each subsequent period. When the circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value. There is no specific accounting practice under ROC GAAP regarding gains/losses on physical inventory. It is the company's policy to recognize gains/losses on physical inventory as a result of changes in volume of petroleum product inventories due to changes in storage temperature.	Under U.S. GAAP, inventories shall be stated at cost. However, if the utility of the inventory is impaired by damage, deterioration, obsolescence, changes in price levels, or other causes, a loss shall be reflected as a charge against the revenues of the period in which it occurs. The measurement of such loss shall be accomplished by applying the rule of pricing inventories at cost or market, whichever is lower and the resulting valuation loss is classified as cost of sales. After such loss is recognized, the reduced amount of the asset is accounted for as its new cost. Under U.S. GAAP, inventories are stated at cost and no gain/loss on physical inventory would be recognized as a result of changes in volume of petroleum product inventories due to changes in storage temperature.
Comprehensive Income.	ROC GAAP has no specific accounting practice regarding comprehensive income.	Under U.S. GAAP, SFAS No. 130, "Other Comprehensive Income", requires that all changes in equity of a business enterprise during a period arising from transactions and other events and circumstances from non-owner sources be recognized and reported on the financial statements. The total balance of comprehensive income for each period, which includes net income and other comprehensive income, should be disclosed separately in the equity section of the statement of financial position, in the statement of changes in equity, the statement of income or in notes to the financial statements.

Subject	ROC GAAP	U.S. GAAP
Convertible Debt Securities.	When convertible bonds are issued, ROC GAAP does not recognize or account for any beneficial or conversion feature embedded in the securities.	Under U.S. GAAP, convertible securities with beneficial conversion features or contingently adjustable conversion ratios are recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. That amount should be calculated at the commitment date as the difference between the conversion price and the fair value of the common stock into which the security is convertible, multiplied by the number of shares into which the security is convertible.
Deferred Taxation.	Under ROC GAAP, deferred taxation is provided under the asset-liability method at the current tax rate for timing differences between profit as computed for taxation purpose and profit as stated in the profit and loss account, except where it is considered that no liability will arise in the foreseeable future. A deferred tax asset is not recognized unless the related benefits are expected to be realized in the foreseeable future beyond a reasonable doubt.	Under U.S. GAAP, deferred tax assets and liabilities are determined based on the temporary differences between the financial reporting basis and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Future tax benefits in respect of tax losses carried forward are also required to be recognized in full. Deferred tax assets are reviewed periodically for recoverability and valuation allowances are provided when it is more likely than not that some or all of the deferred tax assets will not be realized.
Income Tax on Undistributed Earnings	Under the current tax regulations, current year's earnings, on tax basis, not distributed in the following year are subject to 10% additional income tax. This 10% additional income tax is recognized as a tax expense in the following year when the amount is determined.	Under U.S. GAAP, the 10% additional income tax is recognized in the period during which the related income is generated and the impact of the 10% tax is measured for both current and deferred tax, using the tax rate that includes the tax on undistributed earnings.
Employee Stock Option Plan	ROC GAAP has no specific accounting provisions for employee stock option plans.	U.S. GAAP requires a company to account for options granted to employees in accordance with Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees", or SFAS No. 123, "Accounting for Stock Based Compensation". Under APB 25, the compensation expense is recorded for the difference between the fair value of shares at date of grant and the option price. Compensation determined shall be accrued as a charge to expense over the vesting period. Under SFAS No. 123, the compensation expense is recognized over the vesting period based on the fair value at grant date calculated from an option-pricing model.
Right Issues and Earnings Per Share. .	Under ROC GAAP, earnings per share is retroactively adjusted for shares issued for employee bonus.	Under U.S. GAAP, shares issued for employee bonus will affect the current year's earnings per share only.
	Under ROC GAAP, there are no requirements under ROC GAAP to adjust earnings per share arising from the bonus element of a rights issue.	Under U.S. GAAP, a rights issue with exercise price less than the fair value of the stock contains a bonus element that is similar to a stock dividend and is accounted for as such accordingly. As a result, the basic and diluted earnings per share shall be adjusted retroactively for the bonus element for all periods presented.

Subject	ROC GAAP	U.S. GAAP
Short-term Investments in Marketable Securities	Under ROC GAAP, short-term investments in marketable securities are initially stated at cost and restated at the lower of cost or market value at year-end. Subsequent recovery of fair value can be recognized as a gain to the extent that the fair value does not exceed the original acquisition cost of the investments.	Under U.S. GAAP, Investments in equity securities that have readily determinable fair values are classified in two categories: trading and available-for-sale. Marketable equity securities classified as trading securities are reported at fair value with unrealized gains and losses recognized in earnings; and marketable equity securities classified as available-for-sale securities are reported at fair value with unrealized gains and losses reported as a separate component of stockholders' equity.
Derivative Financial Instruments	Under ROC GAAP, the Issuers accounted for derivative financial instruments as follows: **Currency forwards** Foreign currency denominated assets and liabilities arising from the currency forward contracts undertaken for purposes other than trading are recorded at the contracted forward rates on the contract starting dates. Upon settlement, gains/losses on the forward contracts are credited or charged to current income. On the balance sheet dates, gains or losses on the outstanding forward contracts arising from the differences between the forward rates prevailing over the respective remaining contract periods and the contracted forward rates are credited or charged to current income. Balances of the receivables and payables arising from the forward contracts are netted at year-end and the net amount is recorded as an asset or liability. **Interest rate swaps** Under ROC GAAP, as no principals are exchanged upon settlement of interest rate swaps, the transactions are recorded in the memorandum account on the contract starting dates. For interest rate swap contracts undertaken for purposes other than trading, interest received or paid upon each settlement, or accrued on the balance sheet date, is recorded as an adjustment to interest income or expense of the hedged items. **Foreign exchange swaps** Foreign exchange swaps are on-balance-sheet transactions. Accrued interest income and prepaid interest expense are calculated based on the spot rates and forward rates on the contract starting dates and are recorded accordingly. Adjustments are made to the accrued interest income and prepaid interest expense at the balance sheet dates based on the unamortized portion. **Cross-currency swaps** Cross-currency swap contracts used for non-trading purposes are recorded in the memorandum account at the nominal principal amounts on the contract starting dates. Difference between the interest received and paid upon each settlement is recorded as an adjustment to income or expense of the hedged items.	Under U.S. GAAP SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", all derivative instruments are recorded at fair value. On the date derivative contracts are entered into, a company designates the derivative as either (a) a hedge of changes in the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), (b) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), (c) a hedge of a net investment in a foreign operation (net investment hedge), or (d) a non-hedge instruments. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and depending on the type of hedge transaction. For non-hedge instruments, the changes in the fair value of the derivative instrument are recorded to profit and loss in the period the change occurs For fair value hedge relationships, changes in the fair value of the derivative instrument are also recorded to profit and loss in the period the change occurs. To the extent the hedge is effective, changes in the fair value of the hedged item, attributable to the risk being hedged, are recorded to profit and loss in the period the change occurs. For cash-flow hedge relationships, to the extent a hedge is effective, changes in the fair value of the derivative instrument are reported in other comprehensive income (a component of shareholders equity). Amounts recorded to other comprehensive income are reclassified to profit and loss in the period the hedged item affects income. The ineffective portion of changes in fair value of the derivative is recorded to profit and loss in the period the change occurs. For net investment hedge relationships, to the extent the hedge is effective, changes in the fair value of the derivative instrument are recorded as a component of the foreign currency translation account that is also included in other comprehensive income. Amounts recorded to other comprehensive income are reclassified to the income statement in the period the hedged item affects income. The ineffective portion of changes in fair value of the derivative is recorded to profit and loss in the period the change occurs.

Subject	ROC GAAP	U.S. GAAP
	Options The nominal/principal amount or the contract amount of an options contract is recorded in the memorandum account on the contract starting date. Premiums paid for call options or received for put options are amortized to earnings over the contract term. The gains or losses arising from settlement of the options are recognized in earnings in the year of settlement. **Forward foreign exchange contracts (FFEC):** FFECs undertaken for hedging purposes are recorded at the spot rate on the contract date and the difference between the spot rate and the forward rate is amortized over the contract period. At the balance sheet date, it is adjusted using the spot rate on that date and the resulting difference is credited to or charged against current year income. Upon settlement of the contract, the resulting exchange difference will be credited to or charged against current year income. **Forward rate agreements (FRA)** Forward rate agreements are used to lock in at an interest rate for a specified period in the future and are recorded in the memorandum account at the nominal principal amounts or the contract amounts on the contract starting dates. Losses on FRAs are assessed at the end of each month and recognized as interest expense. For FRAs used for trading purposes, difference between the interest received and paid is recorded as an adjustment to the interest expense. For FRAs undertaken for hedging purposes, the difference is amortized against deferred interest income (expense) over the contract period. The memorandum account is reversed upon settlement of the contract. **Non-delivery forwards (NDF)** As the principal amounts are not exchanged upon settlement of the NDFs, the nominal principal amounts are recorded in the memorandum account. Upon settlement of the contracts or the balance sheet dates, gains / losses arising from the differences between the contracted forward rates and the spot rates prevailing on the settlement dates are credited or charged to current income.	

Subject	ROC GAAP	U.S. GAAP
Pre-operating expenses.	Under ROC GAAP, pre-operating expenses should be deferred and amortized over time. But after March 21, 2002, pre-operating expenses are recognized as expenses when incurred.	Under U.S. GAAP, pre-operating expenses are recognized as expenses when incurred.
Prepaid expenses	There is no specific ROC GAAP regarding prepaid expenses. It is the Issuers' policies to amortize such expenses according to the shorter of the term of the agreement or 5 years.	Under U.S. GAAP, prepaid expenses are recognized as expenses over the term of the agreement.
Bond issuance costs . . .	Under ROC GAAP, the direct and necessary costs of issuing bonds should be amortized using a reasonable and systematic method, and be recognized as interest expenses or issuance expenses over the period from issuance to maturity by using the interest method. The issuer may use the straight method if the difference in the amortization amount under both the interest method and the straight method is immaterial.	Under U.S. GAAP, bond issuance costs should be recognized as interest expenses over the life of the debt instrument under the effective interest method.
Plant capacity variances expenses	As permitted under ROC GAAP, all plant capacity expense variances can either be charged to the statement of operations as expenses incurred in the period or capitalized in inventory and charged as cost of goods sold once that inventory is sold.	Under U.S. GAAP, plant capacity variances can only be allocated between cost of goods sold and inventory.
Determining Whether the Arrangement Contains a Lease	Under ROC GAAP, there is no standard on whether certain arrangement should be accounted for as a lease	Under U.S. GAAP, an arrangement contains a lease that is within the scope of lease accounting if an arrangement conveys the right to use property, plant, or equipment. An arrangement conveys the right to use property, plant, or equipment if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying property, plant, or equipment. The right to control the use of the underlying property, plant, or equipment is conveyed if the purchaser has the ability or right to do any one of the following: a. Operate the property, plant, or equipment or direct others to operate the property, plant, or equipment in a manner it determines while obtaining or controlling the output or other utility of the property, plant, or equipment, b. Control physical access to the underlying property, plant, or equipment, or c. Take substantially all of the output or other utility expected to be produced or generated by the property, plant, or equipment for the term of the arrangement, unless both of the following conditions are met: i. The price that the purchaser will pay for the output is either fixed per unit of output or indexed to market prices of the output.

Subject	ROC GAAP	U.S. GAAP
		ii. The arrangement requires the owner/seller to pay substantive damages, based on the then-current market prices, to the purchaser if it fails to deliver, and the owner/seller is a substantive entity with the financial ability to fulfill its obligations under the arrangement.
Guarantee Liability	Under ROC GAAP, a guarantor is required to disclose, but not required to recognize a guarantee as a liability, unless a loss is recognized if it is probable that a liability might be incurred and the amount of loss can be reasonably estimated. If the amount of loss cannot be reasonably estimated and the loss is possible, a footnote disclosure is made of the situation that might result in the loss.	Under U.S. GAAP, a guarantor is required to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur.

Management has not quantified the effects of the aforementioned differences between ROC GAAP and U.S. GAAP. Accordingly, there can be no assurance on the effects on balance sheet, net income and stockholders' equity reported in accordance with ROC GAAP would not be lower if determined in accordance with U.S. GAAP.

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FORMOSA PLASTICS CORPORATION

Unaudited Non-Consolidated Financial Statements as at and for the three months ended March 31, 2003 and 2004

Audited Consolidated Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003

NAN YA PLASTICS CORPORATION

Unaudited Non-Consolidated Financial Statements as at and for the three months ended March 31, 2003 and 2004

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FORMOSA CHEMICALS & FIBRE CORPORATION

Unaudited Financial Statements as at and for the three months ended March 31, 2003 and 2004

Audited Financial Statements as at and for the years ended December 31, 2001, 2002 and 2003

English Translation of a Report Originally Issued in Chinese

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Formosa Petrochemical Corporation

We have reviewed the accompanying balance sheet of Formosa Petrochemical Corporation (the "Company") as of March 31, 2003 and 2004 and the related statements of income and cash flows for the three-month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report on these financial statements based on our review.

Except as discussed in the following paragraph, we conducted our review in accordance with the Statements for Auditing Standards No. 36 "Review of Financial Statements" generally accepted in the Republic of China on Taiwan, we only performed analytical procedures, comparison and inquiries, but did not audit in accordance with auditing standards generally accepted in R.O.C. Accordingly, we do not express such an opinion based on audits of the financial statements taken as a whole.

As discussed in note 4(6) to the financial statements, investment income under equity method for certain companies amounted to NT$132,253 thousand, which represented 3.13% of net earnings before taxes, for the period ended March 31, 2003 and the related long term investments stated under equity method as at March 31, 2003 amounted to NT$9,708,316 thousand, which represented 3.12% of total assets, were based on the investee companies' unreviewed financial statements, which have not been subject to the review procedures as described in the second paragraph.

Based on our review, except for any adjustments for the recognition of the investment income under equity method in respect of the long-term investments that might have been found to be necessary had we been able to obtain the reviewed financial statements of certain investee companies for the period ended March 31, 2003 as detailed in note 4(6), we are not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China on Taiwan.

The accompanying financial statements as of and for the three-month period ended March 31, 2004, have been translated into United States dollars solely for the convenience of the readers. We have reviewed the translation, and in our opinion, the financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in Note 2(17) to the financial statements.

Diwan, Ernst & Young
Taipei, Taiwan
Republic of China

April 20, 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 on Taiwan 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 on Taiwan.

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA PETROCHEMICAL CORPORATION

BALANCE SHEETS
MARCH 31, 2003 AND 2004
(Expressed in Thousands of Dollars)
(Unaudited)

		New Taiwan Dollars		US Dollars
ASSETS	**Notes**	**2003**	**2004**	**2004**
CURRENT ASSETS				
Cash and cash equivalents	2 & 4.(1)	$ 265,616	$ 955,545	$ 28,956
Short-term investments, net	2 & 4.(2)	545,307	13,590,434	411,831
Notes receivable (less allowances for doubtful accounts of NT$18,970 thousand and NT$20,983 thousand on March 31, 2003 and 2004, respectively)	2 & 4.(3)	1,877,979	2,077,314	62,949
Accounts receivable (less allowances for doubtful accounts of NT$97,690 thousand and NT$110,221 thousand on March 31, 2003 and 2004, respectively)	2 & 4.(3)	8,849,548	14,029,998	425,151
Accounts receivable from related parties	2 & 4.(3)	6,749,631	11,484,190	348,006
Other receivables	4.(4)	2,387,986	3,583,295	108,585
Other receivables from related parties	4.(4) & 5	890,591	822,751	24,932
Other financial assets — current	4.(4)	333,864	70,089	2,124
Inventories, net	2 & 4.(5)	23,302,943	28,276,638	856,868
Prepayments		1,465,135	2,123,770	64,356
Other current assets	4.(19)	3,617,324	4,172,549	126,441
Total current assets		50,285,924	81,186,573	2,460,199
LONG-TERM INVESTMENTS				
Long-term equity investments	2 & 4.(6)	13,218,676	13,763,346	417,071
Other financial assets — non-current	4.(6) & 10	607,032	65,023	1,970
		13,825,708	13,828,369	419,041
PROPERTY, PLANT AND EQUIPMENT	2 & 4.(7)			
Land		1,594,225	1,592,178	48,248
Buildings		27,695,054	28,790,933	872,452
Machinery and equipment		190,606,972	195,950,336	5,937,889
Transportation equipment		233,778	295,113	8,943
Furniture and fixtures		794,115	852,217	25,825
Total cost		220,924,144	227,480,777	6,893,357
Less: Accumulated depreciation		(20,168,595)	(29,215,486)	(885,318)
Construction in progress		8,817,767	6,967,571	211,139
Prepayments on purchase of equipment and land		20,253,040	20,676,229	626,552
		229,826,356	225,909,091	6,845,730
OTHER ASSETS				
Property held for leasing, net		—	112,848	3,420
Idle assets, net		1,388,108	1,218,401	36,921
Refundable deposits		10,349	71,942	2,180
Deferred expenses	2 & 4.(9)	4,362,584	4,082,426	123,710
Deferred income tax assets	4.(19)	10,627,820	4,760,529	144,259
Other miscellaneous assets	4.(18)	481,161	539,920	16,361
Total other assets		16,870,022	10,786,066	326,851
TOTAL ASSETS		$ 310,808,010	$ 331,710,099	$ 10,051,821

(Continued)

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA PETROCHEMICAL CORPORATION

BALANCE SHEETS — (Continued)
MARCH 31, 2003 AND 2004
(Expressed in Thousands of Dollars)
(Unaudited)

		New Taiwan Dollars		US Dollars
LIABILITIES AND STOCKHOLDERS' EQUITY	**Notes**	**2003**	**2004**	**2004**
CURRENT LIABILITIES				
Short-term loans	4.(10)	$ 11,867,040	$ 22,183,999	$ 672,242
Commercial paper payable	4.(11)	1,719,091	—	—
Notes payable		—	3,330	101
Accounts payable		4,450,845	4,712,279	142,796
Accounts payable to related parties	5	425,353	706,882	21,421
Accrued expenses	4.(12)	5,457,832	6,142,690	186,142
Other payables to related parties	5	456,073	362,937	10,998
Other payables		1,299,598	2,616,545	79,289
Revenues received in advance		211,818	427,712	12,961
Current portion of long-term debts	4.(13) & (14)	10,405,850	31,238,518	946,622
Other current liabilities		28,051	69,648	2,111
Due to affiliates	5	2,684,200	800,000	24,242
Total current liabilities		39,005,751	69,264,540	2,098,925
LONG-TERM LIABILITIES				
Bonds payable	4.(13)	37,200,000	35,500,000	1,075,757
Long-term loans	4.(14)	94,782,495	38,807,868	1,175,996
Long-term notes payable	4.(14)	344,250	37,753,206	1,144,037
Total long-term liabilities		132,326,745	112,061,074	3,395,790
OTHER LIABILITIES				
Accrued pension liability	2 & 4.(15)	451,365	650,202	19,703
Guarantee deposits received		2,386	2,818	86
Other miscellaneous liabilities		771,892	994,328	30,131
Total other liabilities		1,225,643	1,647,348	49,920
Total liabilities		172,558,139	182,972,962	5,544,635
STOCKHOLDERS' EQUITY				
Capital stock	1 & 4.(16)			
Common stock		70,000,000	78,400,000	2,375,758
Capital surplus	4.(17)			
Additional paid-in capital		35,000,000	28,000,000	848,485
Long-term equity investments		36	36	1
Subtotal		35,000,036	28,000,036	848,486
Retained earnings	4.(18)			
Legal reserve		1,337,044	2,479,992	75,151
Special reserve		7,500,683	10,326,297	312,918
Unappropriated earnings		15,438,976	20,574,113	623,458
Net income		8,973,132	8,956,699	271,415
Subtotal		33,249,835	42,337,101	1,282,942
Total stockholders' equity		138,249,871	148,737,137	4,507,186
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		$ 310,808,010	$ 331,710,099	$ 10,051,821

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

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA PETROCHEMICAL CORPORATION

STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2004
(Expressed in Thousands of Dollars, Except for Earnings Per Share)
(Unaudited)

		New Taiwan Dollars		US Dollars
	Notes	2003	2004	2004
OPERATING REVENUES	5	$ 54,643,290	$ 73,946,237	$ 2,240,795
OPERATING COSTS	5	(48,193,476)	(62,292,740)	(1,887,659)
GROSS PROFIT		6,449,814	11,653,497	353,136
OPERATING EXPENSES				
Selling and marketing		952,799	1,204,179	36,490
General and administrative		505,325	761,183	23,066
Research & development		294	3,188	97
Total operating expenses		1,458,418	1,968,550	59,653
OPERATING INCOME		4,991,396	9,684,947	293,483
NON-OPERATING INCOME				
Interest income		20,485	18,236	553
Investment income under equity method		557,446	332,748	10,083
Gain on disposal of property, plant and equipment	2	3	—	—
Gain on disposal of investments	2	—	2,836	86
Gain on physical inventory		23,718	36,153	1,096
Foreign exchange gain	2	—	859,939	26,059
Rental income		23,222	41,298	1,251
Others		145,913	186,602	5,655
TOTAL NON-OPERATING INCOME		770,787	1,477,812	44,783
NON-OPERATING EXPENSES				
Interest expense		1,187,819	1,182,916	35,846
Loss on disposal of property, plant and equipment		9	—	—
Foreign exchange loss		3,937	—	—
Financial expense		61,684	65,277	1,978
Others		289,876	261,812	7,934
TOTAL NON-OPERATING EXPENSES		1,543,325	1,510,005	45,758
INCOME BEFORE INCOME TAX		4,218,858	9,652,754	292,508
ESTIMATED INCOME TAX EXPENSE (BENEFIT)	2 & 4.(19)	(4,754,274)	696,055	21,093
NET INCOME		$ 8,973,132	$ 8,956,699	$ 271,415
BASIC EARNINGS PER SHARE	2	$ 1.14	$ 1.14	$ 0.03

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

FORMOSA PETROCHEMICAL CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2004
(Expressed in Thousands of Dollars)
(Unaudited)

	New Taiwan Dollars		US Dollars
	2003	2004	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 8,973,132	$ 8,956,699	$ 271,415
Adjustments to reconcile net income to net cash provided by operating activities:			
Investment income under equity method	(557,446)	(332,748)	(10,083)
Depreciation (including leasing assets and other assets)	2,172,014	2,229,052	67,547
Loss on disposal of property, plant and equipment	9	—	—
Gain on disposal of property, plant and equipment	(3)	—	—
Amortization of deferred expenses	538,396	566,827	17,177
Effect of change in exchange rate	33,231	(880,557)	(26,683)
Decrease (increase) in notes receivable	47,121	(33,973)	(1,029)
Decrease (increase) in accounts receivable (including related parties)	1,142,901	(546,564)	(16,563)
Decrease (increase) in other receivables (including related parties)	355,524	(790,334)	(23,950)
Decrease (increase) in inventories	3,476,613	1,399,803	42,418
Decrease (increase) in prepayments	89,993	(388,494)	(11,773)
Decrease (increase) in other current assets	(14,037)	(16,652)	(505)
Increase (decrease) in accounts payable (including related parties)	(3,766,123)	(3,396,438)	(102,922)
Increase (decrease) in notes payable	—	(44,161)	(1,338)
Increase (decrease) in accrued expenses	(123,290)	(264,762)	(8,023)
Increase (decrease) in revenues received in advance	109,796	307,321	9,313
Increase (decrease) in accrued pension liability	42,570	71,393	2,163
Decrease (increase) in deferred income tax assets/liabilities	(4,754,274)	696,055	21,093
Net cash provided by operating activities	7,766,127	7,532,467	228,257
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in short-term investments	$ —	$ (4,256,886)	$ (128,996)
Decrease (increase) in due from affiliates	106,981	(213,400)	(6,467)
Decrease (increase) in other financial assets	643,000	(42,959)	(1,302)
Proceeds from disposal of property, plant and equipment	126	13	—
Acquisition of property, plant and equipment	(1,896,120)	(1,706,646)	(51,716)
Decrease (increase) in refundable deposits	3,848	4,024	122
Decrease (increase) in other miscellaneous assets	(70,884)	(135,453)	(4,105)
Decrease (increase) in deferred expenses	(635,951)	(162,163)	(4,914)
Net cash used in investing activities	(1,849,000)	(6,513,470)	(197,378)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) in short-term loans	(10,113,623)	(117,272)	(3,554)
Increase (decrease) in long-term loans	(636,760)	(565,400)	(17,133)
Increase (decrease) in long-term notes payable	(12,750)	(123,510)	(3,743)
Increase (decrease) in commercial paper payable	1,319,213	—	—
Increase (decrease) in other payables (including related parties)	336,011	1,988,302	60,252
Increase (decrease) in other current liabilities	2,262	19,013	576
Increase (decrease) in due to affiliates	2,091,200	(2,254,700)	(68,324)
Increase (decrease) in guarantee deposits received	545	697	21
Increase (decrease) in other miscellaneous liabilities	521,554	319,254	9,674
Net cash provided by (used in) financing activities	(6,492,348)	(733,616)	(22,231)
Effect of changes in exchange rates	4,264	11,339	344
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(570,957)	296,720	8,992
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	836,573	658,825	19,964
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 265,616	$ 955,545	$ 28,956

(Continued)

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA PETROCHEMICAL CORPORATION

STATEMENTS OF CASH FLOWS — (Continued)
FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2004
(Expressed in Thousands of Dollars)
(Unaudited)

	New Taiwan Dollars		US Dollars
	2003	2004	2004
SUPPLEMENTAL INFORMATION:			
Interest paid (excluding capitalized interest)	$ 997,304	$ 952,585	$ 28,866
Income tax paid (refunded)	$ (59,358)	$ 71	$ 2
INVESTING AND FINANCING ACTIVITIES NOT AFFECTING CASH FLOWS:			
Reclassification of bonds payable within one year to current liabilities	$ —	$ 18,700,000	$ 566,667
Reclassification of long-term liabilities due within one year to current liabilities	$ 675,408	$ 985,845	$ 29,874
Reclassification of long-term notes payable to short-term notes payable	$ 12,750	$ 123,510	$ 3,743

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

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA PETROCHEMICAL CORPORATION

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2003 AND 2004
(All amounts expressed in thousands of dollars unless otherwise stated)

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.

1. ORGANIZATION AND OPERATIONS

Formosa Petrochemical Corporation (the "Company") was incorporated on April 6, 1992. As of December 31, 2002, the capital stock was NT$70,000,000 thousand, divided into 7,000,000,000 shares at NT$10 par value each. In the 2003 annual stockholders' meeting, the stockholders resolved to increase capital by NT$8,400,000 thousand through capitalization of unappropriated earnings and capital surplus in the amount of NT$1,400,000 thousand and NT$7,000,000 thousand, respectively. After the above capital increase, the Company's capital stock amounted to NT$78,400,000 thousand, divided into 7,840,000,000 shares at NT$10 par value each. All the above shares are issued to the public.

The principal activities of the Company include the following:

(1) Operation of refinery and integrated manufacture of hydrocarbon.

(2) Involvement in export/import, marketing, storage and pipeline transport of crude oil, natural gasoline, naphtha, propane, other feedstocks and intermediate products for naphtha cracking and refinery.

(3) Operation of export/import, marketing, and storage and pipeline transport of petrochemical products — ethylene, pyrolysis, other pyrolysis and petroleum products.

(4) Construction of co-generation plants to provide steam and electricity in industrial site.

(5) Production and sales of nitrogen, oxygen, compressed air, industrial water, ultra-pure water in industrial site.

(6) Export/import of liquefied petroleum gas and petroleum products.

(7) Export/import of coal.

(8) The governmental commission development of industrial site and administration of relating lease and business activities.

(9) Quarrying of soil, sand and gravel.

The Company's shares were approved to be listed on the Taiwan Stock Exchange on November 12, 2003 and were traded publicly starting from December 26, 2003.

As of March 31, 2003 and 2004, the number of employees of the Company was 3,043 and 3,241, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in accordance with the "Regulation Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the Republic of China on Taiwan. Significant accounting policies are summarized as follows:

(1) Cash equivalents

The Company considers all highly liquid investments that are readily convertible to cash with insignificant interest risk with an original maturity period of three months or less when purchased to be cash equivalents.

(2) Short-term investments

Short-term investments are stated at the lower of aggregate cost or market value. Aggregate cost is determined by the weighted-average method. Market value is determined by averaging the closing price of the last month of the accounting period. Losses resulting from the decline in market value are recognized in the income statement of the period. Stock dividends received are not recognized as investment income but accounted for as an increase in the number of shares held. The cost per share after receiving the stock dividends is recalculated using the weighted-average method, whereas cost on disposal of investments in mutual funds is calculated by the specific identification method.

(3) Allowances for doubtful accounts

The allowance for doubtful accounts is provided based on history of bad debts, aging report and evaluation of the collectibility of notes and accounts receivable.

(4) Inventories

Raw materials, work in process and finished goods are valued by the Last-in First-out method. Supplies are evaluated by the weighted-average method. On the closing date, aggregate inventories are valued by the lower-of-cost-or-market (LCM) method. The comparison of cost and market value is based on aggregate cost while the replacement price is considered as market value.

(5) Long-term equity investments

Long-term investments in listed equity securities that represent less than 20% of the investee's common stock ownership, and where the Company does not have significant influence on the investees, are stated at the lower of cost or market value. Unrealized loss resulting from decline in market value thereon is recorded as a reduction in stockholders' equity. Long-term investments in non-listed equity securities are stated at cost. When there is evidence showing that a decline in the market value of such an investment is other than temporary and the probability of recovery is considered remote, the carrying value of the investments is reduced to reflect the market value and the resulting loss is recognized in the period of such a reduction. Stock dividends are not recognized as investment income but are booked as an increase in the number of shares held. The cost of long-term equity investments sold is calculated based on the weighted-average method.

Investments where the percentage of ownership exceeds 20%, or where the Company has significant influence on the operating and financial policies of the investee companies, are accounted for by the equity method. The difference between the cost of an investment and the amount of underlying equity in net assets of an investee is amortized by using the straight-line method over five years and the amortized amount will be recorded as investment loss or income.

If the Company's ownership in investees is less than 50% and the financial statements of the investees are not available in the current fiscal year, the Company will recognize its equity in the net earnings or losses of those investee companies in the following year, based on the Company's average holding percentage in such investee companies during the preceding period. However, if the following criteria are met, then the Company is required to recognize its equity in the earnings and losses of the investee companies in current year.

(i) The beginning owners' equity of such an investee is in excess of NT$50,000 thousand, and is in excess of 5% of the Company's beginning issued share capital.

(ii) The Company is among the top three stockholders in terms of the holding percentage of such an investee or the president or the general manager of the investee is nominated by the Company.

(iii) The Company owns more than 30% of such investee, or the combined equity ownership in such investee as held by the Company, the Company's directors, supervisors, executive officers, and other entities controlled directly or indirectly by the Company is in excess of 50%.

When the Company owns more than 50% of an investee's common stock, the investee is treated as a subsidiary and included in the consolidated financial statements. However, if both the subsidiary's total assets and operating revenue are below 10% of the Company's respective account balances, consolidated financial statements are not required. Nevertheless, if the total assets and operating revenues of all unconsolidated subsidiaries are over 30% of the Company's respective account balances, consolidation is still required for any subsidiaries whose total assets and operating revenue are more than 3% of the Company's respective account balances. Such subsidiaries are included in the consolidated financial statements until the percentage decreases to 20% or less.

Under the cost method, if the Company's long-term investment is in foreign currency, then the investees' financial statements should be translated using the exchange rate ruling at the balance sheet date. After translation, if they are lower than the cost of investment, then the difference should be classified as "cumulative translation adjustment" and shown under stockholders' equity. However, under the equity method, the difference should be classified as "cumulative translation adjustment" and shown under stockholders' equity, regardless of whether the translated amounts are lower or higher than the cost of investment.

(6) Property, plant and equipment

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized, while ordinary maintenances and repairs are expensed as incurred. Interest expenses incurred in the period when such fixed assets are in construction or installation are capitalized. Depreciation is provided on the straight-line basis using the economic service lives of the assets less any salvage value. When the economic service lives are completed, property, plant and equipment, which are still in use, are depreciated over the newly estimated remaining useful lives of the salvage value. When property, plant and equipment are disposed of, their original cost and accumulated depreciation are written off and the related gains or losses are included in the income statement.

(7) Deferred expenses

A. *Organization costs*

Organization costs are costs incurred during the development stage of the business and are amortized over five years from the inception date of the business. According to the ROC Statement of Financial Accounting Standards (SFAS) No. 19, “Development Stage Accounting,” which was amended in 2002, the net balance of organization costs was expensed in that year.

B. *Intellectual property and technology license fees*

These represented payments made for assignment of rights regarding intellectual property and technology contracts which were originally signed by Formosa Plastics Corp. with Daewoo Corp., Korea, Daelin, Stone & Weber US, Fujitsu Japan. In addition, these also included the payments made regarding the contracts signed with Chevron, Lummus, Prichard, Merichem, and Fu-Tai Engineering Co., Ltd. The above fees paid are amortized on a straight-line basis over five years from the inception of operation.

C. *Unamortized expenses*

(a) The payment made to Taiwan Power Company for the construction of the No. 6 Naphtha Cracking Project was amortized on a straight-line basis over five years.

(b) The expenses of the investigations on air and noise pollutions and vibration for the No. 6 Naphtha Cracking Project were amortized over five years from the inception date of the Company.

(c) The catalyst for the operations was amortized on a straight-line basis over the life of the catalyst.

(d) The annual repair expense of the No. 6 Naphtha Cracking Project District was amortized on a straight-line basis over its useful life.

(e) The expenses incurred on the syndicated loan for the expansion of the No. 6 Naphtha Cracking Project was amortized on a straight-line basis over ten years.

D. ***Bonds issuance costs***

The bonds issuance costs are amortized on a straight-line basis over five years.

(8) Commercial paper payable

Commercial paper payable is stated at the present value. The discount on commercial paper payable is accounted for in the contra account of commercial paper payable.

(9) Pensions

The Company established a pension fund for its employees. The pension fund is paid according to the base calculated by the number of years of service as well as the average salary six months before the retirement. For the first fifteen years, the employees can get two points for each year of service. Starting from the sixteenth year, one point is rewarded for each additional year.

The Company makes monthly contributions to the pension fund at 2% of the total monthly salaries and wages as required by the Labor Standards Laws. Assets of the fund are deposited with the Central Trust of China, a government entity.

The Company adopted the ROC SFAS No. 18, "Accounting for Pensions". At the balance sheet date, the pension liability is accrued when the accumulated benefit obligation is greater than the fair value of the plan assets.

(10) Income tax

Provision for income tax includes deferred tax resulting from temporary differences and investment tax credits. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements using enacted tax rates and laws that will be in effect when the difference is expected to reverse.

Under the accounting principles generally accepted in the Republic of China on Taiwan, the Company's income tax expense is recorded based on calculations using the statutory tax rate of each entity's jurisdiction of incorporation. The Company's deferred tax assets relate principally to income tax credits that expire between 2004 and 2006. The realization of these assets is based upon estimates of future taxable income. In preparing estimates of future taxable income, the Company has used the same assumptions and projections utilized in its internal forecasts. Based on these projections, the Company estimates that a portion, but not all, of these tax credits will be fully utilized prior to their expiration. The Company expects to achieve future earnings through the expansion of its businesses. However, the Company may not be able to generate sufficient additional income to fully utilize its deferred tax assets. In particular, an additional valuation allowance may be required to the extent the Company is not able to fully utilize its deferred tax assets.

Income taxes (10%) on unappropriated earnings generated after January 1, 1998 are recorded as expense in the year when the stockholders resolve that the earnings shall be retained.

(11) Foreign currency transactions

The transaction involving non-forward foreign currency exchange is recorded at the exchange rate prevailing at the date of transaction. Assets and liabilities of foreign currency are computed at the spot exchange rate of the balance sheet date. The resulting exchange difference is accounted for as exchange gain or loss of the current accounting period. Exchange difference arising from foreign currency assets and liabilities is also credited or charged to current income.

(12) Derivative financial instruments

A. ***Interest rate swaps (IRS):***

Interest rate swap contracts undertaken for hedging purposes are recorded in the memorandum account at the contract date. At the balance sheet date, the difference between the fixed interest rate and floating interest rate is credited to or charged against current year income. In addition, when the contract expires and delivery is made, the actual amount received or paid will be credited to or charged against current year income.

B. ***Cross-currency swaps (CCS):***

On the contract date, the difference between the contracted exchange rate and the spot exchange rate is calculated and is amortized over the contract period. At the balance sheet date, the difference between the fixed interest rate and floating interest rate and the difference between the contracted exchange rate and spot exchange rate are credited to or charged against current year income. In addition, when the contract expires and delivery is made, the actual amount received or paid will be credited to or charged against current year income.

C. ***Forward foreign exchange contracts (FFEC):***

FFECs undertaken for hedging purposes are recorded at the spot rate on the contract date and the difference between the spot rate and the forward rate is amortized over the contract period. At the balance sheet date, it is adjusted using the spot rate on that date and the resulting difference is credited to or charged against current year income. Upon settlement of the contract, the resulting exchange difference will be credited to or charged against current year income.

D. ***Non-delivery forwards (NDF):***

Since no principal amounts are exchanged upon settlement of NDFs, they are accounted for using the same basis as FFEC.

E. ***Commodity swaps***

In order to hedge against fluctuations in the oil prices, the Company has entered into oil swap contracts.

On the balance sheet date, the gain (loss) arising from the difference between the contract price and the spot market price on that date is recorded as an adjustment to the cost of oil commodities. On the settlement date, the net amount received/paid is also accounted for as an adjustment to the cost of oil commodities.

(13) Earnings per share (EPS)

The basic EPS of common stock is computed using the weighted-average number of common shares outstanding during the period. The increase in the number of shares due to capitalization of retained earnings and capital surplus is adjusted retroactively.

(14) Revenue recognition

Revenue is recognized when title to the products and risk of ownership are transferred to the customers and revenue is realized or realizable.

(15) Differentiation between capital expenditure and revenue expenditure

Material expenditures that have economic benefits over two years are capitalized. The others are expensed as incurred.

(16) Presentation and disclosure of interim financial statements

The interim financial statements are prepared in accordance with the ROC SFAS No. 23, “Presentation and Disclosure of Interim Reporting”.

(17) Convenience translation into US dollars

The financial statements are stated in New Taiwan dollars. Translations of March 31, 2004 New Taiwan dollar amounts into US dollar amounts are included solely for the convenience of the readers, using the noon buying rate from the Federal Reserve Bank of New York on March 31, 2004, of NT$33 to US$1. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be converted into US dollars at this rate or any other rate of exchange.

(All amounts expressed in thousands of dollars unless otherwise stated)

3. CHANGES IN ACCOUNTING PRINCIPLES

None.

4. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Cash on hand and petty cash	$ 463	$ 473	$ 14
Cash in banks	265,153	755,072	22,881
Time deposits.	—	200,000	6,061
Total	$ 265,616	$ 955,545	$ 28,956

The above assets have not been pledged for any loans.

(2) Short-term investments

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Listed securities	$ 45,307	$ 2,877,193	$ 87,188
Mutual funds	500,000	10,713,241	324,643
Less: Allowance for loss on decline in market value	—	—	—
Short-term investments, net	545,307	13,590,434	411,831
Market value	$ 602,193	$ 13,949,397	$ 422,709

A. On August 7, 2002, part of the above listed securities (1,140 thousand shares of Nan Ya Plastics Corp.) was used to serve as guarantee for a lawsuit. In addition, part of the above listed securities (1,746 thousand shares of Nan Ya Plastics Corp. and 36 thousand shares of Formosa Chemical and Fiber Corp.) was pledged to banks and served as securities for bank loans. (Please refer to Note 6.(2) and 7.(6)).

B. Except for the above-mentioned shares, the others have not been pledged for any loans.

(All amounts expressed in thousands of dollars unless otherwise stated)

(3) Allowance for doubtful accounts

As of March 31, 2003 and 2004, the allowance for doubtful accounts was NT$116,660 thousand and NT$131,204 thousand, respectively. The accounts receivable, notes receivable and accounts receivable from related parties were stated after netting of the allowance for doubtful accounts. The details are as follows:

		New Taiwan Dollars		US Dollars
		March 31		March 31
		2003	2004	2004
A	Notes receivable	$ 1,895,617	$ 2,078,336	$ 62,980
	Other notes receivable	1,332	19,961	605
	Less: Allowance for doubtful accounts	(18,970)	(20,983)	(636)
	Notes receivable, net	$ 1,877,979	$ 2,077,314	$ 62,949
B	Accounts receivable	$ 8,947,238	$ 14,140,219	$ 428,491
	Less: Allowance for doubtful accounts	(97,690)	(110,221)	(3,340)
	Accounts receivable, net	$ 8,849,548	$ 14,029,998	$ 425,151
C	Accounts receivable — related parties	$ 6,749,631	$ 11,484,190	$ 348,006
	Less: Allowance for doubtful accounts	—	—	—
	Accounts receivable — related parties, net	$ 6,749,631	$ 11,484,190	$ 348,006

(4) Other receivables

A. *Other receivables — non-related parties*

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Due from affiliates	$ 1,511,046	$ 1,335,491	$ 40,469
Receivable from Energy Funds	607,967	1,284,457	38,923
Compensation receivable	21,488	46,280	1,402
Income tax refund receivable	7,096	13,513	410
Business tax receivable	186,791	—	—
Others	53,598	903,554	27,381
Total	$ 2,387,986	$ 3,583,295	$ 108,585

B. Details of due from affiliates are as follows:

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Ace Marine Corporation	$ 1,132,228	$ 1,058,904	$ 32,088
Formosa Ocean Group Marine Investment Corporation	378,818	276,587	8,381
Total	$ 1,511,046	$ 1,335,491	$ 40,469

(All amounts expressed in thousands of dollars unless otherwise stated)

C. *Other receivables — related parties*

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Due from affiliates	$ 712,600	$ 766,500	$ 23,227
Receivables on sales of supplies	177,991	33,929	1,028
Others	—	22,322	677
Total	$ 890,591	$ 822,751	$ 24,932

Please refer to Note 5 for details of related party transactions.

D. *Other financial assets — current*

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Forward exchange receivable	$ 4,890,483	$ 7,629,821	$ 231,207
Less: Forward exchange payable	(4,494,538)	(7,417,395)	(224,770)
Less: Premium	(62,081)	(142,337)	(4,313)
Other financial assets, net	$ 333,864	$ 70,089	$ 2,124

In order to hedge against the exchange rate risk, the Company signed various delivery and non-delivery forward foreign exchange contracts with banks. The contracts expiring within one year are recorded under "other financial assets — current". Those with maturity of longer than one year are recorded under long-term investments. (Please refer to Note 10.(1) for details of financial instruments).

(5) Inventories

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Raw materials	$ 10,999,120	$ 12,586,291	$ 381,403
Supplies	2,172,682	3,671,523	111,258
Work in process	2,488,811	2,561,344	77,616
Finished goods	5,385,555	7,460,578	226,078
Goods in transit	2,256,775	1,984,835	60,147
Consignment inventories	—	12,067	366
Less: Allowance for inventory valuation	—	—	—
Total	$ 23,302,943	$ 28,276,638	$ 856,868

A As of March 31, 2003 and 2004, crude oil included in raw materials amounted to NT$6,921,919 thousand and NT$9,165,313 thousand, respectively. Among these inventories, NT$3,769,549 thousand has been pledged as collateral for a bank loan.

B The insurance coverage for inventories as of March 31, 2003 and 2004 was NT$17,937,435 thousand and NT$24,577,408 thousand, respectively.

(All amounts expressed in thousands of dollars unless otherwise stated)

(6) Long-term investments

A. *Long-term equity investments consist of the following:*

Investee	March 31, 2003 Investment Amount	Percentage of Ownership	Valuation Method
	(in NT$)	(%)	
Mai-Liao Power Corp.	$ 8,324,452	24.94%	Equity method
Formosa Petrochemical Transportation Corp.	327,969	88.00%	Equity method
Formosa Oil (Asia Pacific) Corp.	1,055,895	100.00%	Equity method
Yi-Chi Construction Corp.	151,595	40.55%	Equity method
Mailiao Harbor Administration Corp.	1,851,941	44.96%	Equity method
Formosa Development Corp.	232,628	45.99%	Equity method
Formosa Plastics Marine Corporation	30,130	20.00%	Equity method
Simosa Oil Corp.	48,169	20.00%	Equity method
Subtotal	12,022,779		
Asia Pacific Investment Corp.	117,500	2.11%	Cost method
Formosa Network Technology Corporation	13,331	12.50%	Cost method
Formosa Heavy Industries Corp.	116,956	1.26%	Cost method
Formosa Ocean Group Marine Investment Corp.	856,948	19.00%	Cost method
Gala Channel	91,162	6.25%	Cost method
Subtotal	1,195,897		
Less: Allowance for loss on decline in market value	—		
Total	$ 13,218,676		

Investee	March 31, 2004 Investment Amount	Percentage of Ownership	Valuation Method	Investment Amount
	(in NT$)	(%)		(in US$)
Mai-Liao Power Corp.	$ 8,695,559	24.94%	Equity method	$ 263,502
Formosa Petrochemical Transportation Corp.	314,167	88.00%	Equity method	9,520
Formosa Oil (Asia Pacific) Corp.	959,287	100.00%	Equity method	29,069
Yi-Chi Construction Corp.	146,225	40.55%	Equity method	4,431
Mailiao Harbor Administration Corp.	1,887,136	44.96%	Equity method	57,186
Formosa Development Corp.	232,548	45.99%	Equity method	7,047
Formosa Plastics Marine Corporation	43,241	20.00%	Equity method	1,310
Simosa Oil Corp.	52,457	20.00%	Equity method	1,590
Formosa Environmental Technology Corp.	236,829	24.34%	Equity method	7,177
Subtotal	12,567,449			380,832
Asia Pacific Investment Corp.	117,500	2.11%	Cost method	3,561
Formosa Network Technology Corporation	13,331	12.50%	Cost method	404
Formosa Heavy Industries Corp.	116,956	1.26%	Cost method	3,544
Formosa Ocean Group Marine Investment Corp.	856,948	19.00%	Cost method	25,968
Gala Channel	91,162	6.25%	Cost method	2,762
Subtotal	1,195,897			36,239
Less: Allowance for loss on decline in market value	—			—
Total	$ 13,763,346			$ 417,071

(All amounts expressed in thousands of dollars unless otherwise stated)

(a) For those investments accounted for under the equity method, except for Mai-Liao Power Corp., Formosa Petrochemical Transportation Corp. and Formosa Oil (Asia Pacific) Corp., the investment gains or losses were recognized in the current fiscal year, whereas the investment gains or losses for the other investees are accounted for in the following fiscal year.

(b) Long-term equity investments accounted for under the equity method as of March 31, 2003 and 2004 and their associated gains for the three-month periods then ended were as follows:

March 31, 2003

Item	(i) (NT$)	(ii) (NT$)	Total (NT$)
Net value on long-term equity investments	$ 9,708,316	$ 2,314,463	$ 12,022,779
Investment gains	$ 132,253	$ 433,924	$ 566,177

(i) For the investees where investment gains are recognized in the current year
(ii) For the investees where investment gains are recognized in the following year

March 31, 2004

Item	(i) (NT$)	(ii) (NT$)	Total (NT$)	Total (NT$)
Net value on long-term equity investments	$ 9,969,013	$ 2,598,436	$ 12,567,449	$ 380,832
Investment gains	$ 86,079	$ 256,407	$ 342,486	$ 10,378

For those investees where investment gains or losses are accounted for in the current year, the amounts of gains or losses recognized in the current year are based on the current year audited financial statements of the investees. For those investees where investment gains or losses are accounted for in the following year, the amounts of gains or losses recognized in the current year are based on audited financial statements of the investees in the preceding year.

The financial statements of Simosa Oil Corp. were audited by other auditors.

(c) For those investees accounted for under the equity method, the unrealized gross profit arising from intercompany sales for the three months ended March 31, 2003 and 2004 amounted to NT$16,843 thousand and NT$33,357 thousand, respectively, while the unrealized investment income was NT$1,308 thousand and NT$1,293 thousand, respectively.

(d) For those investees accounted for under the equity method, the differences between the acquisition costs and the Company's proportionate share in the investees' net worth are recorded as investment loss. The amortized amount of the investment loss for the three months ended March 31, 2003 and 2004 was NT$10,038 thousand and NT$11,032 thousand, respectively.

(e) Please refer to Note 6 for details of long-term equity investments pledged as collaterals for bank loans.

(All amounts expressed in thousands of dollars unless otherwise stated)

B. *Other financial assets — non-current*

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Forward exchange receivable	$ 6,560,799	$ 7,684,855	$ 232,874
Less: Forward exchange payable	(5,908,066)	(7,328,552)	(222,077)
Less: Premium	(45,701)	(291,280)	(8,827)
Other financial assets — non-current, net	$ 607,032	$ 65,023	$ 1,970

(7) Property, plant and equipment

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Cost			
Land	$ 1,594,225	$ 1,592,178	$ 48,248
Buildings	27,695,054	28,790,933	872,452
Machinery and equipment	190,606,972	195,950,336	5,937,889
Transportation equipment	233,778	295,113	8,943
Other equipment	794,115	852,217	25,825
Construction in progress	8,817,767	6,967,571	211,139
Prepayment for purchase of land	19,695,293	20,106,461	609,286
Prepayment for purchase of equipment	557,747	569,768	17,266
Subtotal	249,994,951	255,124,577	7,731,048
Accumulated depreciation			
Buildings	2,239,561	3,310,484	100,318
Machinery and equipment	17,503,922	25,348,659	768,141
Transportation equipment	151,611	171,200	5,188
Other equipment	273,501	385,143	11,671
Subtotal	20,168,595	29,215,486	885,318
Property, plant and equipment, net	$ 229,826,356	$ 225,909,091	$ 6,845,730

A. Please refer to Note 6 for details of property, plant and equipment pledged as collaterals.

B. The insurance coverage for property, plant and equipment as of March 31, 2003 and 2004 amounted to NT$156,870,123 thousand and NT$151,492,036 thousand, respectively.

C. Interest expenses before capitalization as of March 31, 2003 and 2004 amounted to NT$1,240,853 thousand and NT$1,211,330 thousand, respectively. Interest expenses capitalized for the three-month periods ended March 31, 2003 and 2004 amounted to NT$53,034 thousand and NT$28,414 thousand, respectively. The capitalized interest rates for 2003 and 2004 were in the range of 2.93%~3.26% and 2.79%~2.98%, respectively.

D. Prepayment for land represented the amount paid for the land situated in Mailiao and Haifong in the offshore industrial zones in Yunlin County.

E. Please refer to Note 5 for assets purchased from and sold to related parties.

(All amounts expressed in thousands of dollars unless otherwise stated)

(8) Other miscellaneous assets

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Prepayment for land	$ 173,932	$ 127,853	$ 3,874

The above land was registered under a third party's name. To protect the interest of the Company, the land was mortgaged to the Company, which was formally registered in the Land Office. As of March 31, 2003 and 2004, the mortgage amounted to NT$261,084 thousand and NT$257,084 thousand, respectively. Please refer to Note 7.(F) for details of the lawsuit related to the above land.

(9) Deferred expenses

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Technology license fee	$ 2,066,217	$ 1,679,811	$ 50,903
Unamortized expenses	2,248,484	2,335,441	70,771
Bonds issuance costs	47,883	67,174	2,036
Total	$ 4,362,584	$ 4,082,426	$ 123,710

(10) Short-term loans

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Import loans	$ 9,840,090	$ 22,150,823	$ 671,237
Unsecured loans	2,006,700	—	—
Others	20,250	33,176	1,005
Total	$ 11,867,040	$ 22,183,999	$ 672,242
Interest rate range	3.434%~3.657%	2.537%~2.849%	2.537%~2.849%

(11) Commercial paper payable — net

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Commercial paper payable	$ 1,720,000	$ —	$ —
Less: Discount	(909)	—	—
Total	$ 1,719,091	$ —	$ —

(All amounts expressed in thousands of dollars unless otherwise stated)

(12) Accrued expenses

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Accrued interest expenses	$ 1,652,197	$ 1,661,543	$ 50,350
Accrued commodity tax	2,163,626	2,394,968	72,575
Accrued payrolls and bonuses	515,435	612,350	18,556
Accrued utility expenses	62,834	123,014	3,728
Accrued freight expenses	297,467	284,351	8,617
Accrued air pollution expenses	45,049	26,612	806
Accrued insurance expenses	26,767	29,028	880
Accrued sales discounts	283,158	337,901	10,239
Other accrued expenses	411,299	672,923	20,391
Total	$ 5,457,832	$ 6,142,690	$ 186,142

(13) Bonds payable

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Secured bonds No. 1	$ 7,000,000	$ 7,000,000	$ 212,121
Secured bonds No. 2	6,000,000	6,000,000	181,818
Secured bonds No. 3	5,700,000	5,700,000	172,727
Secured bonds No. 4	7,000,000	7,000,000	212,121
Secured bonds No. 5	7,200,000	7,200,000	218,182
Unsecured bonds No. 1	4,300,000	4,300,000	130,303
Unsecured bonds No. 2	—	6,000,000	181,818
Unsecured bonds No. 3	—	5,000,000	151,516
Unsecured bonds No. 4	—	6,000,000	181,818
Subtotal	37,200,000	54,200,000	1,642,424
Less: Current portion	—	(18,700,000)	(566,667)
Long-term bonds payable	$ 37,200,000	$ 35,500,000	$ 1,075,757

A. In order to finance the plant constructed under the No. 6 Naphtha Cracking Project, the Company revised the terms of the syndicated loan contract with Chiao Tung Bank and the other 31 participating banks on April 21, 1999. According to the revised terms, the Company can choose to issue bonds (in place of borrowing directly from the banks) to finance the purchase of domestically manufactured machinery and equipment. If the Company chooses to issue bonds, the participating banks will act as guarantors. The guarantee covers a period of five years, seven years or ten years. In addition, the Company signed a syndicated loan contract with Chiao Tung Bank and the other 34 banks on December 6, 2000 to finance the Company's expansion project. According to the terms of the contract, the Company can choose to issue bonds (in place of borrowing directly from the banks) to finance the purchase of domestically manufactured or imported machinery and equipment in the limit of NT$15 billion. If the Company chooses to issue bonds, the participating banks will act as guarantors. The guarantee covers a period of five years, seven years or ten years.

B. Secured bonds No. 1, No. 2 and No. 3 were issued in 1999 and were pre-approved by the Securities and Futures Commission (SFC), Ministry of Finance (MOF) on May 5, 1999, July 2, 1999 and October 19, 1999, respectively. The issuing period for the above three bonds is all five years, with interest payable annually and the principal amount repayable upon maturity. Secured bonds No. 4 and No. 5 were issued in 2001 and were pre-approved by the SFC on January 9, 2001 and May 19, 2001, respectively. The issuing period of secured bonds No. 4 is five years, with interest payable annually and the principal amount repayable upon maturity. The issuing period of secured bonds No. 5 is 10 years, with interest payable annually, and the principal amount was repayable by four equal installments at the end of the 7th, 8th, 9th and 10th year.

C. Unsecured bonds No. 1 was issued in 2002 and was approved by the SFC in the same year. The issuing period is seven years, with interest payable annually, and the principal amount was repayable by four equal installments at the end of the 4th, 5th, 6th and 7th year. Unsecured bonds No. 2, No. 3 and No. 4 were issued in 2003 and were approved by the SFC on July 1, 2003, July 17, 2003 and August 11, 2003, respectively. The issuing period of unsecured bonds No. 2 and No. 3 is both five years, with interest payable annually and the principal amount repayable upon maturity. The issuing period of unsecured bonds No. 4 is 7 years, with interest payable annually and the principal amount repayable upon maturity.

D. On May 12, 1999, July 26, 1999, October 19, 1999, February 8, 2001 and May 29 2001, the amount of secured bonds No. 1 to No. 5 issued was NT$7 billion, NT$6 billion, NT$5.7 billion, NT$7 billion and NT$7.2 billion, respectively, bearing annual interest rate of 5.57%, 6.05%, 5.76%, 5.35% and 4.46%, respectively.

E During the period of August 16~30, 2002, July 1~16, 2003, July 1~August 16, 2003, July 17~August 6, 2003 and August 11~21, 2003, the amount of unsecured bonds No. 1 to No. 4 issued was NT$4.3 billion, NT$6 billion, NT$5 billion and NT$6 billion, respectively. For the unsecured bonds No. 1 and No. 3, the annual interest rate was 3.05% and 1.4855%, respectively. For the unsecured bonds No. 2 and No. 4, the interest rate was floating and the annual rate approximated to 3%.

F. The total amount of secured bonds No. 1 to No. 3 was NT$18.7 billion and will expire in 2004. Accordingly, they were recorded as current portion of long-term loans in the balance sheet.

(All amounts expressed in thousands of dollars unless otherwise stated)

(14) Long-term loans

		New Taiwan Dollars		US Dollars
		March 31		March 31
Banks	Types	2003	2004	2004
Industrial Bank of Taiwan	Medium-term	$ 1,800,000	$ —	$ —
Jih Sun International Bank	Medium-term	1,700,000	—	—
Ta Chong Bank	Medium-term	1,000,000	—	—
United-Credit Commercial Bank	Medium-term	100,000	—	—
Taishin International Bank	Medium-term	500,000	—	—
Chiao Tung Bank and the other 31 banks	Syndicated loan	65,030,595	55,711,690	1,688,233
Chiao Tung Bank and the other 34 banks	Expansion syndicated loan	35,402,000	33,387,902	1,011,755
		105,532,595	89,099,592	2,699,988
Less: Current portion reclassified to current liability		(10,354,850)	(6,492,812)	(196,752)
Less: Current portion reclassified to notes payable		(51,000)	(6,045,706)	(183,203)
Less: Long-term loans reclassified to notes payable		(344,250)	(37,753,206)	(1,144,037)
Long-term loans — due after one year		$ 94,782,495	$ 38,807,868	$ 1,175,996

The details of long-term loans are as fellows:

A. *Industrial Bank of Taiwan*

The loan was a three-year medium-term loan, from December 2001 to December 2004, with interest payable monthly. The interest rate was based on the Post Office's one-year time deposit rate plus 3.2%. The loan was fully repaid in 2003.

B. *Jih Sun International Commercial Bank*

The loan was a three-year medium-term loan, from December 23, 1999 to December 23, 2002. In 2001, the period of loan was extended to December 23, 2005. Interest was charged on monthly basis and the rate was based on the six-month time deposit rate plus 2.5%. The loan was fully repaid in 2003.

C. *Ta Chong Bank*

The loan was a three-year medium-term loan, from March 2002 to March 2005. This loan could be revolved every three months and the maximum revolving period was 6 months. The interest rate was 1.88~2.4% p.a. and was negotiable every year. The loan was fully repaid in 2003.

D. *United-Credit Commercial Bank*

The loan was a three-year medium-term loan, from October 2001 to October 2004. It could be renewed upon maturity and the facility could be revolved. The interest was paid monthly. The interest rate was based on the prime lending rate of United-Credit Commercial Bank plus 3.2%. The loan was fully repaid in 2003.

E. *Taishin International Bank*

The loan is a medium-term loan, from February 24, 2000 to October 25, 2003. The facility could be revolved within the loan period. Interest was charged on monthly basis and the rate was 3.2% p.a. The loan was fully repaid in 2003.

F. *Syndicated loan with Chiao Tung Bank and the other 31 banks*

In order to finance the construction of the No. 6 Naphtha Cracking Project, the Company signed a syndicated loan contract with Chiao Tung Bank and the other 33 banks on April 28, 1994. On April 21, 1999, the contract was amended and the number of participating banks reduced to 32. The details of the latest terms of the contract are as follows:

Item	Pledged Assets	Total Credit Line Amount	Outstanding Loans as of March 31, 2003	Outstanding Loans as of March 31, 2004	Outstanding Loans as of March 31, 2004	Repayment Method
		(NT$ unless otherwise stated)			(US$)	
				(In millions of dollars)		
A . . .	Land	9,382	5,302	4,410	134	The first installment of NT$0.462 billion was paid on December 30, 1999. The remaining principal was to be repaid semi-annually in 20 installments of NT$0.446 billion each.
B . . .	Plants	11,065	8,808.99	7,757	235	The first installment of NT$0.545 billion was paid on July 15, 2002. The remaining principal was to be repaid semi-annually in 20 installments of NT$0.526 billion each.
C . . .	Domestically manufactured automatic equipment	19,160	16,416	14,592 (Fully repaid by notes)	442	The first installment of NT$0.92 billion was paid on December 3, 2001. The remaining principal was to be repaid semi-annually in 20 installments of NT$0.912 billion each.
D . . .	Imported automatic equipment	US$1,162	US$940.10	US$829.50	829.50	The first installment of US$56 million was paid on June 10, 2001. The remaining principal was to be repaid semi-annually in 20 installments of US$55.3 million each.
E . . .	Pollution prevention equipment	510	357 (Fully repaid by notes)	344.25 (Fully repaid by notes)	11	From January 15, 2001, the principal was repaid quarterly in 40 installments of NT$12.75 million each.

Item	Pledged Assets	Total Credit Line Amount	Outstanding Loans as of March 31, 2003	Outstanding Loans as of March 31, 2004	Outstanding Loans as of March 31, 2004	Repayment Method
		(NT$ unless otherwise stated)			(US$)	
				(In millions of dollars)		
F–1	Domestically manufactured non-automatic equipment	1,883	1,439.88	1,218.36 (Fully repaid by notes)	37	The first installment of NT$0.11084 billion was paid on August 30, 2001. The remaining principal was to be repaid semi-annually in 16 installments of NT$0.11076 billion each.
F–2	Domestically manufactured non-automatic equipment	19,887	7,000 6,000 5,700 (Recorded under bonds payable)	7,000 6,000 5,700 (Recorded under bonds payable)	212.12 181.82 172.73	Bullet repayment of the principal at maturity in five years.

(i) Other than the interest on item D and corporate bonds which was payable semi-annually and yearly, respectively, the interest on the other aforementioned credit facilities was all payable monthly.

(ii) As of December 31, 2000, the loan facility of US$1,162,000 thousand under item D was fully utilized. The outstanding balance was US$829,500 thousand on March 31, 2004. The item F-2 is a loan facility for purchasing domestically manufactured non-automatic equipment. Either borrowing loans or issuing corporate bonds can utilize the facility. The Company opted to issue secured bonds, amounting to NT$18.7 billion. Please refer to Note 4.(16).

(iii) The details of collaterals

Item	Collateral Asset
A	Land in Mai-Lioa and Hai-Fong acquired using the proceeds of the loan
B	The plant in Mai-Lioa and Hai-Fong acquired using the proceeds of the loan
C	The equipment acquired using the proceeds of the loan
D	The equipment acquired using the proceeds of the loan
E	The equipment acquired using the proceeds of the loan
F-1	The equipment acquired using the proceeds of the loan
F-2	The equipment acquired using the proceeds of the loan

(iv) The syndicated loan agreement imposes covenants requiring the Company to maintain a debt ratio (total liabilities/net assets) of under 200% and a current ratio (current assets/current liabilities) of above 100%. As of March 31, 2004, the Company was in compliance with the covenants.

G. *Syndicated loan for the expansion of the No. 6 Naphtha Cracking Project*

Item	Pledged Assets	Total Credit Line Amount	Outstanding Loans as of March 31, 2003	Outstanding Loans as of March 31, 2004	Outstanding Loans as of March 31, 2004	Repayment Method
		(NT$ unless otherwise stated)			(US$)	
				(In millions of dollars)		
A . . .	Plants & relating equipment	6,058	5,433	5,433	165	The first installment of NT$0.416 billion will be paid on July 31, 2004. The remaining principal will be repaid semi-annually in 14 installments of NT$0.403 billion each.
B . . .	Domestically manufactured & imported equipment	29,619	29,619	27,644.302 (Fully repaid by notes)	838 (Fully repaid by notes)	The first installment of NT$1.94698 billion was paid on December 26, 2003. The remaining principal was to be repaid semi-annually in 14 installments of NT$1.974593 billion each.
		15,000	7,000	7,000	212	Bullet repayment of the principal at maturity in five years.
			7,200 (Recorded under bonds payable)	7,200 (Recorded under bonds payable)	218 (Recorded under bonds payable)	Repay 25% of the principal at the end of the 7th, 8th, 9th and 10th year.
C . . .	Pollution prevention equipment	584	350	310.6	10	The first installment of NT$0.03898 billion will be paid on March 30, 2004. The remaining principal will be repaid semi-annually in 14 installments of NT$0.03893 billion each.

(i) Other than the interest on corporate bonds which were payable yearly, the interest on the other aforementioned credit facilities was all payable monthly.

(ii) The details of collaterals

Item	Collateral Asset
A	The plant in Mai Liao and related equipment acquired using the proceeds of the loan
B	The equipment acquired using the proceeds of the loan
C	The equipment acquired using the proceeds of the loan

(iii) The syndicated loan agreement imposes covenants requiring the Company to maintain a debt ratio (total liabilities/net assets) of under 200% and a current ratio (current assets/current liabilities) of above 100%. As of March 31, 2004, the Company was in compliance with the covenants.

(15) Pensions

A. The Company adopted the ROC SFAS No. 18, "Accounting For Pensions," to account for the deferred pension costs and accrued pension liability. As of March 31, 2003 and 2004, the deferred pension costs recognized were zero, while the accrued pension liability recognized was NT$451,365 thousand and NT$650,202 thousand, respectively.

B. As of March 31, 2003 and 2004, the balance of the pension fund deposited in the Central Trust of China was NT$157,042 thousand and NT$192,774 thousand respectively, while the unappropriated pension reserve was NT$2,970 thousand and NT$3,230 thousand, respectively, which was recorded as accrued expenses.

(16) Capital stock

As of December 31, 2002, the Company's issued capital was NT$70,000,000 thousand, divided into 7,000,000,000 shares at NT$10 par value each. In 2003, the Company's stockholders at their annual meeting resolved to increase capital through capitalization of retained earnings and capital surplus of NT$1.4 billion and NT$7 billion, respectively. After the above capital increase, the Company's capital stock amounted to NT$78,400,000 thousand, divided into 7,840,000,000 shares at $10 par value each.

To meet the Company's financing requirements, the board of directors resolved to increase capital from NT$78,400,000 thousand to NT$90,000,000 thousand on March 17, 2004. The proposed capital increase is pending the stockholders' resolution.

(17) Capital surplus

As regulated by laws, capital surplus can only be used to offset the deficits. However, if no deficit occurs, the stockholders may resolve to capitalize part or all of capital surplus. Capitalization of capital surplus is limited to share issue premium and donations.

(18) Retained earnings

A. *Dividend policy*

The Company is of long-term industry. The dividend policy as set forth in the Articles of Incorporation provides that the Company can distribute cash dividends and stock dividends. After making provisions for the legal reserve and special reserve, the earnings will be first used to distribute cash dividends. Unless the Company has significant investment project or the need for improving financial problem, part of dividends can be distributed in the form of stocks. To avoid over expansion of capital, the total amount of retained earnings and capital surplus capitalized cannot exceed 50% of the total dividends of the year.

B. *Appropriation of earnings*

Pursuant to the Company's Articles of Incorporation, current year's earnings before tax, if any, shall be appropriated in the following order:

(i) payments of taxes, if any

(ii) offset prior year's deficit, if any

(iii) set aside 10% of the remaining amount as legal reserve, if any

(iv) set aside dividend yield of 10% as stockholders' dividend

Any remaining amount is allocated as follows: 1% as directors' and supervisors' remuneration, minimum 1% as employees' bonus, and the remaining as stockholders' bonus.

C. If the Company's income includes investment income recognized using equity method and unused tax credits, a special reserve is appropriated before distributing dividends. When the investment income is realized, this special reserve will be reversed back to retained earnings.

D. *Employees' bonus and directors' and supervisors' remuneration*

(i) As of the date of the auditors' review report, the plan for appropriation of 2003 earnings has been resolved by the board of directors but is pending the stockholders' resolution. For further information, please visit the website *http://newmops.tse.com.tw/*

	Year 2003			
	Actual amounts	Proposed amounts	Difference	Reason
Appropriation:				
1. Employees' cash bonus	—	74	—	
2. Employees' stock bonus	—	—	—	
3. Directors' and supervisors' remuneration	—	739	—	
4. Info of EPS				
(1) Actual EPS	—	NT$ 2.42 dollars	—	
(2) Estimated EPS	—	NT$ 2.42 dollars	—	

(All amounts expressed in thousands of dollars unless otherwise stated)

(ii) The appropriation of 2002 earnings is as follows:

	Year 2002			
	Actual amounts	Proposed amounts	Difference	Reason
Appropriation:				
1. Employees' cash bonus	2,831	2,831	—	
2. Employees' stock bonus	—	—	—	
3. Directors' and supervisors' remuneration	28,311	28,311	—	
4. Info of EPS				
(1) Actual EPS	NT$ 1.63 dollars	NT$ 1.63 dollars	—	
(2) Estimated EPS	NT$ 1.63 dollars	NT$ 1.63 dollars	—	

(19) Income tax

A. Reconciliation of pre-tax income to provision for income tax is as follows:

	New Taiwan Dollars		US Dollars
	Three Months Ended		Three Months Ended
	March 31, 2003	March 31, 2004	March 31, 2004
Income before income tax	$ 4,218,858	$ 9,652,754	$ 292,508
Permanent differences			
Investment gains/losses recognized under equity method	(557,446)	(332,748)	(10,083)
Other	(690)	(283)	(9)
Temporary differences			
Unrealized gain from downstream transaction	16,843	33,357	1,011
Realized gain from downstream transaction	(11,964)	(19,069)	(578)
Unrealized exchange losses/gains — short-term	(823,564)	(477,637)	(14,474)
Reversal of realized exchange gains/losses	1,240,979	452,933	13,725
Unrealized exchange losses/gains — long-term	2,160,597	586,685	17,778
Reversal of realized exchange gains/losses	(2,163,418)	(1,381,346)	(41,859)
Financial and tax differences in interest capitalization	21,146	7,049	214
Accrued pension liability not yet contributed	43,796	70,615	2,140
Sales discounts that are eliminated in the current year and recognized in the following year when supporting documents are received	283,154	337,891	10,239
Recognition of sales discounts eliminated in the previous year	(285,362)	(374,166)	(11,338)
Others	(14,284)	28,044	850
Taxable income	4,128,645	8,584,079	260,124
Income Tax	1,032,151	2,146,010	65,031
10% corporate tax on unappropriated earnings	—	—	—
Less: Investment tax credits	1,032,151	2,146,010	65,031
Income tax	—	—	—
Less: Withholding tax	748	71	2
Income tax refund receivable	$ (748)	$ (71)	$ (2)

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B. Reconciliation of provision for tax to current income tax is as follows:

	New Taiwan Dollars		US Dollars
	Three Months Ended		Three Months Ended
	March 31, 2003	March 31, 2004	March 31, 2004
Income tax payable from continuing operations	$ —	$ —	$ —
Deferred income tax expense (benefit) arising from realized or unrealized exchange gains/losses accounted for under SFAS No. 14	(103,649)	204,841	6,207
Deferred income tax expense (benefit) arising from investment tax credits	(21,421,230)	2,139,470	64,833
Investment tax credits — deferred tax expense (benefit) from valuation allowance for investment tax credits	16,783,077	(1,627,326)	(49,313)
Deferred income tax benefit arising from 1992 and 1993 tax authority assessment	(5,286)	(1,762)	(53)
Deferred income tax benefit arising from sales discounts	(8,046)	(19,168)	(581)
Auditing difference of 2001	860	—	—
Income tax benefit of continuing operations	$ (4,754,274)	$ 696,055	$ 21,093

C. Deferred income tax liabilities and assets:

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Deferred income tax liabilities	$ 228,799	$ 124,695	$ 3,778
Deferred income tax assets	31,216,412	25,350,099	768,185
Valuation allowance for deferred income tax assets	16,818,324	16,361,934	495,816

D. Temporary differences resulting in deferred income tax assets and liabilities:

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Deferred income tax assets arising from investment tax credits	$ 30,508,287	$ 24,935,798	$ 755,630
Deductible temporary differences from downstream transactions' unrealized gain	44,912	61,426	1,861
Deductible (taxable) temporary differences arising from short-term unrealized exchange loss accounted for under SFAS No. 14	(823,564)	(477,637)	(14,474)
Deductible (taxable) temporary differences arising from long-term unrealized exchange loss accounted for under SFAS No. 14	2,160,597	586,685	17,778
Taxable temporary differences arising from the difference between the financial and tax treatment for organization costs	(91,632)	(21,146)	(641)
Deductible (taxable) temporary differences arising from accrued pension liability recognized	343,856	546,820	16,570
Deductible (taxable) temporary differences arising from sales discounts	283,154	337,891	10,239
Deductible (taxable) temporary differences arising from others	—	124,378	3,769

(All amounts expressed in thousands of dollars unless otherwise stated)

E. Deferred income tax assets (liabilities) — current:

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Deferred income tax assets	$ 3,747,360	$ 4,222,350	$ 127,950
Valuation allowance for deferred income tax assets	—	—	—
Net deferred income tax assets	3,747,360	4,222,350	127,950
Deferred income tax liabilities	(205,891)	(119,409)	(3,618)
Net deferred income tax assets (liabilities)	$ 3,541,469	$ 4,102,941	$ 124,332

F. Deferred income tax assets (liabilities) — non-current:

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Deferred income tax assets	$ 27,469,052	$ 21,127,749	$ 640,235
Valuation allowance for deferred income tax assets	(16,818,324)	(16,361,934)	(495,816)
Net deferred income tax assets	10,650,728	4,765,815	144,419
Deferred income tax liabilities	(22,908)	(5,286)	(160)
Net deferred income tax assets (liabilities)	$ 10,627,820	$ 4,760,529	$ 144,259

G. If the difference between accrued income tax and actual income tax paid resulted from an incorrect estimate, it will be debited to current year's income tax. If the difference results from incorrect calculation, it will be adjusted to the prior year's net income/loss.

H. As of March 31, 2004, the Company's unused tax credits are as follows:

Types	New Taiwan Dollars	US Dollars	Expiry year
(a) Tax credits arising from investments in important industries	$ 14	$ —	2004
Tax credits arising from investments in important industries	998,703	30,264	2005
(b) Tax credits for investments in remote areas	1,461,151	44,277	2004
Tax credits for investments in remote areas	22,475,930	681,089	2006

I. The ROC tax authorities have assessed the income tax returns of the Company through 2001.

J. As of March 31, 2003 and 2004, the account balance of imputation tax credit was NT$22,267 thousand and NT$10,528 thousand, respectively.

K. As of March 31, 2003 and 2004, accumulated retained earnings were NT$24,412,108 thousand and NT$29,530,812 thousand, respectively which consisted of the accumulated earnings of NT$70,699 thousand generated prior to 1997. The remaining was generated after 1998.

(All amounts expressed in thousands of dollars unless otherwise stated)

L. The estimated (actual) tax credit rate for individual stockholders are as follows:

Year	Tax Credit Rate	Estimated/Actual
2001	0.3%	Actual
2002	0.15% (after distributing cash dividends) 0.16% (after distributing stock dividends)	Actual
2003	0.05%	Estimated

(20) Expenses relating to employment, depreciation and amortization summarized by function are as follows:

	Function		
	Three Months Ended March 31, 2003		
Description	Operating Cost	Operating Expense	Total
Employment			
Salaries and wages	NT$ 458,080	NT$ 255,238	NT$ 713,318
Labor and health insurance	26,092	13,947	40,039
Pension	35,470	16,621	52,091
Others	11,281	6,057	17,338
Subtotal	NT$ 530,923	NT$ 291,863	NT$ 822,786
Depreciation	NT$ 2,060,272	NT$ 111,652	NT$ 2,171,924
Amortization	NT$ 192,923	NT$ 91,110	NT$ 284,033

	Function		
	Three Months Ended March 31, 2004		
Description	Operating Cost	Operating Expense	Total
Employment			
Salaries and wages	NT$ 533,836	NT$ 231,528	NT$ 765,364
Labor and health insurance	30,834	12,358	43,192
Pension	50,766	30,176	80,942
Others	7,380	6,057	13,437
Subtotal	NT$ 622,816	NT$ 280,119	NT$ 902,935
Depreciation	NT$ 2,088,326	NT$ 134,753	NT$ 2,223,079
Amortization	NT$ 385,086	NT$ 20,678	NT$ 405,764

	Function		
	Three Months Ended March 31, 2004		
Description	Operating Cost	Operating Expense	Total
Employment			
Salaries and wages	US$ 16,177	US$ 7,016	US$ 23,193
Labor and health insurance	934	375	1,309
Pension	1,538	915	2,453
Others	224	183	407
Subtotal	US$ 18,873	US$ 8,489	US$ 27,362
Depreciation	US$ 63,283	US$ 4,083	US$ 67,366
Amortization	US$ 11,669	US$ 627	US$ 12,296

(All amounts expressed in thousands of dollars unless otherwise stated)

5. RELATED PARTY TRANSACTIONS

(1) Names of the related parties and their relationship with the Company

Related Parties	Relationship
Formosa Plastics Transportation Corp.	Shareholder of the Company
Nan Ya Plastics Corp.	Shareholder of the Company
Formosa Chemicals & Fibre Corp.	Shareholder of the Company
Formosa Heavy Industries Corp.	The Company's Chairman is also the Chairman of this company
Formosa Plastics Marine Corp.	The Company's Chairman is also the Chairman of this company
Nan Chung Petrochemical Corp.	The Company's Chairman is also the Chairman of this company
Formosa Automobile Corp.	The Company's Chairman is also the Chairman of this company
Yi-Jin Development Corp.	Investee accounted for by the equity method
Mai-Liao Power Corp.	Investee accounted for by the equity method
Mai-Liao Harbor Administration Corp.	Investee accounted for by the equity method
Formosa Petrochemical Transportation Corp.	Investee accounted for by the equity method
Formosa Marine Corp.	Investee accounted for by the equity method
Formosa Development Corp.	Investee accounted for by the equity method
Simosa Oil Corp.	Investee accounted for by the equity method
Formosa Oil (Asia Pacific) Corp.	Investee accounted for by the equity method
Formosa Environmental Technology Corp.	Investee accounted for by the equity method
Formosa Taffeta Co., Ltd.	The Chairman of this company is a relative of the Company's general manager
Whale Home International Co., Ltd.	Indirect subsidiary of the Company

(2) Significant transactions with related parties

A. *Sales and accounts receivable*

(a) *Sales*

	New Taiwan Dollars			
	Three Months Ended			
	March 31, 2003		March 31, 2004	
Related Parties	Amount	%	Amount	%
Formosa Plastics Corporation	$ 6,365,413	11.65	$ 11,185,789	15.13
Formosa Chemicals & Fibre Corporation	7,887,541	14.43	10,839,538	14.66
Nan Ya Plastics Corporation	2,765,990	5.06	4,745,814	6.42
Formosa Oil (Asia Pacific) Corporation	1,657,974	3.03	2,787,067	3.77
Formosa Taffeta Corporation	1,189,579	2.18	1,387,678	1.88
Nan Chung Petrochemical Corporation	751,463	1.38	1,325,867	1.79
Whale Home International Co., Ltd.	191,072	0.35	224,240	0.30
Simosa Oil Corporation	182,994	0.34	189,713	0.25
Mai-Liao Power Corporation	68,172	0.12	53,207	0.07
Other related parties	20,621	0.04	28,066	0.04
Total	$ 21,080,819	38.58	$ 32,766,979	44.31

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	Three Months Ended March 31, 2004			
	New Taiwan Dollars		US Dollars	
	Amount	%	Amount	%
Formosa Plastics Corporation	$ 11,185,789	15.13	$ 338,963	15.13
Formosa Chemicals & Fibre Corporation	10,839,538	14.66	328,471	14.66
Nan Ya Plastics Corporation	4,745,814	6.42	143,813	6.42
Formosa Oil (Asia Pacific) Corporation	2,787,067	3.77	84,457	3.77
Formosa Taffeta Corporation	1,387,678	1.88	42,051	1.88
Nan Chung Petrochemical Corporation	1,325,867	1.79	40,178	1.79
Whale Home International Co., Ltd.	224,240	0.30	6,795	0.30
Simosa Oil Corporation	189,713	0.25	5,749	0.25
Mai-Liao Power Corporation	53,207	0.07	1,612	0.07
Other related parties	28,066	0.04	850	0.04
Total	$ 32,766,979	44.31	$ 992,939	44.31

Note: The percentage amounts refer to the individual transaction amounts divided by the Company's net operating revenues.

The terms and conditions of sales to related parties are the same with those for non-related parties. The credit term is 30 days from the date when the counterparty receives the payment advice.

(b) *Accounts receivable*

	New Taiwan Dollars			
	March 31, 2003		March 31, 2004	
Related Parties	Amount	%	Amount	%
Formosa Plastics Corporation	$ 1,796,040	11.44	$ 4,205,905	16.41
Formosa Chemicals & Fibre Corporation	2,586,112	16.48	3,484,133	13.60
Nan Ya Plastics Corporation	1,177,050	7.50	1,751,596	6.84
Formosa Oil (Asia Pacific) Corporation	623,293	3.98	1,127,229	4.40
Nan Chung Petrochemical Corporation	100,820	0.64	426,019	1.66
Formosa Taffeta Corporation	260,968	1.66	300,956	1.18
Simosa Oil Corporation	122,870	0.78	99,004	0.39
Whale Home International Co., Ltd.	39,202	0.25	45,652	0.18
Mai-Liao Power Corporation	36,211	0.23	32,006	0.12
Other related parties	7,065	0.04	11,690	0.04
Total	$ 6,749,631	43.00	$ 11,484,190	44.82

	March 31, 2004			
	New Taiwan Dollars		US Dollars	
	Amount	%	Amount	%
Formosa Plastics Corporation	$ 4,205,905	16.41	$ 127,452	16.41
Formosa Chemicals & Fibre Corporation	3,484,133	13.60	105,580	13.60
Nan Ya Plastics Corporation	1,751,596	6.84	53,079	6.84
Formosa Oil (Asia Pacific) Corporation	1,127,229	4.40	34,158	4.40
Nan Chung Petrochemical Corporation	426,019	1.66	12,910	1.66
Formosa Taffeta Corporation	300,956	1.18	9,120	1.18
Simosa Oil Corporation	99,004	0.39	3,000	0.39
Whale Home International Co., Ltd.	45,652	0.18	1,383	0.18
Mai-Liao Power Corporation	32,006	0.12	970	0.12
Other related parties	11,690	0.04	354	0.04
Total	$ 11,484,190	44.82	$ 348,006	44.82

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B *Purchases and accounts payable*

(a) *Purchases*

	New Taiwan Dollars			
	Three Months Ended			
	March 31, 2003		March 31, 2004	
Related Parties	**Amount**	**%**	**Amount**	**%**
Formosa Plastics Corporation	$ 670,227	1.14	$ 689,707	0.86
Nan Ya Plastics Corporation	108,731	0.18	150,623	0.19
Formosa Chemicals & Fibre Corporation	961,592	1.64	1,109,321	1.38
Simosa Oil Corporation	133,052	0.23	—	—
Total	$ 1,873,602	3.19	$ 1,949,651	2.43

	Three Months Ended March 31, 2004			
	New Taiwan Dollars		US Dollars	
Related Parties	**Amount**	**%**	**Amount**	**%**
Formosa Plastics Corporation	$ 689,707	0.86	$ 20,900	0.86
Nan Ya Plastics Corporation	150,623	0.19	4,564	0.19
Formosa Chemicals & Fibre Corporation	1,109,321	1.38	33,616	1.38
Total	$ 1,949,651	2.43	$ 59,080	2.43

Note: The percentage amounts refer to the individual transaction amounts divided by the Company's net purchases.

The Company did not receive special discounts when purchasing from the related parties, and the payment term is 30 days after receiving the goods.

(b) *Accounts payable*

	New Taiwan Dollars			
	March 31, 2003		March 31, 2004	
Related Parties	**Amount**	**%**	**Amount**	**%**
Formosa Plastics Corporation	$ 133,969	2.75	$ 262,501	4.84
Nan Ya Plastics Corporation	32,963	0.68	74,654	1.38
Formosa Chemicals & Fibre Corporation	216,448	4.44	369,727	6.82
Formosa Heavy Industries Corporation	314	—	—	—
Simosa Oil Corporation	41,659	0.85	—	—
Total	$ 425,353	8.72	$ 706,882	13.04

	March 31, 2004			
	New Taiwan Dollars		US Dollars	
Related Parties	**Amount**	**%**	**Amount**	**%**
Formosa Plastics Corporation	$ 262,501	4.84	$ 7,955	4.84
Nan Ya Plastics Corporation	74,654	1.38	2,262	1.38
Formosa Chemicals & Fibre Corporation	369,727	6.82	11,204	6.82
Total	$ 706,882	13.04	$ 21,421	13.04

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(3) Transactions of property, plant and equipment

A. *Purchases of construction in progress*

The Company bought construction in progress from related parties for the No. 6 Naphtha Cracking Project in the offshore industrial zones in Mailiao and Haifong in Yunlin County and the details are as follows:

		New Taiwan Dollars		US Dollars
		Three Months Ended		Three Months Ended
Related Parties	Item	March 31, 2003	March 31, 2004	March 31, 2004
Formosa Heavy Industries Corporation	Construction in progress	$ 789,731	$ 1,117,940	$ 33,877
Nan Ya Plastics Corporation	Construction in progress	$ 5,593	$ —	$ —
Mai-Liao Power Corporation	Equipment	—	8,507,307	257,797
Total		$ 795,324	$ 9,625,247	$ 291,674

(a) Purchases of the construction in progress from Formosa Heavy Industries Corporation and Nan Ya Plastics Corporation were based on the general terms and conditions. Payment is made with in one month after the project is completed and inspected by the Company.

(b) As of March 31, 2004, the equipment purchased from Mai-Liao Power Corporation amounted to NT$8,507,307 thousand, of which NT$850,731 thousand was paid.

B. *Sales of assets*

The details of assets sold to the related parties during the three months ended March 31, 2003 are as follows:

Related Parties	Item	Acquisition Cost	Sales Price	Gain (Loss) on Asset Sold
Formosa Oil (Asia Pacific) Corporation	Machinery	NT$ 53	NT$ 44	NT$ (9)

The details of assets sold to the related parties during the three months ended March 31, 2004 are as follows:

Related Parties	Item	Acquisition Cost	Sales Price	Gain (Loss) on Asset Sold
Formosa Oil (Asia Pacific) Corporation	Machinery	NT$ 14	NT$ 14	NT$ —
Formosa Oil (Asia Pacific) Corporation	Machinery	US$ 1	US$ 1	US$ —

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(4) Financing

A. *Due from affiliates*

Three Months Ended March 31, 2003

Related Parties	Highest Balance	Date of Highest Balance	Ending Balance	Interest Rate	Interest Received for the Period
Nan Ya Plastics Corporation	NT$ 2,419,200	February 17	NT$ —	3.434%~3.657%	NT$ 209
Formosa Heavy Industries Corporation	51,800	February 25	—	3.434%~3.657%	5
Mai-Liao Power Corporation	715,800	January 9	—	3.434%~3.657%	192
Formosa Plastics Marine Corporation	731,400	March 4	712,600	3.434%~3.657%	5,961
Total			NT$ 712,600		NT$ 6,367

Three Months Ended March 31, 2004

Related Parties	Highest Balance	Date of Highest Balance	Ending Balance	Interest Rate	Interest Received for the Period
Formosa Chemicals & Fibre Corporation	NT$ 1,257,100	February 16	NT$ —	2.537%~2.849%	NT$ 236
Nan Ya Plastics Corporation	3,750,200	March 15	—	2.537%~2.849%	216
Formosa Heavy Industries Corporation	885,600	March 15	—	2.537%~2.849%	699
Mai-Liao Power Corporation	2,501,300	March 16	198,200	2.537%~2.849%	3,221
Formosa Plastics Marine Corporation	601,700	January 30	568,300	2.537%~2.849%	3,702
Formosa (Asia Pacific) Corporation	260,000	March 15	—	2.537%~2.849%	240
Total			NT$ 766,500		NT$ 8,314

Three Months Ended March 31, 2004

Related Parties	Highest Balance	Date of Highest Balance	Ending Balance	Interest Rate	Interest Received for the Period
Formosa Chemicals & Fibre Corporation	38,094	February 16	—	2.537%~2.849%	7
Nan Ya Plastics Corporation	113,642	March 15	—	2.537%~2.849%	7
Formosa Heavy Industries Corporation	26,836	March 15	—	2.537%~2.849%	21
Mai-Liao Power Corporation	75,797	March 16	6,006	2.537%~2.849%	98
Formosa Plastics Marine Corporation	18,233	January 30	17,221	2.537%~2.849%	112
Formosa (Asia Pacific) Corporation	7,879	March 15	—	2.537%~2.849%	7
Total			US$ 23,227		US$ 252

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B. *Due to affiliates*

Three Months Ended March 31, 2003

Related Parties	Highest Balance	Date of Highest Balance	Ending Balance	Interest Rate	Interest Paid for the Period
Formosa Chemicals & Fibre Corporation	NT$ 1,846,200	March 7	NT$1,419,200	3.434%~3.657%	NT$ 7,743
Formosa Plastics Corporation	2,830,300	February 6	449,400	3.434%~3.657%	10,175
Nan Ya Plastics Corporation	544,300	March 13	—	3.434%~3.657%	922
Mailiao Harbor Administration Corporation	815,600	March 31	815,600	3.434%~3.657%	5,694
Total			NT$2,684,200		NT$ 24,534

Three Months Ended March 31, 2004

Related Parties	Highest Balance	Date of Highest Balance	Ending Balance	Interest Rate	Interest Paid for the Period
Formosa Chemicals & Fibre Corporation	NT$ 2,714,700	January 2	NT$ —	2.537%~2.849%	NT$ 2,680
Formosa Plastics Corporation	2,377,200	February 12	—	2.537%~2.849%	3,075
Nan Ya Plastics Corporation	2,767,200	January 14	—	2.537%~2.849%	3,576
Mailiao Harbor Administration Corporation	1,100,000	January 1	800,000	2.537%~2.849%	6,710
Total			NT$ 800,000		NT$ 16,041

Three Months Ended March 31, 2004

Related Parties	Highest Balance	Date of Highest Balance	Ending Balance	Interest Rate	Interest Paid for the Period
Formosa Chemicals & Fibre Corporation	US$ 82,264	January 2	US$ —	2.537%~2.849%	US$ 81
Formosa Plastics Corporation	72,036	February 12	—	2.537%~2.849%	93
Nan Ya Plastics Corporation	83,855	January 14	—	2.537%~2.849%	109
Mailiao Harbor Administration Corporation	33,333	January 1	24,242	2.537%~2.849%	203
Total			US$ 24,242		US$ 486

(All amounts expressed in thousands of dollars unless otherwise stated)

(5) Other receivables, other payables and revenues received in advance receivables from/payables to related parties bear no interest.

A. ***Other receivables — sale of raw materials***

	New Taiwan Dollars			
	March 31, 2003		March 31, 2004	
Related Parties	**Amount**	**%**	**Amount**	**%**
Formosa Plastics Corporation	$ 6,949	0.21	$ 25,659	0.58
Mai-Liao Power Corporation	13,799	0.42	8,699	0.20
Formosa Chemicals & Fibre Corporation	7,803	0.24	6,479	0.15
Nan Ya Plastics Corporation	138,586	4.23	7,705	0.17
Other related parties	10,854	0.33	7,709	0.18
Total	$ 177,991	5.43	$ 56,251	1.28

	New Taiwan Dollars		US Dollars	
	March 31, 2004		March 31, 2004	
Related Parties	**Amount**	**%**	**Amount**	**%**
Formosa Plastics Corporation	$ 25,659	0.58	$ 778	0.58
Mai-Liao Power Corporation	8,699	0.20	264	0.20
Formosa Chemicals & Fibre Corporation	6,479	0.15	196	0.15
Nan Ya Plastics Corporation	7,705	0.17	233	0.17
Other related parties	7,709	0.18	234	0.18
Total	$ 56,251	1.28	$ 1,705	1.28

B. *Other payables*

	New Taiwan Dollars			
	March 31, 2003		March 31, 2004	
Related Parties	**Amount**	**%**	**Amount**	**%**
Formosa Heavy Industries Corporation	$ 405,717	23.11	$ 289,229	9.71
Formosa Plastics Corporation	564	0.03	23,305	0.78
Nan Ya Plastics Corporation	12,156	0.69	49,641	1.67
Formosa Chemicals & Fibre Corporation	37,636	2.15	762	0.02
Total	$ 456,073	25.98	$ 362,937	12.18

	New Taiwan Dollars		US Dollars	
	March 31, 2004		March 31, 2004	
Related Parties	**Amount**	**%**	**Amount**	**%**
Formosa Heavy Industries Corporation	$ 289,229	9.71	$ 8,765	9.71
Formosa Plastics Corporation	23,305	0.78	706	0.78
Nan Ya Plastics Corporation	49,641	1.67	1,504	1.67
Formosa Chemicals & Fibre Corporation	762	0.02	23	0.02
Total	$ 362,937	12.18	$ 10,998	12.18

(All amounts expressed in thousands of dollars unless otherwise stated)

C. *Revenues received in advance*

	New Taiwan Dollars			
	March 31, 2003		March 31, 2004	
Related Parties	**Amount**	**%**	**Amount**	**%**
Simosa Oil Corp.	$ 54,000	25.49	$ 54,000	12.63

	New Taiwan Dollars		US Dollars	
	March 31, 2004		March 31, 2004	
Related Parties	**Amount**	**%**	**Amount**	**%**
Simosa Oil Corp.	$ 54,000	12.63	$ 1,636	12.63

The above amounts resulted from the payments received in advance for the sale of the land of the No. 6 Naphtha Cracking Project.

(6) Other related party transactions

A. The details of use of the related parties' labor force are as follows:

		New Taiwan Dollars		US Dollars
		Three Months Ended		Three Months Ended
Related Parties	**Item**	**March 31, 2003**	**March 31, 2004**	**March 31, 2004**
Mailiao Harbor Administration Corporation	Harbor labor force	$ 221,449	$ 326,964	$ 9,908
Formosa Automobile Corp.	Labor force	117,308	132,010	4,000
Formosa Petrochemical Transportation	Labor force	85,913	98,695	2,991
Formosa Oil (Asia Pacific) Corporation	Labor force	16,500	85,656	2,596
Formosa Plastics Marine Corporation	Labor force	1,639	1,068	32
Total		$ 442,809	$ 644,393	$ 19,527

B. *Sale of materials*

The details of sale of materials to related parties for the three months ended March 31, 2003 are as follows:

Related Parties	**Selling Price**	**Costs**	**Gains (Losses) on Sale**
Formosa Plastics Corporation	NT$ 7,745	NT$ 8,643	NT$ (898)
Nan Ya Plastics Corporation	15,957	19,123	(3,166)
Formosa Chemicals & Fibre Corporation	7,184	9,025	(1,841)
Mai-Liao Power Corporation	13,445	13,756	(311)
Formosa Heavy Industries Corporation	650	507	143
Mailiao Harbor Administration Corporation	34	34	—
Total	NT$ 45,015	NT$ 51,088	NT$ (6,073)

(All amounts expressed in thousands of dollars unless otherwise stated)

The details of sale of materials to related parties for the three months ended March 31, 2004 are as follows:

Related Parties	Selling Price		Costs		Gains (Losses) on Sale	
Formosa Plastics Corporation	NT$	28,860	NT$	32,628	NT$	(3,768)
Nan Ya Plastics Corporation		3,611		3,488		123
Formosa Chemicals & Fibre Corporation		7,571		7,847		(276)
Mai-Liao Power Corporation		20,352		20,699		(347)
Formosa Heavy Industries Corporation		709		900		(191)
Mailiao Harbor Administration Corporation		92		92		—
Total	NT$	61,195	NT$	65,654	NT$	(4,459)

Related Parties	Selling Price		Costs		Gains (Losses) on Sale	
Formosa Plastics Corporation	US$	875	US$	989	US$	(114)
Nan Ya Plastics Corporation		109		105		4
Formosa Chemicals & Fibre Corporation		229		238		(9)
Mai-Liao Power Corporation		617		627		(10)
Formosa Heavy Industries Corporation		21		27		(6)
Mailiao Harbor Administration Corporation		3		3		—
Total	US$	1,854	US$	1,989	US$	(135)

C. *Rental expenses*

Details of the office premises leased from related parties are as follows:

	New Taiwan Dollars				
	Three Months Ended				
	March 31, 2003			March 31, 2004		
Related Parties	Amount		%	Amount		%
Formosa Plastics Corporation	$	7,845	18.00	$	7,845	18.75
Nan Ya Plastics Corporation		7,800	17.89		7,800	18.65
Formosa Chemicals & Fibre Corporation		7,800	17.89		7,800	18.65
Total	$	23,445	53.78	$	23,445	56.05

	Three Months Ended March 31, 2004					
	New Taiwan Dollars			US Dollars		
Related Parties	Amount		%	Amount		%
Formosa Plastics Corporation	$	7,845	18.75	$	238	18.75
Nan Ya Plastics Corporation		7,800	18.65		236	18.65
Formosa Chemicals & Fibre Corporation		7,800	18.65		236	18.65
Total	$	23,445	56.05	$	710	56.05

Rents on the office premises leased from related parties are based on the local standard, and are paid semi-annually.

(All amounts expressed in thousands of dollars unless otherwise stated)

D. *Endorsements and guarantees*

	New Taiwan Dollars		US Dollars
	March 31		March 31
Related Parties	2003	2004	2004
Mai-Liao Power Corporation	$ 6,735,000	$ 5,910,000	$ 179,091
Simosa Oil Corp.	99,000	99,000	3,000
Whale Home International Co., Ltd.	80,000	80,000	2,424
Formosa Oil (Asia Pacific) Corporation	—	40,000	1,212
Total	$ 6,914,000	$ 6,129,000	$ 185,727

E. *Stocks pledged to related parties (in thousand shares)*

		March 31	
Pledged Assets	Contents	2003	2004
Short-term investments	Stocks of Nan Ya Plastics Corporation	—	1,746
Short-term investments	Stocks of Formosa Chemicals & Fibre Corporation	—	36
Total		—	1,782

6. PLEDGED ASSETS

(1) As of March 31, 2003 and 2004, the following assets were pledged as collaterals for bank loans:

		Thousand Shares	
		March 31	
Pledged Assets	Contents	2003	2004
Long-term equity investments	Stocks of Mai-Liao Power Corp.	498,000	498,000
Short-term investments	Stocks of Nan Ya Plastics Corporation	—	1,746
	Stocks of Formosa Chemicals & Fibre Corporation	—	36
		498,000	499,782

		New Taiwan Dollars		US Dollars
		March 31		March 31
		2003	2004	2004
Raw material	Crude oil	$ 3,769,549	$ 3,769,549	$ 114,229
Other current assets — restricted assets	Certificates of deposit	$ 14,000	$ 14,150	$ 429
Other assets — restricted assets	Certificates of deposit	150	—	—
	Total	$ 14,150	$ 14,150	$ 429
Property, plant and equipment	Plant	$ 19,858,301	$ 19,858,301	$ 601,767
	Machinery	180,704,008	180,704,008	5,475,879
	Total	$ 200,562,309	$ 200,562,309	$ 6,077,646

(All amounts expressed in thousands of dollars unless otherwise stated)

(2) As of March 31, 2003 and 2004, the following assets were pledged as collateral for lawsuits:

		Thousand Shares	
		March 31	
Pledged Assets	Issuer	2003	2004
Stocks	Nan Ya Plastics Corporation	1,140	1,140

7. COMMITMENT AND CONTINGENT LIABILITIES

As of March 31, 2003 and 2004, the Company's commitments and contingent liabilities were as follows:

(1) The guarantees provided by the Company for other companies in the same industry and related parties amounted to NT$6,914,000 thousand and NT$6,129,000 thousand, respectively.

(2) The number of Nan Ya Plastics' shares pledged by the stockholders as collaterals for the Company's bank loans was 98,000 thousand and 140,000 thousand, respectively.

(3) Guarantee notes received and guarantee notes receivable, as deposits from clients for operational needs were NT$8,089,201 thousand and NT$8,240,889 thousand, respectively.

(4) Guarantee notes issued and guarantee notes payable for borrowings were NT$122,948,000 thousand plus US$1,162,000 thousand and NT$31,569,000 thousand plus US$1,162,000 thousand, respectively.

(5) The unutilized portion of letters of credit issued by banks for importing raw materials was NT$3,518,181 thousand and NT$5,739,089 thousand, respectively.

(6) Lawsuits

A. The Company's land situated in Taichung (Lot No. 161–27, 161–28, 161–29, 161–161 and 161–162), with area of 14,607 square meters and cost of NT$80,126 thousand, was not formally registered in its own name. Rather, it signed a declaration of trust with Huang Ji Quan who agreed to act as the nominee for the registered owner of the land. However, since Huang Ji Quan acting as guarantor for the other parties and the other parties could not repay the debts, the land was subsequently seized and put into a public auction. Therefore, the Company engaged a lawyer to sue Huang Ji Quan for compensation. On December 1, 2003, the Company won the lawsuit. According to the Court's ruling, Huang Ji Quan need to pay NT$87,642, plus interest (at 5% p.a.) accrued from September 7, 2002 up to the date of the above settlement, to the Company. Huang Ji Quan appealed to the court and the trial is pending. The Company has pledged 1,140 thousand shares of Nan Ya Plastics Corp. as collateral for execution of provisional seizure on Huang Ji Quan's properties.

B. The Company signed a sales contract with Lin De Trading Co., Ltd. for a five-year period. However, Lin De Trading Co., Ltd. breached the contract by not purchasing oil from the Company. Accordingly, the Company requested Lin De Trading Co Ltd. and its guarantee bank for compensation and received a payment of NT$1,600 thousand. However, Lin De Trading Co., Ltd. subsequently appealed to the Court to claim that such compensation request was illegal. On July 30, 2003, the Court ruled that Lin De Trading Co., Ltd. won the case. The Company considered that it was not acceptable and filed an appeal on September 30, 2003 and the lawsuit was still pending as of April 20, 2004.

C. The Company has the following lawsuits with other parties which are similar to the above case:

(a) Xin Fa Gas Station appealed to the Court to claim that the compensation made to the Company of NT$610 thousand was illegal. On December 12, 2003, the Court ruled that Xin Fa Gas Station won the case. The Company considered that it was not acceptable and filed an appeal on April 20, 2004.

(b) The Company together with Formosa Oil (Asia Pacific) Corp. sued Ju Rong Fang Co., Ltd. for compensation of NT$3,955 thousand. As of April 20, 2004, the lawsuit was still pending.

(c) The Company sued Xi Yang Yang Gas Station Co., Ltd. for compensation of NT$2,992 thousand, but the Court only allowed a maximum of NT$2,000 thousand. The Company did not agree and filed an appeal in December 2003. The lawsuit was still pending as of April 20, 2004.

D. The Company sued Yong Chun Steel Co., Ltd. and Jiu Yuan Gas Station Co., Ltd. for compensation of NT$3,040 thousand and NT$12,537 thousand, respectively. As of April 20, 2004, the lawsuit was still pending.

E. The Company signed a construction contract with Telesis Technologies Incorporated where Telesis Technologies Incorporated was responsible to design and install the electrical system in the storage tanks area of the Company's oil refinery. Due to extension of the project and increase in manpower, Telesis Technologies Incorporated requested the Company to pay NT$145,302 thousand, but the Company did not agree. On June 18, 2003, Telesis Technologies Incorporated filed to the Court for arbitration. The arbitration process is still in progress.

8. SIGNIFICANT DISASTER LOSSES

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

On April 7, 2004, the Company lodged an application to the SFC for issuing unsecured corporate bonds of NT$5 billion. The application was approved on April 16, 2004 and the bonds are expected to be issued during the period from May 3 to May 14, 2004. On April 20, 2004, the Company lodged another application to the SFC for issuing additional NT$5 billion unsecured corporate bonds.

10. OTHERS

(1) Financial instruments:

A. *Derivative financial instruments:*

(a) For the purpose of financing the import of machinery and equipment, the Company has contracted with Chiao Tung Bank and several other banks for a 15-year syndicated loan of US$1,162 million. The loan would be repaid by twenty-one equal installments. As of December 31, 2000, the syndicated loan was fully drawn down. The first installment of US$56 million was paid on June 10, 2001. The remaining would be repaid every six months with each installment of US$55.3 million. The interest rate is SIBOR plus 0.75%.

(b) In order to hedge against the interest rate and exchange rate risks arising from the above syndicated loan, the Company has entered into interest rate swap, cross-currency swap, forward foreign exchange contracts and non-delivery forward contracts.

(i) *Interest rate swaps (IRS):*

a. As of March 31, 2004, the Company has entered into 59 New Taiwan dollar interest rate swap contracts with Deutsche Bank, Citibank, Bank of Taipei, ABN-AMRO Bank, HSBC, Bank of America, BNP Paribas, Taishin International Bank, Credit Agricole Indosuez, Taipei and Credit Lyonnais so that the interest payment which is calculated by the floating interest rate every three months can be replaced by the fixed interest rate.

(All amounts expressed in thousands of dollars unless otherwise stated)

b. As of March 31, 2004, the details of the outstanding IRS were as follows:

Bank	Notional Principal Amount (NT$)	Balance as of March 31, 2004 (NT$)	Fixed Interest Rate (%)
Deutsche Bank	5,500,000	5,500,000	1.58~3.70
Citibank	6,430,000	6,100,000	3.50~3.70
Bank of Taipei	7,100,000	7,100,000	2.52~3.70
ABN-AMRO Bank	8,500,000	7,692,308	1.99~3.70
HSBC	11,900,000	11,900,000	1.17~2.83
Bank of America	3,000,000	3,000,000	1.42~1.91
BNP Paribas	8,500,000	8,500,000	1.58
Taishin International Bank	5,200,000	5,200,000	1.17~2.28
Credit Agricole Indosuez, Taipei	500,000	500,000	2.15
Credit Lyonnais	2,000,000	2,000,000	1.17
Total	58,630,000	57,492,308	

c. As of March 31, 2004, the total notional principal amount of the New Taiwan dollar IRS contracts entered into by the Company that will become effective during the second quarter of 2004 was NT$7,500,000 thousand.

(ii) *Cross-currency swaps (CCS):*

a. In order to hedge against the risk of fluctuations in interest rates and exchange rates, as of March 31, 2004, the Company has signed 38 CCS contracts with Citibank and the other three banks. The first contract will expire on June 10, 2005, while the others will expire on December 12, 2005. According to the terms of the contracts, the principal amount was not delivered on the contract date. Rather, it is delivered by nine to ten installments (starting from June 11, 2001 and payable every 6 months), and the exchange rate is fixed. In addition, the floating US$ interest payments are also converted into fixed NT$ interest payments. As a result of the above arrangement, the repayment of principal and related interest payments are fixed.

b. As of March 31, 2004, the details of the outstanding CCS were as follows:

Period	Bank	Original Transaction Amount (US$)	Balance as of March 31, 2004 (US$)	Fixed Interest Rate (%)	Fixed Exchange Rate (%)
July 2000~December 2005	BNP Paribas	$ 103,000	$ 38,000	5.80~5.97	30.85~31.691
July 2000~December 2005	Citibank	132,000	46,800	5.85~5.97	30.85~31.89
July 2000~December 2005	ABN-AMRO Bank	131,000	48,000	5.80~5.96	30.85~31.89
July 2000~December 2005	China Trust Commercial Bank	155,000	56,000	5.80~5.97	30.85~31.80
	Total	$ 521,000	$ 188,800		

(All amounts expressed in thousands of dollars unless otherwise stated)

(iii) *Forward foreign exchange contract (FFEC):*

a. In order to hedge against the exchange rate risk, as of March 31, 2004, the Company has signed five FFECs (NT$/US$) with ABN-AMRO Bank and Deutsche Bank. The principal is swapped on the settlement date rather than the contract date.

b. As of March 31, 2004, the details of the outstanding FFEC were as follows:

Period	Bank	Transaction Amount (US$'000)	Fixed Exchange Rate
August 2003~June 2011	ABN-AMRO	$ 130,000	31.59~31.69
January 2003~June 2011	Deutsche	24,000	31.30
	Total	$ 154,000	

(iv) *Non-delivery forward contract (NDF)*

a. In order to hedge against the exchange rate risk, as of March 31, 2004, the Company has signed 15 NDF contracts (NT$/US$) with Deutsche Bank, ABN-AMRO Bank and BNP Paribas. According to the terms of the NDF contracts, no principal is required to be settled. Rather, the contracts are settled on net basis on settlement date.

b. As of March 31, 2004, the details of the outstanding NDF contracts were as follows:

Period	Bank	Transaction Amount (US$)	Balance as of March 31, 2004 (US$)	Fixed Exchange Rate %	Remaining Days for Settlement
August 2003~ June 2007 . .	Deutsche Bank	$ 101,000	$ 61,000	31.3~33.95	184 ~1329 days
August 2003~ March 2004 .	ABN-AMRO Bank	30,000	—	33.205~33.955	184~186 days
August 2003~ March 2004 .	BNP Paribas	143,000	60,000	33.103~33.949	184~188 days
	Total	$ 274,000	$ 121,000		

(c) The details of gains or losses arising from the above transactions are as follows:

(i) *Interest rate swaps:*

a. The above IRS and CCS contracts are settled based on the six-month LIBOR. The gains or losses are recorded in the income statement based on the net amount of interest received or paid.

(All amounts expressed in thousands of dollars unless otherwise stated)

b. The details of net interest income (expense) resulting from the interest rate swap contracts for the three months ended March 31, 2004 are as follows:

		Three Months Ended March 31, 2004
NT$ interest rate swaps	NT$	(148,232)
Cross-currency swaps		(66,544)
	NT$	(214,776)

(ii) Exchange rate swaps:

a. The above CCS, NDF and FFEC transactions are accounted for in accordance with the ROC SFAS No. 14, "Accounting for Foreign Currency Transactions and Translation of Foreign Financial Statements". They are recorded at the spot rate at the contract date. The difference between the spot rate and the contracted rate is amortized over the contract period. At the balance sheet date, they are translated using the spot rate prevailing on that date. The resulting exchange gains or losses are credited to or charged against the current income. On the settlement date, the exchange differences are credited to or charged against the current income.

b. For the three months ended March 31, 2004, the exchange gains or losses arising from the above transactions are as follows:

Types of Transactions	Gain or (Loss) on Settlement (NT$'000)	Gain (Loss) arising from Balance Sheet Date Valuation (NT$'000)	Amortization (NT$'000)	Total (NT$'000)
CCS	$ —	$ (180,870)	$ 11,981	$ (168,889)
NDF	(101,535)	(115,918)	76,532	(140,921)
FFEC	—	(147,532)	22,162	(125,370)
	$ (101,535)	$ (444,320)	$ 110,675	$ (435,180)

(d) As a result of the above IRS and CCS transactions, the interest rate related to the above long-term syndicated loan is fixed in the range of 1.17% to 5.97%. Accordingly, the fluctuations in market interest rates have limited downside risk on the Company. In addition, the counter parties are all famous domestic and international banks so the credit risk is remote.

B. ***Derivative financial instruments — commodity swaps***

(a) As of March 31, 2004, the Company has signed 25 oil swap contracts to hedge against its exposures to oil prices. The oil swap contracts entered into by the Company are highly correlated with the price movements of the hedged items and periodic reviews are conducted on the swap contracts undertaken. The Company has not entered into any oil swap contracts for purposes other than hedging.

(All amounts expressed in thousands of dollars unless otherwise stated)

(b) As of March 31, 2004, the outstanding swap contracts were as follows:

Type of Transaction	Notional Quantity (unit: 1,000 bbls)	Pricing Period	Fixed Price (USD/per barrel)
Gasoil/Dubai Crack SWAP.	500	April 1, 2004~June 30, 2004	5.75~6.25
Dubai Outright SWAP	1,050	April and May, 2004	28.50~31.05

(c) The risk arising from the fluctuations in contract prices and that arising from the fluctuations in spot market prices are offset against each other. The Company's working capital is expected to be adequate to support its future cash requirement. In addition, the counter parties are all reputable international financial institutions or oil traders with good credit ratings. Thus, credit risk is assessed to be remote.

(2) Non-derivative financial instruments:

As of March 31, 2004, the fair values of non-derivative financial instruments approximated to their book values, except that the fair values of short-term investments (book value: NT$13,590,434 thousand) and long-term investments (book value: NT$13,763,346 thousand) were estimated to be NT$13,949,397 thousand and NT$14,229,911 thousand, respectively.

<u>English Translation of a Report Originally Issued in Chinese</u>

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Formosa Petrochemical Corporation

We have audited the accompanying balance sheets of Formosa Petrochemical Corporation (the Company) as of December 31, 2001, 2002 and 2003 and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, the financial position of Formosa Petrochemical Corporation as of December 31, 2001, 2002 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with the "Regulation Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the Republic of China on Taiwan.

Starting from the year ended December 31, 2002, the Company's accounting method of inventories (raw materials, work-in-process and finished goods) have been changed from the weighted average basis to the Last-in First-out (LIFO) basis. As a result of this change in accounting method, both the Company's inventory value as of December 31, 2002 and income before tax for the year then ended were reduced by NT$2,735,549 thousand, which accounted for 0.88% of total assets and 1.61% of net sales.

The accompanying financial statements as of and for the year ended December 31, 2003, have been translated into United States dollars solely for the convenience of the readers. We have reviewed the translation, and in our opinion, the financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in Note 2.(16) to the financial statements.

Diwan, Ernst & Young
Taipei, Taiwan
Republic of China

February 5, 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 on Taiwan 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 on Taiwan.

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA PETROCHEMICAL CORPORATION

BALANCE SHEETS
DECEMBER 31, 2001, 2002 AND 2003
(Expressed in Thousands of Dollars)

ASSETS	Notes	New Taiwan Dollars 2001	2002	2003	US Dollars 2003 (Unaudited & Note 2)
CURRENT ASSETS					
Cash and cash equivalents	2 & 4.(1)	$ 327,693	$ 836,573	$ 658,825	$ 19,383
Short-term investments, net	2 & 4.(2)	45,307	545,307	9,333,548	274,597
Notes receivable (less allowances for doubtful accounts of NT$52 thousand, NT$19,446 thousand and NT$20,640 thousand on December 31, 2001, 2002 and 2003, respectively)	2 & 4.(3)	5,173	1,925,100	2,043,342	60,116
Accounts receivable (less allowances for doubtful accounts of NT$47,852 thousand, NT$87,695 thousand and NT$87,264 thousand on December 31, 2001, 2002 and 2003, respectively)	2 & 4.(3)	4,349,983	8,576,739	14,346,670	422,085
Accounts receivable from related parties	2 & 4.(3)	4,538,945	8,152,950	10,661,788	313,674
Other receivables	2 & 4.(4)	1,253,459	2,780,121	2,771,663	81,544
Other receivables from related parties	2 & 4.(4)	2,835,765	957,679	630,649	18,554
Other financial assets — current	2 & 4.(4)	258,064	988,278	277,421	8,162
Inventories, net	2 & 4.(5)	22,590,329	26,779,557	29,676,441	873,093
Prepayments	2 & 4.(6)	1,623,291	1,555,128	1,735,276	51,053
Other current assets	2 & 4.(22)	1,435,856	3,077,484	4,164,437	122,519
Total current assets		39,263,865	56,174,916	76,300,060	2,244,780
LONG-TERM INVESTMENTS					
Long-term equity investments	2 & 4.(7)	12,343,690	12,661,229	13,430,598	395,134
Other financial assets — non-current	2 & 4.(7)	1,095,658	595,618	259,053	7,621
		13,439,348	13,256,847	13,689,651	402,755
PROPERTY, PLANT AND EQUIPMENT	2 & 4.(8)				
Land		850,694	1,598,217	1,592,178	46,843
Buildings		21,945,246	27,518,964	28,727,563	845,177
Machinery and equipment		156,368,472	186,583,636	195,511,888	5,752,041
Transportation equipment		235,068	234,075	256,166	7,536
Furniture and fixtures		719,120	786,108	834,513	24,552
Total cost		180,118,600	216,721,000	226,922,308	6,676,149
Less: Accumulated depreciation		(10,631,275)	(18,017,127)	(26,996,116)	(794,237)
Construction in progress		30,985,297	10,813,472	5,654,336	166,353
Prepayments on purchase of equipment and land		24,584,607	20,570,459	20,845,111	613,272
		225,057,229	230,087,804	226,425,639	6,661,537
OTHER ASSETS					
Property held for leasing, net	4.(9)	121,420	—	113,028	3,325
Idle assets, net	4.(9)	1,129,249	1,402,687	1,224,093	36,013
Refundable deposits		16,608	14,197	75,965	2,235
Deferred expenses	4.(10)	4,036,811	4,265,029	4,487,090	132,012
Deferred income tax assets	2 & 4.(22)	5,187,020	6,399,349	5,448,043	160,284
Other miscellaneous assets	4.(9)	515,873	410,277	404,467	11,900
Total other assets		11,006,981	12,491,539	11,752,686	345,769
TOTAL ASSETS		$ 288,767,423	$ 312,011,106	$ 328,168,036	$ 9,654,841

(Continued)

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

FORMOSA PETROCHEMICAL CORPORATION

BALANCE SHEETS — (Continued)
DECEMBER 31, 2001, 2002 AND 2003
(Expressed in Thousands of Dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	Notes	New Taiwan Dollars 2001	New Taiwan Dollars 2002	New Taiwan Dollars 2003	US Dollars 2003 (Unaudited & Note 2)
CURRENT LIABILITIES					
Short-term loans	4.(11)	$ 19,755,030	$ 21,930,029	$ 22,841,321	$ 672,001
Commercial paper payable	4.(12)	99,688	399,878	—	—
Notes payable		—	—	47,490	1,397
Accounts payable	4.(13)A	2,864,940	7,992,578	7,977,367	234,697
Accounts payable to related parties	4.(13)B	429,337	649,421	857,894	25,240
Accrued expenses	4.(14)	5,366,358	5,581,121	6,407,452	188,510
Other payables to related parties	4.(15)	611,784	246,361	380,334	11,190
Other payables	2 & 4.(15)	2,253,808	1,168,269	610,846	17,971
Revenues received in advance		163,676	102,021	120,391	3,542
Current portion of long-term debts	4.(17)	7,404,409	10,367,202	30,941,583	910,314
Other current liabilities		23,355	25,790	50,636	1,490
Due to affiliates	5	—	593,000	3,054,700	89,871
Total current liabilities		38,972,385	49,055,670	73,290,014	2,156,223
LONG-TERM LIABILITIES					
Bonds payable	4.(16)	32,900,000	37,200,000	35,500,000	1,044,425
Long-term loans	4.(17)	98,276,190	95,460,723	40,464,864	1,190,493
Long-term notes payable	4.(17)	408,000	357,000	37,876,716	1,114,349
Total long-term liabilities		131,584,190	133,017,723	113,841,580	3,349,267
OTHER LIABILITIES					
Accrued pension liability	2 & 4.(18)	300,321	408,796	578,808	17,029
Guarantee deposits received		24,238	1,841	2,122	62
Other miscellaneous liabilities		38,991	250,337	675,074	19,861
Total other liabilities		363,550	660,974	1,256,004	36,952
Total liabilities		170,920,125	182,734,367	188,387,598	5,542,442
STOCKHOLDERS' EQUITY					
Capital stock	4.(19)				
Common stock		70,000,000	70,000,000	78,400,000	2,306,561
Capital surplus	4.(20)				
Additional paid-in capital		35,000,000	35,000,000	28,000,000	823,772
Gain on disposal of assets		176,539	—	—	—
Long-term investments		62,715	36	36	1
Retained earnings	4.(21)				
Legal reserve		931,132	1,337,044	2,479,992	72,962
Special reserve		5,068,364	7,500,683	10,326,297	303,804
Unappropriated earnings		6,608,548	15,438,976	20,574,113	605,299
Total stockholders' equity		117,847,298	129,276,739	139,780,438	4,112,399
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		$ 288,767,423	$ 312,011,106	$ 328,168,036	$ 9,654,841

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

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA PETROCHEMICAL CORPORATION

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(Expressed in Thousands of Dollars, Except for Earnings per Share)

	Notes	New Taiwan Dollars 2001	New Taiwan Dollars 2002	New Taiwan Dollars 2003	US Dollars 2003 (Unaudited & Note 2)
OPERATING REVENUES	5	$ 128,599,702	$ 169,389,585	$ 236,520,163	$ 6,958,522
OPERATING COSTS	5	(115,294,084)	(153,305,485)	(208,253,378)	(6,126,901)
GROSS PROFIT		13,305,618	16,084,100	28,266,785	831,621
OPERATING EXPENSES:					
Selling and marketing		2,883,484	3,397,239	4,254,114	125,158
General and administrative		1,607,885	1,727,486	2,358,377	69,384
Research and development		5,234	1,686	11,310	333
Total operating expenses		4,496,603	5,126,411	6,623,801	194,875
OPERATING INCOME		8,809,015	10,957,689	21,642,984	636,746
NON-OPERATING INCOME:					
Interest income		640,315	95,611	126,253	3,715
Investment income under equity method		991,343	958,055	1,286,719	37,856
Dividend income		6,496	10,859	5,550	163
Gain on disposal of property, plant and equipment	2	4,416	—	1,031	30
Gain on disposal of investments	2	8,211	—	7,452	219
Gain on physical inventory			190,443	420,868	12,382
Foreign exchange gain	2	—	739,574	919,310	27,047
Rental income		9,640	85	152,515	4,487
Gain from price recovery of inventories		—	768,791	—	—
Others		1,370,691	1,205,528	637,415	18,753
Total non-operating income		3,031,112	3,968,946	3,557,113	104,652
NON-OPERATING EXPENSES:					
Interest expense		5,970,589	5,129,402	4,859,363	142,965
Loss on disposal of property, plant and equipment		307	2,303	6,368	187
Loss on physical inventory		4,596	—	—	—
Foreign exchange loss		2,763,030	—	—	—
Provision for inventory loss		768,791	—	—	—
Financial expense		212,347	242,967	259,107	7,623
Others		526,517	936,338	1,284,276	37,784
Total non-operating expenses		10,246,177	6,311,010	6,409,114	188,559
INCOME BEFORE INCOME TAX		1,593,950	8,615,625	18,790,983	552,839
INCOME TAX BENEFIT	2 & 4.(22)	2,288,633	2,813,854	143,913	4,234
NET INCOME		$ 3,882,583	$ 11,429,479	$ 18,934,896	$ 557,073
EARNINGS PER SHARE					
Income before income tax		$ 0.23	$ 1.10	$ 2.40	$ 0.07
Income tax benefit		0.32	0.36	0.02	—
Net Income		$ 0.55	$ 1.46	$ 2.42	$ 0.07

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

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA PETROCHEMICAL CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(Expressed in Thousands of Dollars)

	Common Stock	Capital Surplus	Retained Earnings: Legal Reserve	Retained Earnings: Special Reserve	Retained Earnings: Unappropriated Earnings	Cumulative Translation Adjustments	Stockholders' Equity
New Taiwan Dollars							
Balance at January 1, 2001	$ 60,000,000	$ 25,179,802	$ 127,553	$ 621,932	$ 8,035,794	$ 9,326	$ 93,974,407
Issuance of common stock	10,000,000						10,000,000
Premium of common stock issued		10,000,000					10,000,000
Appropriation of 2000 earnings:							
Legal reserve			803,579		(803,579)		—
Special reserve				4,446,432	(4,446,432)		—
Adjustment to reflect investees' transfer of gain on disposal of property, plant and equipment to capital surplus		59,452			(59,452)		—
Corresponding entry to reflect investees' prior year adjustment to retained earnings					(366)		(366)
Net income for 2001					3,882,583		3,882,583
Cumulative translation adjustment related to disposal of investees						(9,326)	(9,326)
Balance at December 31, 2001	70,000,000	35,239,254	931,132	5,068,364	6,608,548	—	117,847,298
Appropriation of 2001 earnings:							
Legal reserve			405,912		(405,912)		—
Special reserve				2,432,319	(2,432,319)		—
Transfer of capital surplus arising from gain on disposal of property, plant and equipment to retained earnings		(176,539)			176,539		—
Adjustments to reflect investees' transfer of capital surplus arising from gain on disposal of property, plant and equipment to retained earnings		(62,679)			62,679		—
Corresponding entry to reflect investees' prior year adjustment to retained earnings					(38)		(38)
Net income for 2002					11,429,479		11,429,479
Balance at December 31, 2002	$ 70,000,000	$ 35,000,036	$ 1,337,044	$ 7,500,683	$ 15,438,976	$ —	$ 129,276,739

(Continued)

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

FORMOSA PETROCHEMICAL CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (Continued) FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003 (Expressed in Thousands of Dollars)

			Retained Earnings				
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Stockholders' Equity
New Taiwan Dollars							
Balance at January 1, 2003	$ 70,000,000	$ 35,000,036	$ 1,337,044	$ 7,500,683	$ 15,438,976	$ —	$ 129,276,739
Appropriation of 2002 earnings:							
Legal reserve			1,142,948		(1,142,948)		—
Special reserve				2,825,614	(2,825,614)		—
Cash dividends					(8,400,000)		(8,400,000)
Stock dividends	1,400,000				(1,400,000)		—
Remuneration paid to directors and supervisors					(28,311)		(28,311)
Employees' bonuses					(2,831)		(2,831)
Capitalization of capital surplus	7,000,000	(7,000,000)					—
Corresponding entry to reflect investees' prior year adjustment to retained earnings					(55)		(55)
Net income for 2003					18,934,896		18,934,896
Balance at December 31, 2003	$ 78,400,000	$ 28,000,036	$ 2,479,992	$ 10,326,297	$ 20,574,113	$ —	$ 139,780,438
US Dollars (Unaudited and Note 2)							
Balance at January 1, 2003	$ 2,059,429	$ 1,029,716	$ 39,336	$ 220,673	$ 454,222	$ —	$ 3,803,376
Appropriation of 2002 earnings:							
Legal reserve			33,626		(33,626)		—
Special reserve				83,131	(83,131)		—
Cash dividends					(247,132)		(247,132)
Stock dividends	41,189				(41,189)		—
Remuneration paid to directors and supervisors					(833)		(833)
Employee's bonuses					(83)		(83)
Capitalization of capital surplus	205,943	(205,943)			—		—
Corresponding entry to reflect investees' prior year adjustment to retained earnings					(2)		(2)
Net income for 2003					557,073		557,073
Balance at December 31, 2003	$ 2,306,561	$ 823,773	$ 72,962	$ 303,804	$ 605,299	$ —	$ 4,112,399

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

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA PETROCHEMICAL CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(Expressed in Thousands of Dollars)

	New Taiwan Dollars			US Dollars
	2001	2002	2003	2003
				(Unaudited & Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 3,882,583	$ 11,429,479	$ 18,934,896	$ 557,073
Adjustments to reconcile net income to				
Investment income under equity method	(419,175)	(315,293)	(526,049)	(15,477)
Gain on disposal of property, plant and equipment	—	2,303	6,368	187
Loss on disposal of property, plant and equipment	(6)	—	(1,031)	(30)
Property, plant and equipment written off	—	—	43,548	1,281
Depreciation	5,784,011	7,501,162	8,853,284	260,467
Inventory loss on obsolescence	307	—	1,769	52
Amortization	1,495,410	1,931,607	1,878,966	55,280
Gain on disposal of long-term investments	(8,211)	—	—	—
Effect of change in exchange rate	1,462,028	(724,508)	(386,324)	(11,366)
Decrease (increase) in notes receivable	25,737	(1,919,927)	(118,241)	(3,479)
Decrease (increase) in accounts receivable (including related parties)	(1,550,353)	(7,842,539)	(8,282,637)	(243,679)
Decrease (increase) in other receivables (including related parties)	500,725	1,229,796	(103,267)	(3,038)
Decrease (increase) in inventories	(5,428,980)	(4,189,227)	(2,896,884)	(85,228)
Decrease (increase) in prepayments	(96,587)	68,162	(180,148)	(5,300)
Decrease (increase) in other current assets	3,678	(40,104)	8,860	262
Increase (decrease) in accounts payable (including related parties)	(2,314,861)	5,360,815	191,672	5,639
Increase (decrease) in notes payable	—	—	47,490	1,397
Increase (decrease) in accrued expenses	1,567,544	214,763	826,330	24,311
Increase (decrease) in revenues received in advance	10,414	(61,655)	18,370	540
Increase in accrued pension liability	98,896	108,475	170,013	5,002
Increase in deferred income tax assets/liabilities	(2,289,551)	(2,813,854)	(144,508)	(4,251)
Net cash provided by operating activities	2,723,609	9,939,455	18,342,477	539,643
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in short-term investments	$ —	$ (500,000)	$ (8,788,241)	$ (258,554)
Decrease (increase) in due from affiliates	(3,317,187)	(878,372)	438,755	12,908
Proceeds from disposal of long-term investments	206,925	—	—	—
Decrease (increase) in long-term investments	(1,750,964)	(2,283)	(243,375)	(7,160)
Decrease (increase) in other financial assets	(16,784)	(92,929)	564,938	16,621
Proceeds from disposal of property, plant and equipment	448	985,336	21,260	626
Acquisition of property, plant and equipment	(15,610,886)	(13,421,573)	(5,197,466)	(152,912)
Decrease (increase) in deferred expenses	(2,183,720)	(2,159,825)	(2,101,027)	(61,813)
Decrease (increase) in refundable deposits	61,345	2,411	(61,768)	(1,817)
Decrease (increase) in other miscellaneous assets	(27,632)	(144,225)	5,810	171
Net cash used in investing activities	$ (22,638,455)	$ (16,211,460)	$ (15,361,114)	$ (451,930)

(Continued)

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA PETROCHEMICAL CORPORATION

STATEMENTS OF CASH FLOWS — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(Expressed in Thousands of Dollars)

	New Taiwan Dollars			US Dollars
	2001	2002	2003	2003
				(Unaudited & Note 2)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in short-term loans	$ (831,024)	$ 1,976,007	$ 980,992	$ 28,861
Decrease in notes payable due to repayment of current portion of long-term loans	(51,000)	(51,000)	(3,048,458)	(89,687)
Increase (decrease) in commercial paper payable	(100,180)	300,190	(399,878)	(11,765)
Increase (decrease) in due to affiliates	(21,802,200)	593,000	2,461,700	72,424
Decrease in other payables	(478,704)	(1,460,971)	(453,493)	(13,342)
Increase (decrease) in other current liabilities	(72,709)	2,434	24,846	732
Increase (decrease) in guarantee deposits received	23,441	(22,397)	280	—
Increase (decrease) in other miscellaneous liabilities	(3,798)	211,346	424,737	12,496
Increase in bonds payable	14,200,000	4,300,000	17,000,000	500,147
Repayment of current portion of long-term debts	(5,000,123)	(6,814,438)	(15,271,233)	(449,286)
Increase in long-term loans	5,475,578	7,732,000	3,500,000	102,972
Issuance of common stock	10,000,000	—	—	—
Additional paid-in capital	10,000,000	—	—	—
Payment of cash dividends	—	—	(8,400,000)	(247,132)
Payment of directors' and supervisors' remuneration and employees' bonuses	—	—	(1,100)	(32)
Net cash provided by (used in) financing activities	11,359,281	6,766,171	(3,181,607)	(93,604)
Effect of changes in exchange rates	8,778	14,714	22,496	662
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,546,787)	508,880	(177,748)	(5,229)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,874,480	327,693	836,573	24,612
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 327,693	$ 836,573	$ 658,825	$ 19,383
SUPPLEMENTAL INFORMATION:				
Interest paid (excluding capitalized interest)	$ 5,525,943	$ 5,384,279	$ 4,888,923	$ 143,834
Income tax paid (refunded)	$ 52,834	$ 2,212	$ (53,106)	$ (1,562)
INVESTING AND FINANCING ACTIVITIES NOT AFFECTING CASH FLOWS:				
Transfer of long-term loans due within one year to current liabilities	$ 6,708,683	$ 9,777,231	$ 9,045,719	$ 266,129
Long-term notes payable transferred to short-term notes payable	$ 51,000	$ 51,000	$ 3,048,353	$ 89,684
Long-term bonds payable within one year transferred to current liabilities	$ —	$ —	$ 18,700,000	$ 550,162
Issuance of long-term notes to repay long-term loans	$ —	$ —	$ 40,568,069	$ 1,193,530
Issuance of short-term notes to repay debts due within one year	$ —	$ —	$ 5,994,811	$ 176,370
Accrued directors' and supervisors' remuneration and employees' bonuses	$ —	$ —	$ 30,042	$ 884

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

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA PETROCHEMICAL CORPORATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001, 2002 AND 2003
(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

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.

1. ORGANIZATION AND OPERATIONS

Formosa Petrochemical Corporation (the Company) was incorporated on April 6, 1992. As of December 31, 2002, the capital stock was NT$70,000,000 thousand, divided into 7,000,000,000 shares at NT$10 par value each. In the 2003 annual stockholders' meeting, the stockholders resolved to increase capital by NT$8,400,000 thousand through capitalization of unappropriated earnings and capital surplus in the amount of NT$1,400,000 thousand and NT$7,000,000 thousand, respectively. After the above capital increase, the Company's capital stock amounted to NT$78,400,000 thousand, divided into 7,840,000,000 shares at NT$10 par value each. All the above shares are issued to the public.

The principal activities of the Company include the following:

1. Operation of refinery and integrated manufacture of hydrocarbon.

2. Involvement in export/import, marketing, storage and pipeline transport of crude oil, natural gasoline, naphtha, propane, other feedstocks and intermediate products for naphtha cracking and refinery.

3. Operation of export/import, marketing, and storage and pipeline transport of petrochemical products — ethylene, propylene, other pyrolysis and petroleum products.

4. Construction of co-generation plants to provide steam and electricity in industrial site.

5. Production and sales of nitrogen, oxygen, compressed air, industrial water, ultra-pure water in industrial site.

6. Export/import of liquefied petroleum gas and petroleum products.

7. Export/import of coal.

8. Governmental commission development of industrial site and administration of relating lease and business activities.

9. Quarrying of soil, sand and gravel.

The Company's shares were approved to be listed on the Taiwan Stock Exchange on November 12, 2003 and were traded publicly starting from December 26, 2003.

As of December 31, 2002 and 2003, the number of employees of the Company was 3,076 and 3,129, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in accordance with "Regulation Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the Republic of China on Taiwan. Significant accounting policies are summarized as follows:

(1) Cash equivalents

The Company considers all highly liquid investments that are readily convertible to cash with insignificant interest risk with an original maturity period of three months or less when purchased to be cash equivalents.

(2) Short-term investments

Short-term investments are stated at the lower of aggregate cost or market value. Aggregate cost is determined by the weighted-average method. Market value is determined by averaging the closing price of the last month of the accounting period. Losses resulting from the decline in market value are recognized in the income statement of the period. Stock dividends received are not recognized as investment income but accounted for as an increase in the number of shares held. The cost per share after receiving the stock dividends is recalculated using the weighted-average method.

(3) Allowances for doubtful accounts

The allowance for doubtful accounts is provided based on history of bad debts, aging report and evaluation of the collectibility of notes and accounts receivable.

(4) Inventories

A. *2002 and 2003*

Raw materials, work in process and finished goods are valued by the Last-in First-out method. Supplies are evaluated by the weighted-average method. On the closing date, aggregate inventories item are valued by the lower-of-cost-or-market (LCM) method. The comparison of cost and market value is based on aggregate cost while the replacement price is considered as market value.

B. *2001*

Inventories are stated at the lower of aggregate cost and market value at the balance sheet date. Cost is computed with the weighted average method. Market value is determined based on the replacement cost of raw materials and supplies, or net realizable value of work in process and finished goods.

(5) Long-term equity investments

Long-term investments in listed equity securities that represent less than 20% of the investee's common stock ownership, and where the Company does not have significant influence on the investees, are stated at the lower of cost or market value. Unrealized loss resulting from decline in market value thereon is recorded as a reduction in stockholders' equity. Long-term investments in non-listed equity securities are stated at cost. When there is evidence showing that a decline in the market value of such an investment is other than temporary and the probability of recovery is considered remote, the carrying value of the investments is reduced to reflect the market value and the resulting loss is recognized in the period of such a reduction. Stock dividends are not recognized as investment income but are booked as an increase in the number of shares held. The cost of long-term equity investments sold is calculated based on the weighted-average method.

Investments where the percentage of ownership exceeds 20%, or where the Company has significant influence on the operating and financial policies of the investee companies, are accounted for by the equity method. The difference between the cost of an investment and the amount of underlying equity in net assets of an investee is amortized by using the straight-line method over five years and the amortized amount will be recorded as investment loss or income.

If the Company's ownership in investees is less than 50% and the financial statements of the investees are not available in the current fiscal year, the Company will recognize its equity in the net earnings or losses of those investee companies in the following year, based on the Company's average holding percentage in such investee companies during the preceding period. However, if the following criteria are met, then the Company is required to recognize its equity in the earnings and losses of the investee companies in current year.

(i) The beginning owners' equity of such an investee is in excess of NT$50,000 thousand, and is in excess of 5% of the Company's beginning issued share capital.

(ii) The Company is among the top three stockholders in terms of the holding percentage of such an investee, or the president or general manager of such an investee is nominated by the Company.

(iii) The Company owns more than 30% of such investee, or the combined equity ownership in such investee as held by the Company, the Company's directors, supervisors, executive officers, and other entities controlled directly or indirectly by the Company is in excess of 50%.

When the Company owns more than 50% of an investee's common stock, the investee is treated as a subsidiary and included in the consolidated financial statements. However, if both the subsidiary's total assets and operating revenue are below 10% of the Company's respective account balances, consolidated financial statements are not required. Nevertheless, if the total assets and operating revenues of all unconsolidated subsidiaries are over 30% of the Company's respective account balances, consolidation is still required for any subsidiaries whose total assets and operating revenue are more than 3% of the Company's respective account balances. Such subsidiaries are included in the consolidated financial statements until the percentage decreases to 20% or less.

Under the cost method, if the Company's long-term investment is in foreign currency, then the investees' financial statements should be translated using the exchange rate ruling at the balance sheet date. After translation, if they are lower than the cost of investment, then the difference should be classified as "cumulative translation adjustment" and shown under stockholders' equity. However, under the equity method, the difference should be classified as "cumulative translation adjustment" and shown under stockholders' equity, regardless of whether the translated amounts are lower or higher than the cost of investment.

(6) Property, plant and equipment

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized, while ordinary maintenances and repairs are expensed as incurred. Interest expenses incurred in the period when such fixed assets are in construction or installation are capitalized. Depreciation is provided on the straight-line basis using the economic service lives of the assets less any salvage value. When the economic service lives are completed, property, plant and equipment, which are still in use, are depreciated over the newly estimated remaining useful lives of the salvage value. When property, plant and equipment are disposed of, their original cost and accumulated depreciation are written off and the related gains or losses are included in the income statement.

(7) Deferred expenses

A. *Organization costs*

Organization costs are costs incurred during the development stage of the business and are amortized over five years from the inception date of the business. According to the ROC Statement of Financial Accounting Standards (SFAS) No. 19, "Development Stage Accounting", which was amended in 2002, the net balance of organization costs was expensed in that year.

B. *Intellectual property and technology license fees*

These represented payments made for assignment of rights regarding intellectual property and technology contracts which were originally signed by Formosa Plastics Corp. with Dawoo Corp., Korea, Daelin, Stone & Weber US, Fujitsu Japan. In addition, these also included the payments made regarding the contracts signed with Chevron, Lummus, Prichard, Merichem, and Fu-Tai Engineering Co., Ltd. The above fees paid are amortized on a straight-line basis over five years from the inception of operation.

C. *Unamortized expenses*

(a) The payment made to Taiwan Power Company for the construction of the No. 6 Naphtha Cracking Project was amortized on a straight-line basis over five years.

(b) The expenses of the investigations on air and noise pollutions and vibration for the No. 6 Naphtha Cracking Project were amortized over five years from the inception date of the Company.

(c) The catalyst for the operations was amortized on a straight-line basis over the life of the catalyst.

(d) The annual repair expense of the No. 6 Naphtha Cracking Project District was amortized on a straight-line basis over its useful life.

(e) The expenses incurred on the syndicated loan for the expansion of the No. 6 Naphtha Cracking Project was amortized on a straight-line basis over ten years.

D. *Bonds issuance costs*

The bonds issuance costs are amortized on a straight-line basis over five years.

(8) Commercial paper payable

Commercial paper payable is stated at the present value. The discount on commercial paper payable is accounted for in the contra account of commercial paper payable.

(9) Pensions

The Company established a pension fund for its employees. The pension fund is paid according to the base calculated by the number of years of service as well as the average salary six months before the retirement. For the first fifteen years, the employees can get two points for each year of service. Starting from the sixteenth year, one point is rewarded for each additional year.

The Company makes monthly contributions to the pension fund at 2% of the total monthly salaries and wages as required by the Labor Standards Laws. Assets of the fund are deposited with the Central Trust of China, a government entity.

The Company adopted the ROC SFAS No.18, “Accounting for Pensions”. At the balance sheet date, the pension liability is accrued when the accumulated benefit obligation is greater than the fair value of the plan assets.

(10) Income tax

Provision for income tax includes deferred tax resulting from temporary differences and investment tax credits. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements using enacted tax rates and laws that will be in effect when the difference is expected to reverse.

Under the accounting principles generally accepted in the Republic of China on Taiwan, the Company's income tax expense is recorded based on calculations using the statutory tax rate of each entity's jurisdiction of incorporation. The Company's deferred tax assets relate principally to income tax credits that expire between 2004 and 2006. The realization of these assets is based upon estimates of future taxable income. In preparing estimates of future taxable income, the Company has used the same assumptions and projections utilized in its internal forecasts. Based on these projections, the Company estimates that a portion, but not all, of these tax credits will be fully utilized prior to their expiration. The Company expects to achieve future earnings through the expansion of its businesses. However, the Company may not be able to generate sufficient additional income to fully utilize its deferred tax assets. In particular, an additional valuation allowance may be required to the extent the Company is not able to fully utilize its deferred tax assets.

Income taxes (10%) on unappropriated earnings generated after January 1, 1998 are recorded as expense in the year when the stockholders resolve that the earnings shall be retained.

(11) Foreign currency transactions

The transaction involving non-forward foreign currency exchange is recorded at the exchange rate prevailing at the date of transaction. Assets and liabilities of foreign currency are computed at the spot exchange rate of the balance sheet date. The resulting exchange difference is accounted for as exchange gain or loss of the current accounting period. Exchange difference arising from foreign currency assets and liabilities is also credited or charged to current income.

(12) Derivative financial instruments

A. ***Interest rate swaps (IRS):***

Interest rate swap contracts undertaken for hedging purposes are recorded in the memorandum account at the contract date. At the balance sheet date, the difference between the fixed interest rate and floating interest rate is credited to or charged against current year income. In addition, when the contract expires and delivery is made, the actual amount received or paid will be credited to or charged against current year income.

B. ***Cross-currency swaps (CCS):***

On the contract date, the difference between the contracted exchange rate and the spot exchange rate is calculated and is amortized over the contract period. At the balance sheet date, the difference between the fixed interest rate and floating interest rate and the difference between the contracted exchange rate and spot exchange rate, are credited to or charged against current year income. In addition, when the contract expires and delivery is made, the actual amount received or paid will be credited to or charged against current year income.

C. ***Forward foreign exchange contracts (FFEC):***

FFECs undertaken for hedging purposes are recorded at the spot rate on the contract date and the difference between the spot rate and the forward rate is amortized over the contract period. At the balance sheet date, it is adjusted using the spot rate on that date and the resulting difference is credited to or charged against current year income. Upon settlement of the contract, the resulting exchange difference will be credited to or charged against current year income.

D. ***Non-delivery forwards (NDF):***

Since no principal amounts are exchanged upon settlement of NDFs, they are accounted for using the same basis as FFEC.

(13) Earnings per share (EPS)

The basic EPS of common stock is computed using the weighted-average number of common shares outstanding during the period. The increase in the number of shares due to capitalization of retained earnings and capital surplus is adjusted retroactively.

(14) Revenue recognition

Revenue is recognized when title to the products and risk of ownership are transferred to the customers and revenue is realized or realizable.

(15) Differentiation between capital expenditure and revenue expenditure

Material expenditures which have economic benefits over two years are capitalized. The others are expensed as incurred.

(16) Convenience translation into US dollars

The financial statements are stated in New Taiwan dollars. Translations of the 2003 New Taiwan dollar amounts into US dollar amounts are included solely for the convenience of the readers, using the noon buying rate from the Federal Reserve Bank of New York on December

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31, 2003, of NT$33.99 to US$1. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be converted into US dollars at this rate or any other rate of exchange.

3. CHANGES IN ACCOUNTING PRINCIPLES

(1) Effective from 2002, the Company changed the valuation method of raw materials, work-in-process and finished goods from the weight-average method to the Last-in, First-out (LIFO) method in order to fulfill the needs of the Company in the petroleum oil industry. As a result of this change in accounting method, both the Company's inventory value as of December 31, 2002 and income before tax for the year then ended were reduced by NT$2,735,549 thousand, which accounted for 0.88% of total assets and 1.61% of net sales.

(2) According to the amended ROC SFAS No.1, the restriction of using the lower-of-cost-or market-value (LCM) method in valuation of inventories on LIFO basis has been removed. Effective from 2003, while the Company adopted the LIFO method to value the raw materials, work-in-process and finished goods, it also used the LCM method to value the above ending inventories as at December 31, 2003. The above change did not result in changes in the value of ending inventories and income before tax.

4. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Cash on hand and petty cash	$ 582	$ 285	$ 586	$ 17
Cash in banks	327,111	836,288	458,239	13,482
Time deposits	—	—	200,000	5,884
Total	$ 327,693	$ 836,573	$ 658,825	$ 19,383

(a) For the year ended December 31, 2003, the interest rates for the time deposits ranged from 1.2% to 1.4%.

(b) The above assets have not been pledged for any loans.

(2) Short-term investments

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Listed securities	$ 45,307	$ 45,307	$ 45,307	$ 1,333
Mutual funds	—	500,000	9,288,241	273,264
Less: Allowance for loss on decline in market value	—	—	—	—
Short-term investments, net	$ 45,307	$ 545,307	$ 9,333,548	$ 274,597
Market value	$ 63,792	$ 590,737	$ 9,596,140	$ 282,322

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A. On August 7, 2002, part of the above listed securities (1,140 thousand shares of Nan Ya Plastics Corp.) was used to serve as guarantee for a lawsuit. In addition, part of the above listed securities (1,746 thousand shares of Nan Ya Plastics Corp. and 36 thousand shares of Formosa Chemical and Fiber Corp.) was pledged to banks and served as securities for bank loans. (Please refer to Note 6.(2) and 7.(6))

B. Except for the above-mentioned shares, the others have not been pledged for any loans.

(3) Allowance for doubtful accounts

As of December 31, 2001, 2002 and 2003, the allowance for doubtful accounts was NT$47,905 thousand, NT$107,140 thousand and NT$107,903 thousand, respectively. The accounts receivable, notes receivable and accounts receivable from related parties were stated after netting of the allowance for doubtful accounts. The details are as follows:

		New Taiwan Dollars			US Dollars
		December 31			December 31
		2001	2002	2003	2003
(a)	Notes receivable	$ 4,580	$ 1,944,546	$ 2,056,662	$ 60,508
	Other notes receivable	645	—	7,320	215
	Less: Allowance for doubtful accounts	(52)	(19,446)	(20,640)	(607)
	Notes receivable, net	$ 5,173	$ 1,925,100	$ 2,043,342	$ 60,116
(b)	Accounts receivable	$ 4,397,835	$ 8,664,434	$ 14,433,934	$ 424,652
	Less: Allowance for doubtful accounts	(47,852)	(87,695)	(87,264)	(2,567)
	Accounts receivable, net	$ 4,349,983	$ 8,576,739	$ 14,346,670	$ 422,085
(c)	Accounts receivable — related parties	$ 4,538,945	$ 8,152,950	$ 10,661,788	$ 313,674
	Less: allowance for doubtful accounts	—	—	—	—
	Accounts receivable — related parties, net	$ 4,538,945	$ 8,152,950	$ 10,661,788	$ 313,674

The collectibility of accounts receivable (related parties) is considered good. Thus, no allowance for doubtful accounts has been made.

(4) Other receivables

A. *Other receivables — non-related parties*

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Due from affiliates	$ 887,403	$ 1,672,846	$ 1,335,491	$ 39,291
Receivable from Energy Funds	—	665,085	1,273,040	37,453
Compensation receivable	22,473	192,329	43,708	1,286
Income tax refund receivable	64,241	66,453	13,442	396
Others	279,342	183,408	105,982	3,118
Total	$ 1,253,459	$ 2,780,121	$ 2,771,663	$ 81,544

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Details of due to affiliates are as follows:

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Ace Marine Corporation	$ 887,403	$ 1,132,228	$ 1,058,904	$ 31,153
Formosa Ocean Group Marine Investment Corporation	—	378,818	276,587	8,138
Komatsu Silicon Corporation	—	161,800	—	—
Total	$ 887,403	$ 1,672,846	$ 1,335,491	$ 39,291

B. *Other receivables — related parties*

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Due from affiliates	$ 2,674,600	$ 654,500	$ 553,100	$ 16,272
Receivables on sales of supplies	13,020	109,819	43,290	1,274
Others	148,145	193,360	34,259	1,008
Total	$ 2,835,765	$ 957,679	$ 630,649	$ 18,554

Please refer to Note 5 for details of related party transactions.

C. *Other financial assets — current*

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Forward exchange receivable	$ 6,675,476	$ 16,880,499	$ 13,049,817	$ 383,931
Less: Forward exchange payable	(6,223,684)	(15,812,763)	(12,548,313)	(369,176)
Less: Premium	(193,728)	(79,458)	(224,083)	(6,593)
Other financial assets, net	$ 258,064	$ 988,278	$ 277,421	$ 8,162

In order to hedge against the exchange rate risk, the Company signed various delivery and non-delivery forward foreign exchange contracts with banks. The contracts expiring within one year are recorded under "other financial assets — current". Those with maturity of longer than one year are recorded under long-term investments. (Please refer to Note 10.(1) for details of financial instruments).

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(5) Inventories

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Raw materials	$ 7,151,751	$ 10,581,990	$ 12,320,466	$ 362,473
Supplies	6,513,267	2,224,092	3,169,832	93,258
Work in process	—	3,425,321	2,667,365	78,475
Finished goods	9,148,324	6,798,259	7,497,664	220,584
Goods in transit	545,778	3,749,895	4,013,512	118,079
Consignment inventories	—	—	7,602	224
Less: Allowance for inventory valuation	(768,791)	—	—	—
Total	$ 22,590,329	$ 26,779,557	$ 29,676,441	$ 873,093

(a) As of December 31, 2002 and 2003, crude oil included in raw materials amounted to NT$8,731,784 thousand and NT$9,739,128 thousand, respectively. Among these inventories, NT$3,769,549 thousand has been pledged as collateral for a bank loan.

(b) The insurance coverage for inventories as of December 31, 2001, 2002 and 2003 was NT$22,229,326 thousand, NT$17,937,435 thousand and NT$24,577,408 thousand, respectively.

(6) Prepayments

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Prepayments for purchases	$ 1,473,854	$ 936,359	$ 581,164	$ 17,098
Prepaid maintenance fees	74,921	252,529	770,003	22,654
Input value-added tax paid	—	50,395	183,385	5,396
Prepaid insurance premium	33,252	84,677	69,959	2,058
Other prepaid expenses	41,264	231,168	130,765	3,847
Total	$ 1,623,291	$ 1,555,128	$ 1,735,276	$ 51,053

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(7) Long-term investments

A. Long-term equity investments consist of the following:

Investee	December 31, 2001 Investment Amount (in NT$)	December 31, 2001 Percentage of Ownership (%)	Valuation Method
Mai-Liao Power Corp.	$ 7,958,878	24.94	Equity method
Formosa Petrochemical Transportation Corp.	308,863	88.00	Equity method
Formosa Oil (Asia Pacific) Corp.	1,065,947	100.00	Equity method
Yi-Chi Construction Corp.	142,500	40.55	Equity method
Mailiao Harbor Administration Corp.	1,368,518	44.96	Equity method
Formosa Development Corp.	232,467	45.99	Equity method
Formosa Plastics Marine Corporation	18,557	20.00	Equity method
Simosa Oil Corp.	54,347	20.00	Equity method
Subtotal	11,150,077		
Asia Pacific Investment Corp.	117,500	2.11	Cost method
Formosa Network Technology Corporation	6,250	12.50	Cost method
Formosa Heavy Industries Corp.	116,955	1.26	Cost method
Formosa Ocean Group Marine Investment Corp.	856,948	19.00	Cost method
Subtotal	1,097,653		
Prepayment for common stock	95,960		
Less: Allowance for loss on decline in market value	—		
Total	$ 12,343,690		

Investee	December 31, 2002 Investment Amount (in NT$)	December 31, 2002 Percentage of Ownership (%)	Valuation Method
Mai-Liao Power Corp.	$ 8,198,267	24.94	Equity method
Formosa Petrochemical Transportation Corp.	322,375	88.00	Equity method
Formosa Oil (Asia Pacific) Corp.	1,064,430	100.00	Equity method
Yi-Chi Construction Corp.	142,670	40.55	Equity method
Mailiao Harbor Administration Corp.	1,430,806	44.96	Equity method
Formosa Development Corp.	233,453	45.99	Equity method
Formosa Plastics Marine Corporation	20,761	20.00	Equity method
Simosa Oil Corp.	52,570	20.00	Equity method
Subtotal	11,465,332		
Asia Pacific Investment Corp.	117,500	2.11	Cost method
Formosa Network Technology Corporation	13,331	12.50	Cost method
Formosa Heavy Industries Corp.	116,956	1.26	Cost method
Formosa Ocean Group Marine Investment Corp.	856,948	19.00	Cost method
Gala Channel	91,162	6.25	Cost method
Subtotal	1,195,897		
Less: Allowance for loss on decline in market value	—		
Total	$ 12,661,229		

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	December 31, 2003			
Investee	Investment Amount (in NT$)	Percentage of Ownership (%)	Valuation Method	Investment Amount (in US$)
Mai-Liao Power Corp.	$ 8,576,768	24.94	Equity method	$ 252,332
Formosa Petrochemical Transportation Corp.	303,798	88.00	Equity method	8,938
Formosa Oil (Asia Pacific) Corp.	1,011,390	100.00	Equity method	29,756
Yi-Chi Construction Corp.	143,545	40.55	Equity method	4,223
Mailiao Harbor Administration Corp.	1,654,962	44.96	Equity method	48,690
Formosa Development Corp.	232,628	45.99	Equity method	6,844
Formosa Plastics Marine Corporation	21,722	20.00	Equity method	639
Simosa Oil Corp.	48,169	20.00	Equity method	1,417
Formosa Environmental Technology Corp.	241,719	24.34	Equity method	7,111
Subtotal	12,234,701			359,950
Asia Pacific Investment Corp.	117,500	2.11	Cost method	3,457
Formosa Network Technology Corporation	13,331	12.50	Cost method	392
Formosa Heavy Industries Corp.	116,956	1.26	Cost method	3,441
Formosa Ocean Group Marine Investment Corp.	856,948	19.00	Cost method	25,212
Gala Channel	91,162	6.25	Cost method	2,682
Subtotal	1,195,897			35,184
Less: Allowance for loss on decline in market value	—			—
Total	$ 13,430,598			$ 395,134

(A) For those investments accounted for under the equity method, except for Mai-Liao Power Corp., Formosa Petrochemical Transportation Corp. and Formosa Oil (Asia Pacific) Corp., the investment gains or losses are recognized in the current fiscal year, whereas the investment gains or losses for the other investees are accounted for in the following fiscal year.

(B) Long-term equity investments accounted for under the equity method as of December 31, 2001, 2002 and 2003 and their associated gains for the years then ended were as follows:

	2001		
Item	A (NT$)	B (NT$)	Total (NT$)
Net value on long-term equity investments	$ 9,333,688	$ 1,816,389	$ 11,150,077
Investment gains	$ 978,532	$ 37,694	$ 1,016,226

A. For the investees where investment gains are recognized in the current year
B. For the investees where investment gains are recognized in the following year

	2002		
Item	A (NT$)	B (NT$)	Total (NT$)
Net value on long-term equity investments	$ 9,585,071	$ 1,880,261	$ 11,465,332
Investment gains	$ 803,932	$ 189,043	$ 992,975

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	2003			
Item	**A (NT$)**	**B (NT$)**	**Total (NT$)**	**Total (US$)**
Net value on long-term equity investments	$ 9,891,957	$ 2,342,744	$ 12,234,701	$ 359,950
Investment gains	$ 889,372	$ 433,924	$ 1,323,296	$ 38,932

For those investees where investment gains or losses are accounted for in the current year, the amounts of gains or losses recognized in the current year are based on the current year audited financial statements of the investees. For those investees where investment gains or losses are accounted for in the following year, the amounts of gains or losses recognized in the current year are based on audited financial statements of the investees in the preceding year.

The financial statements of Simosa Oil Corp. were audited by other auditors.

(C) As of December 31, 2003, even though the Company's equity interest in Formosa Petrochemical Transportation Corp. and Formosa Oil (Asia Pacific) Corp. exceeded 50%, their financial statements were not consolidated because their individual and combined amounts of total assets and operating revenues did not respectively exceed 10% and 30% of the Company's respective unconsolidated amounts.

(D) For those investees accounted for under the equity method, the unrealized gross profit arising from intercompany sales for 2001, 2002 and 2003 amounted to NT$822 thousand, NT$11,964 thousand and NT$19,069 thousand, respectively, while the unrealized investment income which was recorded in prior year and realized in 2003 amounted to NT$5,231 thousand.

(E) For the Company's investments in Formosa Oil (Asia Pacific) Corp. and Formosa Environmental Technology Corp., there were differences between the purchase costs and the investees' net worth acquired. The differences were amortized over five years and the amortized amounts were recognized as investment loss. For 2001, 2002 and 2003, the amortized amounts totaled NT$30,113 thousand, NT$40,151 thousand and NT$41,807 thousand, respectively.

(F) On August 26, 2003, the board of directors resolved to purchase 24,337,500 shares of Formosa Environmental Technology Corp. for a consideration of NT$243,375 thousand. The total number of shares issued by Formosa Environmental Technology Corp was 100,000 thousand shares so the Company's percentage of ownership was 24.34%. In addition, when the investment was made, there was a difference of NT$19,878 thousand between the purchase cost and the investee's net worth acquired. This difference was amortized over five years and the amortized amount was recognized as investment loss.

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(G) Please refer to Note 6 for details of long-term equity investments pledged as collaterals for bank loans.

B. Other financial assets — non-current

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Forward exchange receivable	$ 10,483,367	$ 6,561,366	$ 7,907,813	$ 232,651
Less: Forward exchange payable	(9,366,174)	(5,908,066)	(7,328,551)	(215,609)
Less: Premium	(21,535)	(57,682)	(320,209)	(9,421)
Other financial assets — non-current, net	$ 1,095,658	$ 595,618	$ 259,053	$ 7,621

(8) Property, plant and equipment

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Cost				
Land	$ 850,694	$ 1,598,217	$ 1,592,178	$ 46,843
Buildings	21,945,246	27,518,964	28,727,563	845,177
Machinery and equipment	156,368,472	186,583,636	195,511,888	5,752,041
Transportation equipment	235,068	234,075	256,166	7,536
Other equipment	719,120	786,108	834,513	24,552
Construction in progress	30,985,297	10,813,472	5,654,336	166,353
Prepayment for purchase of equipment	3,868,713	872,174	851,835	25,061
Prepayment for purchase of land	20,715,894	19,698,285	19,993,276	588,211
Subtotal	235,688,504	248,104,931	253,421,755	7,455,774
Accumulated depreciation				
Buildings	1,185,360	1,979,614	3,039,598	89,426
Machinery and equipment	4,083,529	15,649,322	23,436,763	689,519
Transportation equipment	116,332	144,679	163,355	4,806
Other equipment	5,246,054	243,512	356,400	10,486
Subtotal	10,631,275	18,017,127	26,996,116	794,237
Property, plant and equipment, net	$ 225,057,229	$ 230,087,804	$ 226,425,639	$ 6,661,537

A. Please refer to Note 6 for details of property, plant and equipment pledged as collaterals.

B. The insurance coverage for property, plant and equipment at December 31, 2001, 2002 and 2003 amounted to NT$131,513,103 thousand, NT$158,489,979 thousand and NT$151,492,665 thousand, respectively.

C. Interest expenses before capitalization for 2001, 2002 and 2003 were NT$9,787,569 thousand, NT$6,051,289 thousand and NT$5,001,250 thousand, respectively. Interest expenses capitalized for 2001, 2002 and 2003 amounted to NT$3,816,980 thousand, NT$921,886 thousand and NT$141,887 thousand, respectively. The capitalized interest rates for 2001, 2002 and 2003 were in the range of 4.66%–7.48%, 3.13%–4.22% and 2.77%–3.67%, respectively.

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D. Prepayment for land represented the amount paid for the land situated in Mailiao and Haifong in the offshore industrial zones in Yunlin County.

E. Please refer to Note 5 for assets purchased from and sold to related parties.

(9) Property held for leasing, idle assets and prepayment for land

A. *Property held for leasing*

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Cost	$ 141,577	$ —	$ 120,602	$ 3,548
Less: Accumulated depreciation	(20,157)	—	(7,574)	(223)
Property held for leasing, net	$ 121,420	$ —	$ 113,028	$ 3,325

B. *Idle assets*

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Cost	$ 1,396,251	$ 1,778,364	$ 1,415,481	$ 41,644
Less: Accumulated depreciation	(267,002)	(375,677)	(191,388)	(5,631)
Idle assets, net	$ 1,129,249	$ 1,402,687	$ 1,224,093	$ 36,013

C. *Other miscellaneous assets — prepayment for land*

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Prepayment for land	$ 453,363	$ 173,932	$ 127,959	$ 3,765

The above land was registered under a third party's name. To protect the interest of the Company, the said land was mortgaged to the Company, which was formally registered in the Land Office. As of December 31, 2001, 2002 and 2003, the mortgage amounted to NT$45,000 thousand, NT$261,084 thousand and NT$261,084 thousand, respectively. Please refer to Note 7.(F) for details of the lawsuit related to the above land.

(10) Deferred expenses

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Organization costs	$ 2,451	$ —	$ —	$ —
Technology license fee	2,618,584	2,236,762	1,797,060	52,870
Unamortized expenses	1,357,469	1,975,970	2,616,531	76,980
Bonds issuance costs	58,307	52,297	73,499	2,162
Total	$ 4,036,811	$ 4,265,029	$ 4,487,090	$ 132,012

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

(11) Short-term loans

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Import loans	$ 19,733,514	$ 21,730,078	$ 22,458,125	$ 660,727
Unsecured loans	—	179,700	350,000	10,297
Others	21,516	20,251	33,196	977
Total	$ 19,755,030	$ 21,930,029	$ 22,841,321	$ 672,001
Interest rate range	4.65%–6.61%	3.89%–4.59%	3.05%–3.66%	3.05%–3.66%

(12) Commercial paper payable

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Commercial paper payable	$ 100,000	$ 400,000	$ —	$ —
Less: Discount	(312)	(122)	—	—
Total	$ 99,688	$ 399,878	$ —	$ —

(13) Accounts payable

(A) *Accounts payable — non-related parties*

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Accounts payable — open account	$ 2,773,468	$ 7,927,291	$ 7,971,477	$ 234,524
Accounts payable — bankers' acceptances	1,293	498	5,890	173
Other accounts payable	90,179	64,789	—	—
Total	$ 2,864,940	$ 7,992,578	$ 7,977,367	$ 234,697

(B) *Accounts payable — related parties*

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Accounts payable — raw materials and supplies	$ 429,337	$ 649,421	$ 857,894	$ 25,240

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

(14) Accrued expenses

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Accrued commodity tax	$ 2,013,622	$ 2,173,049	$ 2,299,369	$ 67,648
Accrued interest expenses	1,715,960	1,460,894	1,431,212	42,107
Accrued payrolls and bonuses	650,607	656,101	864,152	25,424
Accrued freight expenses	447,794	302,345	420,407	12,369
Accrued sales discounts	—	277,130	391,211	11,510
Accrued loading/discharging expenses (harbor)	—	33,856	250,205	7,361
Accrued utility expenses	173,137	126,294	65,926	1,939
Other accrued expenses	365,238	551,452	684,970	20,152
Total	$ 5,366,358	$ 5,581,121	$ 6,407,452	$ 188,510

(15) Other payables

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Payable for purchase of equipment — open account	$ 632,818	$ 388,101	$ 184,710	$ 5,434
Payable for purchase of machinery	754,974	474,547	328,792	9,673
Valued-added tax payable	831,269	205,751	—	—
Others	34,747	99,870	97,344	2,864
Subtotal	2,253,808	1,168,269	610,846	17,971
Construction materials payable to related parties	611,784	246,361	380,334	11,190
Total	$ 2,865,592	$ 1,414,630	$ 991,180	$ 29,161

(16) Bonds payable

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Secured bonds No. 1	$ 7,000,000	$ 7,000,000	$ 7,000,000	$ 205,943
Secured bonds No. 2	6,000,000	6,000,000	6,000,000	176,523
Secured bonds No. 3	5,700,000	5,700,000	5,700,000	167,696
Secured bonds No. 4	7,000,000	7,000,000	7,000,000	205,943
Secured bonds No. 5	7,200,000	7,200,000	7,200,000	211,827
Unsecured bonds No. 1	—	4,300,000	4,300,000	126,508
Unsecured bonds No. 2	—	—	6,000,000	176,523
Unsecured bonds No. 3	—	—	5,000,000	147,102
Unsecured bonds No. 4	—	—	6,000,000	176,522
Subtotal	32,900,000	37,200,000	54,200,000	1,594,587
Less: Current portion	—	—	(18,700,000)	(550,162)
Long-term bonds payable	$ 32,900,000	$ 37,200,000	$ 35,500,000	$ 1,044,425

A. In order to finance the plant constructed under the No. 6 Naphtha Cracking Project, the Company revised the terms, of the syndicated loan contract with Chiao Tung Bank and the other 31 participating banks on April 21, 1999. According to the revised terms the Company can choose to issue bonds (in place of borrowing directly from the banks) to finance the purchase of domestically manufactured machinery and equipment. If the Company chooses to issue bonds, the participating banks will act as guarantors. The guarantee covers a period of five years, seven years or ten years. In addition, the Company signed a syndicated loan contract with Chiao Tung Bank and the other 34 banks on December 6, 2000 to finance the Company's expansion project. According to the terms of the contract, the Company can choose to issue bonds (in place of borrowing directly from the banks) to finance the purchase of domestically manufactured or imported machinery and equipment in the limit of NT$15 billion. If the Company chooses to issue bonds, the participating banks will act as guarantors. The guarantee covers a period of five years, seven years or ten years.

B. Secured bonds No.1, No. 2 and No. 3 were issued in 2000 and were pre-approved by the Securities and Futures Commission (SFC), Ministry of Finance (MOF) on May 5, 1999, July 2, 1999 and October 19, 1999, respectively. The issuing period for the above three bonds is all five years, with interest payable annually and the principal amount repayable upon maturity. Secured bonds No. 4 and No. 5 were issued in 2001 and were pre-approved by the SFC on January 9, 2001 and May 19, 2001, respectively. The issuing period of secured bond No. 4 is five years, with interest payable annually and the principal amount repayable upon maturity. The issuing period of secured bond No. 5 is 10 years, with interest payable annually, and the principal amount was repayable by four equal installments at the end of the 7th, 8th, 9th and 10th year.

C. Unsecured bonds No.1 was issued in 2002 and was approved by the SFC in the same year. The issuing period is seven years, with interest payable annually, and the principal amount was repayable by four equal installments at the end of the 4th, 5th, 6th and 7th year. Unsecured bonds No. 2, No. 3 and No. 4 were issued in 2003 and were approved by the SFC on July 1, 2003, July 17, 2003 and August 11, 2003, respectively. The issuing period of unsecured bonds No. 2 and No. 3 is both five years, with interest payable annually and the principal amount repayable upon maturity . The issuing period of unsecured bonds No. 4 is both 7 years, with interest payable annually and the principal amount repayable upon maturity.

D. On May 12, 1999, July 26, 1999, October 19, 1999, February 8, 2001 and May 29, 2001, the amount of secured bonds No. 1 to No. 5 issued was NT$7 billion, NT$6 billion, NT$5.7 billion, NT$7 billion and NT$7.2 billion, respectively, bearing annual interest rate of 5.57%, 6.05%, 5.76%, 5.35% and 4.46%, respectively.

E. During the period of August 16–30, 2002, July 1–16 2003, July 1–August 16, 2003, July 17–August 6, 2003 and August 11–21, 2003, the amount of unsecured bonds No. 1 to No. 4 issued was NT$4.3 billion, NT$6 billion, NT$5 billion and NT$6 billion, respectively. For the unsecured bonds No.1 and No. 3, the annual interest rate was 3.05% and 1.4855%, respectively. For the unsecured bonds No. 2 and No. 4, the interest rate was floating and the annual rate approximated to 3%.

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

F. The total amount of secured bonds No. 1 to No. 3 was NT$18.7 billion and will expire in 2004. Accordingly, they were recorded as current portion of long-term loans in the balance sheet.

(17) Long-term loans

		New Taiwan Dollars			US Dollars
		December 31			December 31
Banks	Types	2001	2002	2003	2003
Industrial Bank of Taiwan	Medium-term	$ 1,800,000	$ 1,800,000	$ —	$ —
Jih Sun International Bank	Medium-term	1,700,000	1,700,000	—	—
Ta Chong Bank	Medium-term	—	1,000,000	—	—
United-Credit Commercial Bank	Medium-term	100,000	100,000	—	—
Taishin International Bank	Medium-term	500,000	500,000	—	—
Chiao Tung Bank and the other 32 banks	Syndicated loan	71,205,599	65,682,925	57,155,861	1,681,549
Chiao Tung Bank and the other 35 banks	Expansion Syndicated loan	30,783,000	35,402,000	33,427,302	983,445
		106,088,599	106,184,925	90,583,163	2,664,994
Less: Current portion reclassified to current liability		(7,353,409)	(10,316,202)	(6,195,877)	(182,285)
Less: Current portion reclassified to notes payable		(51,000)	(51,000)	(6,045,706)	(177,867)
Less: Long-term loans reclassified to notes payable		(408,000)	(357,000)	(37,876,716)	(1,114,349)
Long-term loans — due after one year		$ 98,276,190	$ 95,460,723	$ 40,464,864	$ 1,190,493

The details of long-term loans are as follows:

A. *Industrial Bank of Taiwan*

The loan was a three-year medium-term loan, from December 2001 to December 2004, with interest payable monthly. The interest rate was based on the Post Office's one-year time deposit rate plus 3.2%. The loan was fully repaid in 2003.

B. *Jih Sun International Commercial Bank*

The loan was a three-year medium-term loan, from December 23, 1999 to December 23, 2002. In 2001, the period of loan was extended to December 23, 2005. Interest was charged on monthly basis and the rate was based on the six-month time deposit rate plus 2.5%. The loan was fully repaid in 2003.

C. *Ta Chong Bank*

The loan was a three-year medium-term loan, from March 2002 to March 2005. This loan could be revolved every three months and the maximum revolving period was 6 months. The interest rate was 1.88–2.4% p.a. and was negotiable every year. The loan was fully repaid in 2003.

D. *United-Credit Commercial Bank*

The loan was a three-year medium-term loan, from October 2001 to October 2004. It could be renewed upon maturity and the facility could be revolved. The interest was paid monthly. The interest rate was based on the prime lending rate of United-Credit Commercial Bank plus 3.2%. The loan was fully repaid in 2003.

E. *Taishin International Bank*

The loan is a medium-term loan, from February 24, 2000 to October 25, 2003. The facility could be revolved within the loan period. Interest was charged on monthly basis and the rate was 3.2% p.a. The loan was fully repaid in 2003.

F. *Syndicated loan with Chiao Tung Bank and the other 31 banks*

In order to finance the construction of the No. 6 Naphtha Cracking Project, the Company signed a syndicated loan contract with Chiao Tung Bank and the other 33 banks on April 28, 1994. On April 21, 1999, the contract was amended and the number of participating banks reduced to 32. The details of the latest terms of the contract are as follows:

Item	Pledged Assets	Total Credit Line Amount	Outstanding Loans as of Dec. 31, 2001	Outstanding Loans as of Dec. 31, 2002	Outstanding Loans as of Dec. 31, 2003	Outstanding Loans as of Dec. 31, 2003	Repayment Method
		(NT$ unless otherwise stated)				(US$)	
		(In millions of dollars)					
A . . .	Land	9,382	6,194	5,302	4,410	130	The first installment of NT$0.462 billion was paid on December 30, 1999. The remaining principal was to be repaid semi-annually in 20 installments of NT$0.446 billion each.
B . . .	Plants	11,065	9,880	9,334.99	8,282.99	244	The first installment of NT$0.545 billion was paid on July 15, 2002. The remaining principal was to be repaid semi-annually in 20 installments of NT$0.526 billion each.

Item	Pledged Assets	Total Credit Line Amount	Outstanding Loans as of Dec. 31, 2001	Outstanding Loans as of Dec. 31, 2002	Outstanding Loans as of Dec. 31, 2003	Outstanding Loans as of Dec. 31, 2003	Repayment Method
		(NT$ unless otherwise stated)				(US$)	
		(In millions of dollars)					
C . . .	Domestically manufactured automatic equipment	19,160	16,320	16,416	14,592 (Fully repaid by notes)	429	The first installment of NT$0.92 billion was paid on December 3, 2001. The remaining principal was to be repaid semi-annually in 20 installments of NT$0.912 billion each.
D . . .	Imported automatic equipment	US$1,162	US$1,050.70	US$940.10	US$829.50	829.50	The first installment of US$56 million was paid on June 10, 2001. The remaining principal was to be repaid semi-annually in 20 installments of US$55.3 million each.
E . . .	Pollution prevention equipment	510	— (Fully repaid by notes)	— (Fully repaid by notes)	357 (Fully repaid by notes)	11	From January 15, 2001, the principal was repaid quarterly in 40 installments of NT$12.75 million each.
F-1 . .	Domestically manufactured non-automatic equipment	1,883	1,579	1,550.64	1,329.12 (Fully repaid by notes)	39	The first installment of NT$0.11084 billion was paid on August 30, 2001. The remaining principal was to be repaid semi-annually in 16 installments of NT$0.11076 billion each.
F-2 . .	Domestically manufactured non-automatic equipment	19,887	7,000 6,000 5,700 (Recorded under bonds payable)	7,000 6,000 5,700 (Recorded under bonds payable)	7,000 6,000 5,700 (Recorded under bonds payable)	206 177 168	Bullet repayment of the principal at maturity in five years.

1. As of December 31, 2000, the loan facility of US$1,162,000 thousand under item D was fully utilized. The outstanding balance was US$829,500 thousand on December 31, 2003. The item F-2 is a loan facility for purchasing domestically manufactured non-automatic equipment. The facility can be utilized by either borrowing loans or issuing corporate bonds. The Company opted to issue secured bonds, amounting to NT$18.7 billion. Please refer to Note 4.(16).

FORMOSA PETROCHEMICAL CORPORATION

NOTES TO FINANCIAL STATEMENTS — (Continued)
DECEMBER 31, 2001, 2002 AND 2003
(All amounts expressed in thousands of dollars except earnings per share information or unless otherwise stated)

2. The details of collaterals

Items	Collaterals
A . . .	Land in Mai-Lioa and Hai-Fong acquired using the proceeds of the loan
B . . .	The factory in Mai-Lioa and Hai-Fong acquired using the proceeds of the loan
C . . .	The equipment acquired using the proceeds of the loan
D . . .	The equipment acquired using the proceeds of the loan
E . . .	The equipment acquired using the proceeds of the loan
F-1 . .	The equipment acquired using the proceeds of the loan
F-2 . .	The equipment acquired using the proceeds of the loan

3. The syndicated loan agreement imposes covenants requiring the Company to maintain a debt ratio (total liabilities/net assets) of under 200% and a current ratio (current assets/current liabilities) of above 100%. As of December 31, 2003, the Company was in compliance with the covenants.

G. *Syndicated loan for the expansion of the No. 6 Naphtha Cracking Project*

Item	Pledged Assets	Total Credit Line Amount	Outstanding Loans as of Dec. 31, 2001	Outstanding Loans as of Dec. 31, 2002	Outstanding Loans as of Dec. 31, 2003	Outstanding Loans as of Dec. 31, 2003	Repayment Method
		(NT$ unless otherwise stated)				(US$)	
		(In millions of dollars)					
A . . .	Plants & relating equipment	6,058	5,433	5,433	5,433	160	The first installment of NT$0.416 billion will be paid on July 31, 2004. The remaining principal will be repaid semi-annually in 14 installments of NT$0.403 billion each.
B . . .	Domestically manufactured & imported equipment	29,619	25,000	29,619	27,644.302 (Fully repaid by notes)	813 (Fully repaid by notes)	The first installment of NT$1.94698 billion was paid on December 26, 2003. The remaining principal was to be repaid semi-annually in 14 installments of NT$1.974593 billion each.
		15,000	7,000	7,000	7,000	206	Bullet repayment of the principal at maturity in five years.
			7,200 (Recorded under bonds payable)	7,200 (Recorded under bonds payable)	7,200 (Recorded under bonds payable)	212 (Recorded under bonds payable)	Repay 25% of the principal at the end of the 7th, 8th, 9th and 10th year.
C . . .	Pollution prevention equipment	584	350	350	350	10	The first installment of NT$0.03898 billion will be paid on March 30, 2004. The remaining principal will be repaid semi-annually in 14 installments of NT$0.03893 billion each.

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

The details of collaterals

Items	Collaterals
A . . .	The plant in Mai Liao and the related equipment acquired using the proceeds of the loan
B . . .	The equipment acquired using the proceeds of the loan
C . . .	The equipment acquired using the proceeds of the loan

The syndicated loan agreement imposes covenants requiring the Company to maintain a debt ratio (total liabilities/net assets) of under 200% and a current ratio (current assets/current liabilities) of above 100%. As of December 31, 2003, the Company was in compliance with the covenants.

(18) Pensions

A. The Company adopted the ROC SFAS NO.18, "Accounting for Pensions" to account for the deferred pension costs and accrued pension liability. As of December 31, 2001, 2002 and 2003, the deferred pension costs recognized were zero, while the accrued pension liability recognized was NT$300,321 thousand, NT$408,795 thousand and NT$578,808 thousand, respectively. Starting from January 1, 1997, the net pension costs were amortized over ten years.

B. As of December 31, 2001, 2002 and 2003, reconciliation of the funded status to the carrying amount of accrued pension liability was as follows:

1. *Net pension costs*

		New Taiwan Dollars			US Dollars
		December 31			December 31
		2001	2002	2003	2003
(1)	Service cost	$ 112,850	$ 169,775	$ 263,714	$ 7,759
(2)	Interest cost	26,746	31,469	41,174	1,211
(3)	Expected return on plan assets	(6,593)	(6,823)	(6,136)	(181)
(4)	Amortization of pension losses	943	3,669	14,892	438
(5)	Net transitional obligations/amortization of net assets.	7,765	7,765	7,765	229
	Net pension costs (1+2-3+4+5)	$ 141,711	$ 205,855	$ 321,409	$ 9,456

2. *Actuarial assumptions*

	As of December 31,		
	2001	2002	2003
Discount rates	5.0%	4.0%	3.0%
Rates of increase in future salary level	3.75%	3.5%	3.75%
Expected long-term rates of return on plan assets	5.0%	4.0%	3.05%

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

3. Reconciliation of the funded status to accrued pension liability is as follows:

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Benefit obligations:				
Vested benefit obligation	$ (15,723)	$ (44,654)	$ (70,375)	$ (2,070)
Non-vested benefit obligation	(218,750)	(313,856)	(504,398)	(14,840)
Accumulated benefit obligation	(234,473)	(358,510)	(574,773)	(16,910)
Effects of future salary increments	(301,456)	(428,599)	(797,680)	(23,468)
Projected benefit obligation	(535,929)	(787,109)	(1,372,453)	(40,378)
Fair value of plan assets	117,262	154,408	186,347	5,482
Fund status	(418,667)	(632,701)	(1,186,106)	(34,896)
Unrecognized transitional obligations	38,821	31,056	23,294	685
Unrecognized prior service costs	—	—	—	—
Unrecognized pension gain	79,525	192,850	584,004	17,182
Additional provision for accrued pension liability	—	—	—	—
Accrued pension liability	$ (300,321)	$ (408,796)	$ (578,808)	$ (17,029)

C. As of December 31, 2001, 2002 and 2003, the vested benefit obligation was NT$24,777 thousand, NT$57,464 thousand and NT$84,662 thousand, respectively.

E. As of December 31, 2001, 2002 and 2003, the ending balance of the pension fund deposited in the Central Trust of China, excluding the interest accrued for the second half of the year, was NT$110,794 thousand, NT$143,878 thousand and NT$180,938 thousand, respectively; the pension reserve not yet deposited in the Central Trust of China was NT$2,574 thousand, NT$2,795 thousand and NT$2,986 thousand, respectively, which was recorded as accrued expenses.

(19) Capital stock

As of December 31, 2002, the Company's issued capital was NT$70,000,000 thousand, divided into 7,000,000,000 shares at NT$10 par value each. In 2003, the Company's stockholders at their annual meeting resolved to increase capital through capitalization of retained earnings and capital surplus of NT$1.4 billion and NT$7 billion, respectively. After the above capital increase, the Company's capital stock amounted to NT$78,400,000 thousand, divided into 7,840,000,000 shares at $10 par value each.

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

(20) Capital surplus

	Additional paid-in capital	Gains on disposal of property, plant and equipment — net of income tax	Reserve for gain on long-term investments	Total
Balance at January 1, 2002	NT$ 35,000,000	NT$ 176,539	NT$ 62,715	NT$ 35,239,254
Transfer of reserve for gain on disposal of property, plant and equipment to retained earnings	—	(176,539)	—	(176,539)
Transfer of reserve for gain on long-term investments to retained earnings	—	—	(62,679)	(62,679)
Balance at December 31, 2002	35,000,000	—	36	35,000,036
Capitalization of capital surplus	(7,000,000)	—	—	(7,000,000)
Balance at December 31, 2003	NT$ 28,000,000	NT$ —	NT$ 36	NT$ 28,000,036
Balance at December 31, 2003 (US dollars)	US$ 823,772	US$ —	US$ 1	US$ 823,773

(21) Retained earnings

A. *Dividend policy*

The Company is of long-term industry. The dividend policy as set forth in the Articles of Incorporation provides that the Company can distribute cash dividends and stock dividends. After making provisions for the legal reserve and special reserve, the earnings will be first used to distribute cash dividends. Unless the Company has significant investment project or the need for improving financial problem, part of dividends can be distributed in the form of stocks. To avoid over expansion of capital, the total amount of retained earnings and capital surplus capitalized cannot exceed 50% of the total dividends of the year.

B. *Appropriation of earnings*

Pursuant to the Company's Articles of Incorporation, current year's earnings before tax, if any, shall be appropriated in the following order:

1. payments of taxes, if any

2. offset prior year's deficit, if any

3. set aside 10% of the remaining amount as legal reserve , if any

4. set aside dividend yield of 10% as stockholders' dividend

(All amounts expressed in thousands of dollars
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Any remaining amount is allocated as follows: 1% as directors' and supervisors' remuneration, minimum 1% as employees' bonus, and the remaining as stockholders' bonus.

C. If the Company's income includes investment income recognized using equity method and unused tax credits, a special reserve is appropriated before distributing dividends. When the investment income is realized, this special reserve will be reversed back to retained earnings

D. ***Employees' bonus, and directors' and supervisors' remuneration***

1. The Company's earnings distribution plan for 2003 has not yet been approved by the board of directors. For further information, please visit the website http://newmops.tse.com.tw/

2. Appropriation of the employees' bonus and directors' and supervisors' remuneration for 2002 are as follows:

	Year 2002			
	Actual amounts	Proposed amounts	Difference	Reason
1. Appropriation:				
(1) Employees' cash bonus	NT$ 2,831	NT$ 2,831	—	
(2) Employees' stock bonus				
(a) No. of shares	—	—	—	
(b) Amount	—	—	—	
(c) % of outstanding shares	0%	0%	0%	
(3) Directors' and supervisors' remuneration	NT$ 28,311	NT$ 28,311	—	
2. Info of EPS				
(1) Actual EPS	NT$ 1.63 dollars	NT$ 1.63 dollars	—	
(2) Estimated EPS	NT$ 1.63 dollars	NT$ 1.63 dollars	—	

3. For 2001, the Company did not make any distribution for dividends, bonuses to employees, directors' and supervisors' remuneration.

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

(22) Income tax

A. Reconciliation of pre-tax income to provision for income tax is as follows:

	New Taiwan Dollars			US Dollars
	December 31			December 31
Items	2001	2002	2003	2003
Income before income tax	$ 1,593,950	$ 8,615,625	$ 18,790,983	$ 552,839
Permanent differences				
Over limit	22	—	—	—
Lack of supporting documents	1,111	132	—	—
Non-taxable investment income	(6,496)	(15,657)	(5,550)	(163)
Interest income taxed on a separate basis	(1,690)	—	(2,429)	(71)
Investment gains/losses recognized under equity method	(986,112)	(958,055)	(1,286,719)	(37,856)
Non-taxable gain on sale of mutual fund	—	—	(5,060)	(149)
Penalty	—	—	555	16
Loss on sale of land	—	—	1,257	37
Others	(6,005)	—	4,787	141
Temporary differences				
Unrealized gain from downstream transaction	822	11,964	19,069	561
Realized gain from downstream transaction	(1,109)	(822)	(11,964)	(352)
Unrealized exchange losses/gains — short-term	(631,592)	(1,240,979)	(452,933)	(13,325)
Reversal of realized exchange gains/losses	(612,856)	631,592	1,240,979	36,510
Unrealized exchange losses/gains — long-term	2,933,653	2,163,418	1,381,346	40,640
Reversal of realized exchange gains/losses	(840,033)	(2,933,653)	(2,163,417)	(63,649)
Financial and tax differences in interest capitalization	84,583	84,584	84,584	2,488
Financial and tax differences in technology license fees	135,017	19,507	—	—
Organization cost amortized over 5 years (1999 to 2004)	653	2,451	—	—
Accrued pension liability not yet contributed	103,801	113,380	170,013	5,002
Recognized sales discounts that were deducted in the current year and supporting documents are received in next year	—	285,362	374,166	11,008
The reversal of deducted sale discount in the previous year	—	—	(285,362)	(8,395)
Other losses that were deducted in the current year and will be recognized when supporting document presented	—	—	43,548	1,281
Other	—	14,284	44,633	1,313
Taxable income	1,767,719	6,793,133	17,942,486	527,876
Income Tax	441,920	1,698,273	4,485,612	131,969
10% corporate tax on unappropriated earnings	428,398	195,972	—	—
Less: Investment tax credits	870,318	1,894,245	4,485,612	131,969
Income tax	—	—	—	—
Less: Withholding tax	60,210	5,658	7,095	209
Income tax refund receivable	$ (60,210)	$ (5,658)	$ (7,095)	$ (209)

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B. Reconciliation of provision for tax to current income tax is as follows:

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Income tax payable for continuing operations	$ —	$ —	$ —	$ —
Deferred income tax expense (benefit) arising from realized or unrealized exchange gains/losses accounted for under SFAS No.14	(212,293)	344,906	(1,494)	(44)
Deferred income tax expense (benefit) arising from investment tax credits	(1,996,324)	739,729	(17,988,216)	(529,221)
Investment tax credits — deferred income tax expense (benefit) arising from valuation allowance for investment tax credits	—	(3,707,635)	17,954,014	528,214
Deferred income tax benefit arising from 1992 and 1993 tax authority assessment	(54,900)	(26,023)	(21,146)	(622)
Deferred income tax benefit arising from sales discounts	—	(71,341)	(22,201)	(653)
Deferred tax benefit arising from other temporary differences	(26,034)	(35,314)	(66,325)	(1,951)
Income tax resulting from differences between financial and tax reporting.	—	(58,176)	—	—
Auditing difference of 2001	—	—	860	25
Separate income tax expense arising from short-term bills	918	—	595	18
Income tax benefit of continuing operations	$ (2,288,633)	$ (2,813,854)	$ (143,913)	$ (4,234)

C. ***Deferred income tax liabilities and assets:***

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Deferred income tax liabilities	$ 212,728	$ 338,439	$ 120,282	$ 3,538
Deferred income tax assets	10,556,771	9,788,702	27,669,065	814,036
Valuation allowance for deferred income tax assets	3,742,881	35,246	17,989,260	529,252

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D. *Temporary differences resulting in deferred income tax assets and liabilities:*

	New Taiwan Dollars			US Dollars
	December 31			December 31
Items	2001	2002	2003	2003
Deferred income tax assets arising from investment tax credits	$ 9,769,465	$ 9,087,912	$ 27,075,268	$ 796,566
Deductible temporary differences arising from downstream transactions' unrealized gain	28,891	40,033	47,138	1,387
Deductible (taxable) temporary differences arising from short-term unrealized exchange loss accounted for under SFAS No.14	(631,592)	(1,240,979)	(452,933)	(13,325)
Deductible (taxable) temporary differences arising from long-term unrealized exchange loss accounted for under SFAS No.14	2,933,653	2,163,418	1,381,346	40,640
Taxable temporary differences arising from the difference between the financial and tax treatment for organization costs	(197,362)	(112,778)	(28,195)	(830)
Taxable temporary differences arising from technology license fees	(19,507)	—	—	—
Taxable temporary differences arising from organization costs	(2,451)	—	—	—
Excess of accrued pension liability recognized according to actuarial report over contribution	186,680	300,060	474,978	13,974
Deductible (taxable) temporary differences arising from sales discounts	—	285,362	374,166	11,008
Deductible (taxable) temporary differences arising from others	—	14,284	97,560	2,870

E. *Deferred income tax assets — current:*

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Deferred income tax assets	$ 1,572,040	$ 3,325,912	$ 4,224,713	$ 124,293
Valuation allowance for deferred income tax assets	—	—	—	—
Net deferred income tax assets	1,572,040	3,325,912	4,224,713	124,293
Deferred income tax liabilities	(157,898)	(310,245)	(113,233)	(3,331)
Net deferred income tax assets/liabilities	$ 1,414,142	$ 3,015,667	$ 4,111,480	$ 120,962

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F. ***Deferred income tax assets (liabilities) — non-current:***

	New Taiwan Dollars		US Dollars	
	December 31		December 31	
	2001	2002	2003	2003
Deferred income tax assets	$ 8,984,731	$ 6,462,790	$ 23,444,352	$ 689,743
Valuation allowance for deferred income tax assets	(3,742,881)	(35,246)	(17,989,260)	(529,252)
Net deferred income tax assets	5,241,850	6,427,544	5,455,092	160,491
Deferred income tax liabilities	(54,830)	(28,195)	(7,049)	(207)
Net deferred income tax assets/ liabilities	$ 5,187,020	$ 6,399,349	$ 5,448,043	$ 160,284

G. If the difference between accrued income tax and actual income tax paid results from incorrect estimate, it will be debited to current year's income tax. If the difference results from incorrect calculation, it will be adjusted to the prior year's net income/loss.

H. As of December 31, 2003, the Company's unused tax credits are as follows:

Types		New Taiwan Dollars Amount	US Dollars Amount	Expiry Year
(a)	Tax credits arising from investments in important industries	$ 14	$ —	2004
	Tax credits arising from investments in important industries	998,703	29,382	2005
(b)	Tax credits for investments in remote areas	3,600,621	105,932	2004
	Tax credits for investments in remote areas	22,475,930	661,251	2006

I. The ROC tax authorities have assessed the income tax returns of the Company through 2001.

J. As of December 31, 2003, the account balance of imputation tax credit was NT$10,458 thousand.

K. As of December 31, 2003, the accumulated retained earnings was NT$20,574,113 thousand, which consisted of the accumulated earnings of NT$70,699 thousand generated prior to 1997. The remaining was generated after 1998.

L. The estimated (actual) tax credit rate for individual stockholders are as follow:

Year	Tax Credit Rate	Estimated/Actual
2001	0.3 %	Actual
2002	0.15 % (distribution of cash dividends)	Actual
	0.16 % (distribution of stock dividends)	Actual
2003	0.05 %	Estimated

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(23) Expenses relating to employment, depreciation and amortization summarized by function are as follows:

	2002		
Function/Description	**Operating Cost**	**Operating Expense**	**Total**
Employment			
Salaries and wages	NT$ 1,548,626	NT$ 952,065	NT$ 2,500,691
Labor and health insurance	110,517	37,861	148,378
Pension	96,159	44,586	140,745
Others	51,081	17,893	68,974
Subtotal	NT$ 1,806,383	NT$ 1,052,405	NT$ 2,858,788
Depreciation	NT$ 7,014,642	NT$ 484,316	NT$ 7,498,958
Amortization	NT$ 968,525	NT$ 138,360	NT$ 1,106,885

	2003		
Function/Description	**Operating Cost**	**Operating Expense**	**Total**
Employment			
Salaries and wages	NT$ 2,026,087	NT$ 952,200	NT$ 2,978,287
Labor and health insurance	120,172	42,008	162,180
Pension	145,138	61,521	206,659
Others	51,447	18,094	69,541
Subtotal	NT$ 2,342,844	NT$ 1,073,823	NT$ 3,416,667
Depreciation	NT$ 8,309,047	NT$ 508,365	NT$ 8,817,412
Amortization	NT$ 1,658,242	NT$ 194,193	NT$ 1,852,435

	2003		
Function/Description	**Operating Cost**	**Operating Expense**	**Total**
Employment			
Salaries and wages	US$ 59,608	US$ 28,014	US$ 87,623
Labor and health insurance	3,535	1,236	4,771
Pension	4,270	1,810	6,080
Others	1,514	532	2,046
Subtotal	US$ 68,927	US$ 31,592	US$ 100,520
Depreciation	US$ 244,456	US$ 14,956	US$ 259,412
Amortization	US$ 48,786	US$ 5,713	US$ 54,499

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5. RELATED PARTY TRANSACTIONS

(A) Names of the related parties and their relationship with the Company

Related Parties	Relationship
Formosa Plastics Transportation Corp.	Shareholder of the Company
Nan Ya Plastics Corp.	Shareholder of the Company
Formosa Chemicals & Fibre Corp.	Shareholder of the Company
Formosa Heavy Industries Corp.	The Company's Chairman is also the Chairman of this company
Formosa Plastics Marine Corp.	The Company's Chairman is also the Chairman of this company
Nan Chung Petrochemical Corp.	The Company's Chairman is also the Chairman of this company
Formosa Automobile Corp.	The Company's Chairman is also the Chairman of this company
Yi-Jin Development Corp.	Investee accounted for by the equity method
Mai-Liao Power Corp.	Investee accounted for by the equity method
Mai-Liao Harbor Administration Corp.	Investee accounted for by the equity method
Formosa Petrochemical Transportation Corp.	Investee accounted for by the equity method
Formosa Marine Corp.	Investee accounted for by the equity method
Formosa Development Corp.	Investee accounted for by the equity method
Simosa Oil Corp.	Investee accounted for by the equity method
Formosa Oil (Asia Pacific) Corp.	Investee accounted for by the equity method
Formosa Environmental Technology Corp.	Investee accounted for by the equity method
Formosa Taffeta Co., Ltd	The Chairman of this company is a relative of the Company's general manager.
Whale Home International Co., Ltd.	Indirect subsidiary of the Company

(B) Significant transactions with related parties

(1) *Sales and accounts receivable*

(a) *Sales*

	New Taiwan Dollars			
	2001		2002	
Related Parties	Amount	%	Amount	%
Formosa Plastics Corporation	$ 22,873,667	17.78	$ 24,330,375	14.36
Formosa Chemicals & Fibre Corporation	21,164,251	16.46	25,959,551	15.33
Nan Ya Plastics Corporation	11,121,899	8.65	9,213,566	5.44
Nan Chung Petrochemical Corporation	3,914,517	3.04	3,531,263	2.09
Formosa Taffeta Corporation	1,553,713	1.21	3,472,853	2.05
Formosa Oil (Asia Pacific) Corporation	541,698	0.42	3,280,224	1.94
Mai-Liao Power Corporation	201,539	0.16	211,752	0.12
Simosa Oil Corp.	—	—	395,698	0.23
Whale Home International Co., Ltd.	—	—	484,908	0.29
Other related parties	25,537	0.02	57,499	0.03
Total	$ 61,396,821	47.74	$ 70,937,689	41.88

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	New Taiwan Dollars		US Dollars	
	2003		2003	
Related Parties	**Amount**	**%**	**Amount**	**%**
Formosa Plastics Corporation	$ 32,095,156	13.57	$ 944,253	13.57
Formosa Chemicals & Fibre Corporation	34,948,954	14.78	1,028,213	14.78
Nan Ya Plastics Corporation	13,492,225	5.70	396,947	5.70
Formosa Oil (Asia Pacific) Corporation	7,482,202	3.16	220,129	3.16
Formosa Taffeta Corporation	4,988,123	2.11	146,752	2.11
Nan Chung Petrochemical Corporation	4,410,440	1.86	129,757	1.86
Simosa Oil Corp.	1,199,840	0.51	35,300	0.51
Whale Home International Co., Ltd.	800,048	0.34	23,538	0.34
Mai-Liao Power Corporation.	193,809	0.08	5,702	0.08
Other related parties	114,343	0.05	3,364	0.05
Total	$ 99,725,140	42.16	$ 2,933,955	42.16

Note: The percentage amounts refer to the individual transaction amounts divided by the Company's net operating revenues.

The terms and conditions of sales to related parties are the same with those for non-related parties. The credit term is 30 days from the date when the counterparty receives the payment advice.

(b) *Accounts receivable*

	New Taiwan Dollars			
	2001		2002	
Related Parties	**Amount**	**%**	**Amount**	**%**
Formosa Plastics Corporation	$ 1,681,947	18.82	$ 2,864,755	17.03
Formosa Chemicals & Fibre Corporation	1,767,157	19.78	2,841,084	16.89
Nan Ya Plastics Corporation	614,008	6.87	1,118,094	6.65
Nan Chung Petrochemical Corporation	271,837	3.04	416,840	2.48
Formosa Oil (Asia Pacific) Corporation	51,834	0.58	549,096	3.27
Formosa Taffeta Corporation	115,576	1.29	239,308	1.42
Mai-Liao Power Corporation.	21,678	0.24	14,791	0.09
Simosa Oil Corp.	—	—	61,807	0.37
Whale Home International Co., Ltd	—	—	35,694	0.21
Other related parties	14,908	0.17	11,481	0.07
Total	$ 4,538,945	50.79	$ 8,152,950	48.48

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	New Taiwan Dollars		US Dollars	
	2003		2003	
Related Parties	Amount	%	Amount	%
Formosa Plastics Corporation	$ 3,606,398	14.37	$ 106,102	14.37
Formosa Chemicals & Fibre Corporation	3,829,258	15.26	112,658	15.26
Nan Ya Plastics Corporation	1,625,154	6.48	47,813	6.48
Formosa Oil (Asia Pacific) Corporation	814,502	3.24	23,963	3.24
Nan Chung Petrochemical Corporation	406,778	1.62	11,968	1.62
Formosa Taffeta Corporation	277,530	1.11	8,165	1.11
Simosa Oil Corp.	43,272	0.17	1,273	0.17
Whale Home International Co., Ltd.	40,944	0.16	1,204	0.16
Mai-Liao Power Corporation.	9,580	0.04	282	0.04
Other related parties	8,372	0.03	246	0.03
Total	$ 10,661,788	42.48	$ 313,674	42.48

(2) *Purchases and accounts payable*

(a) *Purchases*

	New Taiwan Dollars			
	2001		2002	
Related Parties	Amount	%	Amount	%
Formosa Chemicals & Fibre Corporation	$ 3,025,197	2.25	$ 2,945,308	2.12
Formosa Plastics Corporation	2,250,364	1.67	2,192,185	1.57
Nan Ya Plastics Corporation	176,574	0.13	526,077	0.38
Total	$ 5,452,135	4.05	$ 5,663,570	4.07

	New Taiwan Dollars		US Dollars	
	2003		2003	
Related Parties	Amount	%	Amount	%
Formosa Chemicals & Fibre Corporation	$ 3,943,238	2.08	$ 116,012	2.08
Formosa Plastics Corporation	2,800,702	1.48	82,398	1.48
Nan Ya Plastics Corporation	608,544	0.32	17,903	0.32
Simosa Oil Corp.	139,704	0.07	4,110	0.07
Total	$ 7,492,188	3.95	$ 220,423	3.95

Note: The percentage amounts refer to the individual transaction amounts divided by the Company's net purchases.

The Company did not receive special discounts when purchasing from the related parties, and the payment term is 30 days after receiving the goods.

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(b) *Accounts payable*

	New Taiwan Dollars			
	2001		2002	
Related Parties	**Amount**	**%**	**Amount**	**%**
Formosa Chemicals & Fibre Corporation	$ 215,237	6.53	$ 355,979	4.12
Formosa Plastics Corporation	129,081	3.92	238,452	2.76
Nan Ya Plastics Corporation	85,019	2.58	54,990	0.63
Total	$ 429,337	13.03	$ 649,421	7.51

	New Taiwan Dollars		US Dollars	
	2003		2003	
Related Parties	**Amount**	**%**	**Amount**	**%**
Formosa Chemicals & Fibre Corporation	$ 447,062	5.06	$ 13,153	5.06
Formosa Plastics Corporation	350,784	3.97	10,320	3.97
Nan Ya Plastics Corporation	60,048	0.68	1,767	0.68
Total	$ 857,894	9.71	$ 25,240	9.71

(3) *Transaction of property, plant and equipment*

(a) *Purchases of construction in progress*

The Company bought construction in progress from related parties for the No. 6 Naphtha Cracking Project in the offshore industrial zones in Mailiao and Haifong in Yunlin County and the details are as follows:

		New Taiwan Dollars			US Dollars
		December 31			December 31
Related Parties	**Items**	**2001**	**2002**	**2003**	**2003**
Formosa Heavy Industries Corporation	Construction in progress	$6,675,927	$2,327,581	$2,248,905	$ 66,164
Nan Ya Plastics Corporation	Construction in progress	733,915	275,535	36,363	1,070
Total		$7,409,842	$2,603,116	$2,285,268	$ 67,234

Purchases of the construction in progress from Formosa Heavy Industries Corporation and Nan Ya Plastics Corporation were based on the general terms and conditions. Payment is made within one month after the project is completed and inspected by the Company.

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(b) *Sales of assets*

The details of assets sold to the related parties in year 2001 are as follows:

Related Parties	Items	Acquisition Cost	Sales Price	Gain (Loss) on Asset Sold
Formosa Chemicals & Fibre Corporation	Transportation equipment	NT$ 497	NT$ 190	NT$ (307)
Formosa Transport Corporation	Transportation equipment	208	214	6
Formosa Heavy Industries Corporation	Transportation equipment	12	12	—
Total		NT$ 717	NT$ 416	NT$ (301)

The details of assets sold to the related parties in year 2002 are as follows:

Related Parties	Items	Acquisition Cost	Sales Price	Gain (Loss) on Asset Sold
Formosa Chemicals & Fibre Corporation	Transportation equipment	NT$ 98	NT$ 28	NT$ (70)

The details of assets sold to the related parties in year 2003 are as follows:

Related Parties	Items	Acquisition Cost	Sales Price	Gain (Loss) on Asset Sold
Formosa Chemicals & Fibre Corporation	Transportation equipment	NT$ 1,408	NT$ 1,836	NT$ 428
Formosa Oil (Asia Pacific) Corporation	Machinery	173	165	(8)
		NT$ 1,581	NT$ 2,001	NT$ 420

Related Parties	Items	Acquisition Cost	Sales Price	Gain (Loss) on Asset Sold
Formosa Chemicals & Fibre Corporation	Transportation equipment	US$ 42	US$ 54	US$ 12
Formosa Oil (Asia Pacific) Corporation	Machinery	5	5	—
		US$ 47	US$ 59	US$ 12

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(4) *Financing*

(a) *Due from affiliates*

2001

Related Parties	Highest Balance	Date of Highest Balance	Ending Balance	Interest Rate	Interest Received for the Year
Formosa Plastics Corporation	NT$ 10,734,700	Jun. 15	NT$ —	4.656%–6.609%	NT$ 234,293
Nan Ya Plastics Corporation	5,200,500	Mar. 15	1,368,800	4.656%–6.609%	115,084
Formosa Chemicals & Fibre Corporation	5,249,400	Apr. 16	403,100	4.656%–6.609%	127,543
Formosa Heavy Industries Corporation	6,826,300	Jan. 15	350,000	4.656%–6.609%	114,320
Mai-Liao Power Corporation	1,574,200	Feb. 15	338,000	4.656%–6.609%	8,323
Formosa Plastics Marine Corporation	261,700	Dec. 6	214,700	4.656%–6.609%	7,996
Total			NT$ 2,674,600		NT$ 607,559

2002

Related Parties	Highest Balance	Date of Highest Balance	Ending Balance	Interest Rate	Interest Received for the Year
Formosa Plastics Corporation	NT$ 852,500	Jul. 24	NT$ —	3.891%–4.588%	NT$ 504
Nan Ya Plastics Corporation	1,619,000	Jun. 17	—	3.891%–4.588%	5,250
Formosa Chemicals & Fibre Corporation	567,300	Feb. 7	—	3.891%–4.588%	835
Formosa Heavy Industries Corporation	243,200	Jan. 8	—	3.891%–4.588%	948
Mai-Liao Power Corporation	3,284,200	Aug. 27	—	3.891%–4.588%	13,152
Formosa Plastics Marine Corporation	698,900	Oct. 1	654,500	3.891%–4.588%	12,841
Formosa Oil (Asia Pacific) Corporation	250,000	Nov. 20	—	3.891%–4.588%	53
Total			NT$ 654,500		NT$ 33,583

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2003					
Related Parties	**Highest Balance**	**Date of Highest Balance**	**Ending Balance**	**Interest Rate**	**Interest Received for the Year**
Formosa Plastics Corporation	NT$ 914,600	Nov. 18	NT$ —	3.046%–3.657%	NT$ 294
Nan Ya Plastics Corporation	8,832,700	Oct. 17	—	3.046%–3.657%	33,461
Formosa Heavy Industries Corporation	1,520,200	Nov. 19	—	3.046%–3.657%	4,598
Mai-Liao Power Corporation	2,526,800	Sep. 15	—	3.046%–3.657%	7,576
Formosa Plastics Marine Corporation	740,100	Apr. 8	553,100	3.046%–3.657%	21,399
Formosa Oil (Asia Pacific) Corporation	223,900	Dec. 15		3.046%–3.657%	289
Total			NT$ 553,100		NT$ 67,617

2003					
Related Parties	**Highest Balance**	**Date of Highest Balance**	**Ending Balance**	**Interest Rate**	**Interest Received for the Year**
Formosa Plastics Corporation	US$ 26,908	Nov. 18	US$ —	3.046%–3.657%	US$ 9
Nan Ya Plastics Corporation	259,862	Oct. 17	—	3.046%–3.657%	984
Formosa Heavy Industries Corporation	44,725	Nov. 19	—	3.046%–3.657%	135
Mai-Liao Power Corporation	74,340	Sep. 15	—	3.046%–3.657%	223
Formosa Plastics Marine Corporation	21,774	Apr. 8	16,272	3.046%–3.657%	629
Formosa Oil (Asia Pacific) Corporation	6,587	Dec. 15	—	3.046%–3.657%	9
Total			US$ 16,272		US$ 1,989

(b) *Due to affiliates*

2001					
Related Parties	**Highest Balance**	**Date of Highest Balance**	**Ending Balance**	**Interest Rate**	**Interest Paid for the Year**
Formosa Chemicals & Fibre Corporation	NT$ 1,183,200	Jul. 18	NT$ —	4.656%–6.609%	NT$ 237
Formosa Plastics Corporation	3,119,000	Aug. 9	—	4.656%–6.609%	16,623
Nan Ya Plastics Corporation	11,000	Jan. 6	—	4.656%–6.609%	4
Formosa Heavy Industries Corporation	2,366,800	Aug. 2	—	4.656%–6.609%	16,330
Mailiao Harbor Administration Corporation	281,900	Aug. 29	—	4.656%–6.609%	1,745
Total			NT$ —		NT$ 34,939

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2002

Related Parties	Highest Balance	Date of Highest Balance	Ending Balance	Interest Rate	Interest Paid for the Year
Formosa Chemicals & Fibre Corporation	NT$ 2,368,100	Dec. 17	NT$ —	3.891%–4.588%	NT$ 8,708
Formosa Plastics Corporation	2,642,700	May. 7	—	3.891%–4.588%	18,081
Nan Ya Plastics Corporation	2,215,400	Dec. 11	—	3.891%–4.588%	6,464
Formosa Heavy Industries Corporation	233,700	Jul. 24	—	3.891%–4.588%	68
Mailiao Harbor Administration Corporation	593,000	Dec. 31	593,000	3.891%–4.588%	8,330
Total			NT$ 593,000		NT$ 41,651

2003

Related Parties	Highest Balance	Date of Highest Balance	Ending Balance	Interest Rate	Interest Paid for the Year
Formosa Chemicals & Fibre Corporation	NT$ 8,113,800	Jul. 16	NT$ 1,954,700	3.046%–3.657%	NT$ 31,990
Formosa Plastics Corporation	8,398,500	Jun. 27	—	3.046%–3.657%	46,889
Nan Ya Plastics Corporation	4,623,900	Jul. 14	—	3.046%–3.657%	7,427
Mailiao Harbor Administration Corporation	1,100,000	Dec. 24	1,100,000	3.046%–3.657%	27,336
Total			NT$ 3,054,700		NT$ 113,642

2003

Related Parties	Highest Balance	Date of Highest Balance	Ending Balance	Interest Rate	Interest Paid for the Year
Formosa Chemicals & Fibre Corporation	US$ 238,711	Jul. 16	US$ 57,508	3.046%–3.657%	US$ 941
Formosa Plastics Corporation	247,087	Jun. 27	—	3.046%–3.657%	1,379
Nan Ya Plastics Corporation	136,037	Jul. 14	—	3.046%–3.657%	219
Mailiao Harbor Administration Corporation	32,363	Dec. 24	32,363	3.046%–3.657%	804
Total			US$ 89,871		US$ 3,343

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(c) *Long-term borrowings*

The details of long-term borrowings for year 2001 are as follows:

	2001			
Related Parties	Highest Balance	Ending Balance	Interest Rate	Interest Paid for the Year
Formosa Chemicals & Fibre Corporation	NT$ 5,000,000	NT$ —	6.218%–6.859%	NT$ 164,271
Formosa Plastics Corporation	10,000,000	—	6.218%–6.8885%	335,069
Nan Ya Plastics Corporation	3,000,000	—	6.218%–6.859%	98,563
Formosa Heavy Industries Corporation	3,800,000	—	6.218%–6.859%	124,846
Total		NT$ —		NT$ 722,749

There were no long-term borrowings as of December 31, 2002 and 2003.

(5) *Other receivables, other payables and revenues received in advance*

Receivables from/payables to related parties bear no interest.

(a) *Other receivables — sale of raw materials*

	New Taiwan Dollars			
	2001		2002	
Related Parties	Amount	%	Amount	%
Formosa Plastics Corporation	$ 15,944	0.39	$ 124,411	3.33
Mai-Liao Power Corporation	9,330	0.23	110,056	2.94
Formosa Chemicals & Fibre Corporation	12,808	0.32	47,150	1.26
Nan Ya Plastics Corporation	59,805	1.46	17,084	0.46
Formosa Heavy Industries Corporation	43,416	1.06	817	0.02
Formosa Oil (Asia Pacific) Corp.	18,926	0.46	10	—
Other related parties	936	0.02	3,651	0.10
Total	$ 161,165	3.94	$ 303,179	8.11

	New Taiwan Dollars		US Dollars	
	2003		2003	
Related Parties	Amount	%	Amount	%
Formosa Plastics Corporation	$ 33,435	0.98	$ 984	0.98
Mai-Liao Power Corporation	15,447	0.45	454	0.45
Formosa Chemicals & Fibre Corporation	13,816	0.41	407	0.41
Nan Ya Plastics Corporation	5,607	0.17	165	0.17
Other related parties	9,244	0.27	272	0.27
Total	$ 77,549	2.28	$ 2,282	2.28

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(b) *Other payables*

	New Taiwan Dollars			
	2001		2002	
Related Parties	**Amount**	**%**	**Amount**	**%**
Formosa Heavy Industries Corporation	$ 524,889	18.32	$ 207,540	14.68
Formosa Plastics Corporation	5,294	0.18	5,132	0.36
Nan Ya Plastics Corporation	74,367	2.60	32,665	2.31
Formosa Chemicals & Fibre Corporation	7,235	0.25	1,024	0.07
Total	$ 611,785	21.35	$ 246,361	17.42

	New Taiwan Dollars		US Dollars	
	2003		2003	
Related Parties	**Amount**	**%**	**Amount**	**%**
Formosa Heavy Industries Corporation	$ 351,339	35.45	$ 10,337	35.45
Formosa Plastics Corporation	18,956	1.91	558	1.91
Nan Ya Plastics Corporation	8,968	0.90	264	0.90
Formosa Chemicals & Fibre Corporation	1,071	0.11	31	0.11
Total	$ 380,334	38.37	$ 11,190	38.37

(c) *Revenues received in advance*

	New Taiwan Dollars			
	2001		2002	
Related Parties	**Amount**	**%**	**Amount**	**%**
Simosa Oil Corp.	$ 54,000	32.99	$ 54,000	52.93

	New Taiwan Dollars		US Dollars	
	2003		2003	
Related Parties	**Amount**	**%**	**Amount**	**%**
Simosa Oil Corp.	$ 54,000	44.85	$ 1,589	44.85

The above amounts resulted from the payments received in advance for the sale of land of the No. 6 Naphtha Cracking Project.

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(6) *Other related party transactions*

(a) *The details of use of the related parties' labor force are as follows:*

Related Parties	Items	New Taiwan Dollars 2001	New Taiwan Dollars 2002	New Taiwan Dollars 2003	US Dollars 2003
Mailiao Harbor Administration Corporation	Harbor labor force	$ 562,761	$ 719,962	$ 962,030	$ 28,303
Formosa Oil (Asia Pacific) Corporation	Labor force	265,287	62,152	99,409	2,925
Formosa Petrochemical Transportation	Labor force	471,182	380,285	370,957	10,914
Formosa Plastics Marine Corporation	Labor force	189,220	359,326	533,319	15,690
Formosa Plastics Marine Corp.	Labor force	—	—	5,306	156
Total		$ 1,488,450	$ 1,521,725	$ 1,971,021	$ 57,988

(b) *Sale of materials*

The details of sale of materials to related parties for selling price of 2001 are as follows:

Related Parties	Costs	Selling Price	Gains (Losses) on Sale
Formosa Plastics Corporation	NT$ 29,577	NT$ 22,291	NT$ (7,286)
Nan Ya Plastics Corporation	100,447	92,843	(7,604)
Formosa Chemicals & Fibre Corporation	118,100	109,674	(8,426)
Mai-Liao Power Corporation	30,242	24,829	(5,413)
Formosa Heavy Industries Corporation	57,238	55,252	(1,986)
Mailiao Harbor Administration Corporation	53,561	53,553	(8)
Total	NT$ 389,165	NT$ 358,442	NT$ (30,723)

The details of sales of materials to related parties for 2002 are as follows:

Related Parties	Costs	Selling Price	Gains (Losses) on Sale
Formosa Plastics Corporation	NT$ 45,660	NT$ 44,653	NT$ (1,007)
Nan Ya Plastics Corporation	69,143	64,713	(4,430)
Formosa Chemicals & Fibre Corporation	51,219	47,804	(3,415)
Mai-Liao Power Corporation	138,501	134,445	(4,056)
Formosa Heavy Industries Corporation	13,475	13,090	(385)
Mailiao Harbor Administration Corporation	6,186	7,150	964
Total	NT$ 324,184	NT$ 311,855	NT$ (12,329)

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The details of sale of materials to related parties for 2003 are as follows:

Related Parties	Costs	Selling Price	Gains (Losses) on Sale
Formosa Plastics Corporation	NT$ 54,010	NT$ 51,118	NT$ (2,892)
Nan Ya Plastics Corporation	46,317	40,238	(6,079)
Formosa Chemicals & Fibre Corporation	38,581	32,663	(5,918)
Mai-Liao Power Corporation	152,136	151,191	(945)
Formosa Heavy Industries Corporation	4,854	4,845	(9)
Mailiao Harbor Administration Corporation	4,055	4,048	(7)
Total	NT$ 299,953	NT$ 284,103	NT$ (15,850)

Related Parties	Costs	Selling Price	Gains (Losses) on Sale
Formosa Plastics Corporation	US$ 1,589	US$ 1,504	US$ (85)
Nan Ya Plastics Corporation	1,363	1,184	(179)
Formosa Chemicals & Fibre Corporation	1,135	961	(174)
Mai-Liao Power Corporation	4,476	4,448	(28)
Formosa Heavy Industries Corporation	143	143	—
Mailiao Harbor Administration Corporation	119	119	—
Total	US$ 8,825	US$ 8,359	US$ (466)

(c) The Company sold construction in progress, costing NT$976,205 thousand, to Mai-Liao Power Corporation in 2002 for a consideration of NT$976,205 thousand. As a result, no gain was recorded on the sale.

(d) *Rental expenses*

Details of the office premises leased from related parties are as follows:

	New Taiwan Dollars			
	2001		2002	
Related Parties	Amount	%	Amount	%
Formosa Plastics Corporation	$ 14,686	24.82	$ 15,620	13.87
Nan Ya Plastics Corporation	14,685	24.82	15,619	13.87
Formosa Chemicals & Fibre Corporation	14,686	24.82	15,620	13.87
Total	$ 44,057	74.46	$ 46,859	41.61

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	New Taiwan Dollars		US Dollars	
	2003		2003	
Related Parties	**Amount**	**%**	**Amount**	**%**
Formosa Plastics Corporation	$ 15,791	10.07	$ 465	10.07
Nan Ya Plastics Corporation	15,600	9.94	459	9.94
Formosa Chemicals & Fibre Corporation	15,601	9.94	459	9.94
Total	$ 46,992	29.95	$ 1,383	29.95

Rents on the office premises leased from related parties are based on the local standard, and are paid semi-annually.

(e) *Endorsements and guarantees*

	New Taiwan Dollars			US Dollars
	December 31			December 31
Related Parties	**2001**	**2002**	**2003**	**2003**
Mai-Liao Power Corporation	$ 5,485,000	$ 6,735,000	$ 6,735,000	$ 198,146
Simosa Oil Corp.	—	99,000	99,000	2,913
Whale Home International Co., Ltd.	—	80,000	80,000	2,354
Formosa Oil (Asia Pacific) Corporation	—	—	40,000	1,177
Total	$ 5,485,000	$ 6,914,000	$ 6,954,000	$ 204,590

(f) *Stocks pledged to related parties (in thousand shares)*

		December 31		
Pledged Assets	**Contents**	**2001**	**2002**	**2003**
Short-term investments	Stocks of Nan Ya Plastics Corporation	—	—	1,746
Short-term investments	Stocks of Formosa Chemicals & Fibre Corporation	—	—	36
	Total	—	—	1,782

The above stocks were pledged to Formosa Oil (Asia Pacific) Corporation as collaterals for bank loans in May 2003.

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6. PLEDGED ASSETS

(A) As of December 31, 2001, 2002 and 2003, the following assets were pledged as collaterals for bank loans:

Pledged Assets	Contents	Thousand Shares December 31 2001	2002	2003
Long-term equity investments .	Stocks of Mai-Liao Power Corp.	498,000	498,000	498,000
Short-term investments	Stocks of Nan Ya Plastics Corporation	—	—	1,746
	Stocks of Formosa Chemicals & Fibre Corporation	—	—	36
		498,000	498,000	499,782

		New Taiwan Dollars December 31 2001	2002	2003	US Dollars December 31 2003
Raw material	Crude oil	$ —	$ 3,769,549	$ 3,769,549	$ 110,902
Other current assets — restricted assets	Certificates of deposit	$ 2,000	$ 14,000	$ 14,150	416
Other assets — restricted assets	Certificates of deposit	150	150	—	—
	Total	$ 2,150	$ 14,150	$ 14,150	$ 416
Property, plant and equipment	Plant	$ 4,044,725	$ 19,858,301	$ 19,858,301	$ 584,240
	Machinery	58,930,627	180,704,008	180,704,008	5,316,387
	Total	$ 62,975,352	$ 200,562,309	$ 200,562,309	$ 5,900,627

(B) As of December 31, 2001, 2002 and 2003, the following assets were pledged as collateral for lawsuits:

Pledged Assets	Issuer	Thousand Shares December 31 2001	2002	2003
Stocks.	Nan Ya Plastics Corporation	—	1,140	1,140

7. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2001, 2002 and 2003, the Company's commitments and contingent liabilities were as follows:

(A) The guarantees provided by the Company for other companies in the same industry and related parties amounted to NT$5,485,000 thousand, NT$6,914,000 thousand and NT$6,954,000 thousand, respectively.

(B) The number of Nan Ya Plastics' shares pledged by the stockholders as collaterals for the Company's bank loans was 98,000 thousand, 98,000 thousand and 140,000 thousand, respectively.

(C) Guarantee notes received and guarantee notes receivable from clients for operational needs were NT$8,822,359 thousand, NT$8,543,026 thousand and NT$8,024,301 thousand, respectively.

(D) Guarantee notes issued and guarantee notes payable for borrowings were NT$131,058,000 thousand plus US$1,162,000 thousand, NT$184,835,000 thousand plus US$1,162,000 thousand and NT$31,644,000 thousand plus US$1,162,000 thousand, respectively.

(E) The unutilized portion of letters of credit issued by banks for importing raw materials was NT$2,728,577 thousand, NT$1,270,130 thousand and NT$3,692,157 thousand, respectively.

(F) Lawsuits

(1) The Company's land situated in Taichung (Lot No. 161-27, 161-28, 161-29, 161-161 and 161-162), with an area of 14,607 square meters and cost of NT$80,126 thousand, was not formally registered in its own name. Rather, it signed a declaration of trust with Huang Ji Quan who agreed to act as the nominee for the registered owner of the land. However, since Huang Ji Quan acted as a guarantor for the other parties and the other parties could not repay the debts, the land was subsequently seized and put into a public auction. Therefore, the Company engaged a lawyer to sue Huang Ji Quan for compensation. On December 1, 2003, the Company won the lawsuit. According to the Court's ruling, Huang Ji Quan need to pay NT$87,642 thousand, plus interest (at 5% p.a.) accrued from September 7, 2002 up to the date of the above settlement, to the Company.

(2) The Company signed a sales contract with Lin De Trading Co Ltd. for a five-year period. However, Lin De Trading Co., Ltd. breached the contract by not purchasing oil from the Company. Accordingly, the Company requested Lin De Trading Co., Ltd. and its guarantee bank for compensation and received a payment of NT$1,600 thousand. However, Lin De Trading Co., Ltd. subsequently appealed to the Court to claim that such compensation request was illegal. On July 30, 2003, the Court ruled that Lin De Trading Co., Ltd. won the case. The Company considered that it was not acceptable and filed an appeal on September 30, 2003. The lawsuit was still pending as of February 5, 2004.

(3) The Company has the following lawsuits with other parties which are similar to the above case:

a. Xin Fa Gas Station appealed to the Court to claim that the compensation made to the Company of NT$610 thousand was illegal. On December 12, 2003, the Court ruled that Xin Fa Gas Station won the case. The Company considered that it was not acceptable and filed an appeal on January 8, 2004.

b. The Company together with Formosa Oil (Asia Pacific) Corp. sued Ju Rong Fang Co., Ltd. for compensation of NT$3,955 thousand. As of February 5, 2004, the lawsuit was still pending.

c. The Company sued Xi Yang Yang Gas Station Co., Ltd for compensation of NT$2,992 thousand, but the Court only allowed a maximum of NT$2,000 thousand. The Company did not agree and filed an appeal in December 2003. The lawsuit was still pending as of February 5, 2004.

d. The Company sued Yong Chun Steel Co., Ltd. and Jiu Yuan Gas Station Co., Ltd for compensation of NT$3,040 thousand and NT$12,537 thousand, respectively. As of February 5, 2004, the lawsuit was still pending.

(4) The Company signed a construction contract with Telesis Technologies Incorporated where Telesis Technologies Incorporated was responsible to design and install the electrical system in the storage tanks area of the Company's oil refinery. Due to extension of the project and increase in manpower, Telesis Technologies Incorporated requested the Company to pay NT$145,302 thousand, but the Company did not agree. On June 18, 2003, Telesis Technologies Incorporated filed to the Court for arbitration. The arbitration process is still in progress.

8. SIGNIFICANT DISASTER LOSSES

A. On June 11, 2003, there was a fire in the Company's oil refinery No.1. The estimated loss amounted to NT$8,813 thousand. Since the loss was not covered by the insurance contract, the Company needs to absorb the loss by itself. In the opinion of the management, this has no significant adverse effect on the Company's daily operation.

B. On January 11, 2002, there was a fire in the Company's Olefin No. 2. The estimated loss amounted to NT$34,227 thousand which included materials for repair of NT$22,960 thousand, labor of NT$7,067 thousand, and the loss of work in process of NT$4,200 thousand. In 2002, the Company received an insurance compensation of NT$33,085 thousand.

9. SIGNIFICANT SUBSEQUENT EVENTS

None.

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10. OTHERS

A. Financial instruments:

(1) *Derivative financial instruments:*

(a) For the purpose of financing the import of machinery and equipment, the Company has contracted with Chiao Tung Bank and several other banks for a 15-year syndicated loan of US$1,162 million. The loan would be repaid by twenty-one equal installments. As of December 31, 2000, the syndicated loan was fully drawn down. The first installment of US$56 million was paid on June 10, 2001. The remaining would be repaid every six months with each installment of US$55.3 million. The interest rate is SIBOR plus 0.75%.

(b) In order to hedge against the interest rate and exchange rate risks arising from the above syndicated loan, the Company has entered into interest rate swap, cross-currency swap, forward foreign exchange and non-delivery forward contracts.

(i) *Interest rate swaps (IRS):*

a. As of December 31 2003, the five interest rate swap contracts entered into with Citibank, Credit Lyonnais and ABN-AMRO Bank amounted to US$50 million. On December 9, 2003, they all expired and were settled. In addition, the Company entered into another 59 New Taiwan dollar interest rate swap contracts with Deutsche Bank, Citibank, Bank of Taipei, ABN-AMRO Bank, HSBC, Bank of America, BNP Paribas, Taishin international Bank, Credit Agricole Indosuez, Taipei and Credit Lyonnais Bank so that the interest payment which was calculated by the floating interest rate every three months can be replaced by fixed interest rate.a. b.

b. As of December 31, 2003, the details of the outstanding IRS were as follows:

Bank	Original Principal Amount (NT$)	Balance as of December 31, 2003 (NT$)	Fixed Interest Rate (%)
Deutsche Bank	$ 5,500,000	$ 5,500,000	1.58–3.70
Citibank	6,430,000	6,100,000	3.50–3.70
Bank of Taipei	7,100,000	7,100,000	2.52–3.70
ABN-AMRO Bank	8,500,000	7,692,308	1.99–3.70
HSBC	11,900,000	11,900,000	1.17–2.83
Bank of America	3,000,000	3,000,000	1.42–1.91
BNP Paribas	8,500,000	8,500,000	1.58
Taishin International Bank	5,200,000	5,200,000	1.17–2.28
Credit Agricole Indosuez, Taipei	500,000	500,000	2.15
Credit Lyonnais	2,000,000	2,000,000	1.17
Total	$ 58,630,000	$ 57,492,308	

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(ii) *Cross-currency swaps (CCS):*

a. In order to hedge against the risk of fluctuations in interest rates and exchange rates, as of December 31, 2003, the Company has signed 38 CCS contracts with Citibank and the other three banks. The first contract will expire on June 10, 2005, while the others will expire on December 12, 2005. According to the terms of the contracts, the principal amount was not delivered on the contract date. Rather, it is delivered by nine to ten installments (starting from June 11, 2001 and payable every 6 months), and the exchange rate is fixed. In addition, the floating US$interest payments are also converted into fixed NT$interest payments. As a result of the above arrangement, the repayment of principal and related interest payments are fixed.

b. As of December 31 2003, the details of the outstanding CCS were as follows:

Period	Bank	Original Transaction Amount (US$)	Balance as of December 31, 2003 (US$)	Fixed Interest Rate (%)	Fixed Exchange Rate (%)
Jul. 2000–Dec. 2005	BNP Paribas	$ 103,000	$ 38,000	5.80–5.97	30.85–31.691
Jul. 2000–Dec. 2005	Citibank	132,000	46,800	5.85–5.97	30.85–31.89
Jul. 2000–Dec. 2005	ABN-AMRO Bank	131,000	48,000	5.80–5.96	30.85–31.89
Jul. 2000–Dec. 2005	China Trust Commercial Bank	155,000	56,000	5.80–5.97	30.85–31.80
	Total	$ 521,000	$ 188,800		

(iii) *Forward foreign exchange contract (FFEC):*

a. In order to hedge against the exchange rate risk, as of December 31, 2003, the Company has signed five FFECs (NT$/US$) with ABN-AMRO Bank and Deutsche Bank. The principal is swapped on the settlement date rather than the contract date.

b. As of December 31 2003, the details of the outstanding FFEC were as follows:

Period	Bank	Transaction Amount (US$)	Fixed Exchange Rate (%)
Aug. 2003–Jun. 2011	ABN-AMRO Bank	$ 130,000	31.59–31.69
Jan. 2003–Jun. 2011	Deutsche Bank	24,000	31.30
	Total	$ 154,000	

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(iv) *Non-delivery forward contract (NDF)*

a. In order to hedge against the exchange rate risk, as of December 31, 2003, the Company has signed 15 NDF contracts (NT$/US$) with Deutsche Bank, ABN-AMRO Bank and BNP Paribas. According to the terms of the NDF contracts, no principal is required to be settled. Rather, the contracts are settled on net basis on settlement date.

b. As of December 31 2003, the details of the outstanding NDF contracts were as follows:

Period	Bank	Transaction Amount (US$)	Balance as of December 31, 2003 (US$)	Fixed Exchange Rate (%)	Remaining Days for Settlement
Aug. 2003 –Jun. 2007.	Deutsche Bank	$ 101,000	$ 101,000	31.3–33.95	184 –1329 days
Aug. 2003 –Mar. 2004	ABN-AMRO Bank	30,000	30,000	33.205–33.955	184 –186 days
Aug. 2003 –Mar. 2004	BNP Paribas	143,000	143,000	33.103–33.949	184 –188 days
	Total	$ 274,000	$ 274,000		

(c) The details of gains or losses arising from the above transactions are as follows:

(i) Interest rate swaps:

a. The above IRS and CCS contracts are settled based on the six-month LIBOR. The gains or losses are recorded in the income statement based on the net amount of interest received or paid .

b. The details of net interest income (expense) resulting from the interest rate swap contracts for 2002 and 2003 are as follows:

	2002	2003
US$ interest rate swaps	NT$ (55,767)	NT$ (61,911)
NT$ interest rate swaps	(240,033)	(599,212)
Cross-currency swaps	(415,974)	(362,238)
	NT$ (711,774)	NT$ (1,023,361)

(ii) Exchange rate swaps:

a. The above CCS, NDF and FFEC transactions are accounted for in accordance with the ROC SFAS No.14, “Accounting for Foreign Currency Transactions and Translation of Foreign Financial Statements”. They are recorded at the spot rate at the contract date. The difference between the spot rate and the contracted rate is amortized over contract period. At the balance sheet date, they are translated using the spot rate prevailing on that date. The resulting exchange gains or losses are credited to or charged against the current income. On contract settlement date, the exchange differences are credited to or charged against the current income.

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b. For 2003, the resulting exchange gains or losses arising from the above transactions are as follows:

Types of Transactions	Gain (Loss) on Settlement (NT$)	Gain (Loss) Arising from Balance Sheet Date Valuation (NT$)	Amortization (NT$)	Total (NT$)
CCS	$ 8,139	$ (200,358)	$ 67,025	$ (125,194)
NDF	(77,272)	(4,318)	105,305	23,715
FFEC	—	(15,468)	22,439	6,971
	$ (69,133)	$ (220,144)	$ 194,769	$ (94,508)

(d) As a result of the above IRS and CCS transactions, the interest rate related to the above long-term syndicated loan is fixed in the range of 1.17% to 5.97%. Accordingly, the fluctuations in market interest rates have limited downside risk on the Company. In addition, the counterparties are all famous domestic and international banks so the credit risk is remote.

(2) *Non-derivative financial instruments:*

As of December 31, 2003, the fair values of non-derivative financial instruments approximated to their book values, except that the fair values of short-term investments (book value: NT$9,333,548 thousand) and long-term investments (book value: NT$13,430,598 thousand) were estimated to be NT$9,596,140 thousand and NT$14,083,532 thousand, respectively.

B. Earnings per share of common stock

The income after tax for the years ended December 31, 2001, 2002 and 2003 were NT$3,882,583 thousand, NT$11,429,479 thousand and NT$18,934,896 thousand, respectively. The earnings per share are calculated by dividing the above income after tax by the weighted average number of shares outstanding (7,840,000 thousand shares). (On May 16, 2003, the stockholders resolved to increase capital by 840,000 thousand shares through capitalization of retained earnings and capital surplus. Therefore, EPS should be computed retroactively based on the outstanding shares as of December 31, 2003)

C. Reclassification of accounts

Certain accounts in the 2002 financial statements have been reclassified to conform to the presentation of the 2003 financial statements.

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To comply with the new requirements of the ROC SFAS No. 1, part of the other receivables classified under current assets was reclassified to other financial assets — current under current assets and to other financial assets — non-current under long-term investments. As a result, as of December 31, 2002, other receivables under current assets were reduced by NT$1,583,896 thousand and other financial assets — current under current assets and other financial assets — non-current under long-term investments increased by NT$988,278 thousand and NT$595,618 thousand, respectively.

D. Segment Information

1. *Information on operations in different industry segments*

	(Year ended December 31, 2001)			
	New Taiwan Dollars			
	Petrochemical Division	Utility Division	Others	Consolidated
Revenue from parties outside Consolidated entities	$ 116,718,847	$ 11,406,491	$ 474,364	$ 128,599,702
Inter-company revenue	3,800,583	3,291,856	(7,092,439)	
Total revenues	$ 120,519,430	$ 14,698,347	$ (6,618,075)	$ 128,599,702
Operating income	$ 5,087,800	$ 5,163,809	$ 170,525	$ 10,422,134
Investment income				997,839
General expenses				(1,613,119)
Interest income (expense)				(5,330,274)
Net non-operating income				(2,882,630)
Income before income tax from continuing operations				$ 1,593,950
Identifiable assets	$ 143,281,099	$ 37,986,790	$ 29,481,691	$ 210,749,580
Long-term investments				12,343,690
Other assets				65,674,153
Total assets				$ 288,767,423
Depreciation	$ 4,361,957	$ 1,031,159	$ 390,895	
Capital expenditure (addition to fixed assets)	$ 10,949,530	$ 4,460,790	$ 200,566	

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	(Year ended December 31, 2002)			
	New Taiwan Dollars			
	Petrochemical Division	Utility Division	Others	Consolidated
Revenue from parties outside Consolidated entities	$ 157,333,368	$ 11,473,177	$ 583,040	$ 169,389,585
Inter-company revenue	9,816,186	3,374,761	(13,190,947)	
Total revenues	$ 167,149,554	$ 14,847,938	$ (12,607,907)	$ 169,389,585
Operating income	$ 7,286,022	$ 5,215,600	$ 185,239	12,686,861
Investment income				968,914
General expenses				(1,729,172)
Interest income (expense)				(5,033,791)
Net non-operating income				1,722,813
Income before income tax from continuing operations				$ 8,615,625
Identifiable assets	$ 177,040,046	$ 45,467,881	$ 4,121,756	226,629,683
Long-term investments				12,661,229
Other assets				72,720,194
Total assets				$ 312,011,106
Depreciation	$ 5,595,022	$ 1,247,436	$ 658,704	
Capital expenditure (addition to fixed assets)	$ 8,325,569	$ 3,046,086	$ 2,049,918	

	(Year ended December 31, 2003)			
	New Taiwan Dollars			
	Petrochemical Division	Utility Division	Others	Consolidated
Revenue from parties outside Consolidated entities	$ 219,631,404	$ 16,126,542	$ 762,217	$ 236,520,163
Inter-company revenue	20,525,025	3,592,702	(24,117,727)	
Total revenues	$ 240,156,429	$ 19,719,244	$ (23,355,510)	$ 236,520,163
Operating income	$ 16,499,218	$ 7,278,996	$ 234,457	$ 24,012,671
Investment income				1,292,269
General expenses				(2,369,687)
Interest income (expense)				(4,733,110)
Net non-operating income				588,840
Income before income tax from continuing operations				$ 18,790,983
Identifiable assets	$ 174,366,738	$ 45,115,224	$ 15,775,007	$ 235,256,969
Long-term investments				13,430,598
Other assets				79,480,469
Total assets				$ 328,168,036
Depreciation	$ 6,443,285	$ 1,845,612	$ 564,387	
Capital expenditure (addition to fixed assets)	$ 3,077,807	$ 1,302,989	$ 816,670	

FORMOSA PETROCHEMICAL CORPORATION

NOTES TO FINANCIAL STATEMENTS — (Continued)
DECEMBER 31, 2001, 2002 AND 2003
(All amounts expressed in thousands of dollars except earnings per share information or unless otherwise stated)

	(Year ended December 31, 2003)			
	US Dollars			
	Petrochemical Division	Utility Division	Others	Consolidated
Revenue from parties outside Consolidated entities	$ 6,461,648	$ 474,449	$ 22,425	$ 6,958,522
Inter-company revenue	603,855	105,699	(709,544)	
Total revenues	$ 7,065,503	$ 580,148	$ (687,129)	$ 6,958,522
Operating income	$ 485,414	$ 214,151	$ 6,898	706,463
Investment income				38,019
General expenses				(69,717)
Interest income (expense)				(139,250)
Net non-operating income				17,324
Income before income tax from continuing operations				$ 552,839
Identifiable assets	$ 5,129,942	$ 1,327,309	$ 464,107	6,921,358
Long-term investments				395,134
Other assets				2,338,349
Total assets				$ 9,654,841
Depreciation	$ 189,564	$ 54,299	$ 16,604	
Capital expenditure (addition to fixed assets)	$ 90,550	$ 38,335	$ 24,027	

2. ***Geographic information***

The Company does not have overseas operating units.

3. ***Export sales***

	2001	2002	2003	2003
	NT$	NT$	NT$	US$
Asia	$ 8,993,301	$ 25,859,260	$ 46,137,522	$ 1,357,385
America	2,526,873	4,487,865	3,759,974	110,620
Europe	178	—	634,015	18,653
Others	362,707	2,006,297	4,145,742	121,970
Total	$ 11,883,059	$ 32,353,422	$ 54,677,253	$ 1,608,628

FORMOSA PETROCHEMICAL CORPORATION

NOTES TO FINANCIAL STATEMENTS — (Continued)
DECEMBER 31, 2001, 2002 AND 2003
(All amounts expressed in thousands of dollars except earnings per share information or unless otherwise stated)

4. *Major customers*

	New Taiwan Dollars			
	2001		2002	
	Amount	%	Amount	%
Formosa Plastics Corporation	$ 22,873,667	17.78	$ 24,330,375	14.36
Formosa Chemicals & Fibre Corporation	21,164,251	16.46	25,959,551	15.33
Nan Ya Plastics Corporation	11,121,899	8.65	9,213,566	5.44
Total	$ 55,159,817	42.89	$ 59,503,492	35.13

	New Taiwan Dollars		US Dollars	
	2003		2003	
	Amount	%	Amount	%
Formosa Plastics Corporation	$ 32,095,156	13.57	$ 944,253	13.57
Formosa Chemicals & Fibre Corporation	34,948,954	14.78	1,028,213	14.78
Nan Ya Plastics Corporation	13,492,225	5.70	396,947	5.70
Total	$ 80,536,335	34.05	$ 2,369,413	34.05

Sales to the above major customers were all conducted by the Petrochemical and Utility Divisions.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors
Formosa Plastics Corporation:

We have reviewed the accompanying nonconsolidated balance sheets of Formosa Plastics Corporation (the Company) as of March 31, 2003 and 2004, and the related nonconsolidated statements of income and cash flows for the three months then ended. All information included in these financial statements is the representation of the management of Formosa Plastics Corporation. Our responsibility is to express an opinion on these financial statements based on our review. We did not review the financial statements of certain long-term investments carried on the equity method of accounting, which amounted to NT$10,723,419 thousand and NT$61,894,049 thousand as of March 31, 2003 and 2004, respectively, and the equity in net earnings of these investee companies amounted to NT$803,185 thousand and NT$4,145,850 thousand for the periods ended March 31, 2003 and 2004, respectively. The financial statements of the above-mentioned investee companies were audited or reviewed by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these companies, is based solely on the reports of the other auditors.

Except as mentioned in the third paragraph, we conducted our review in accordance with Republic of China Statement on Auditing Standards No. 36, "The Review of Financial Statements". A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As outlined in note 7, other than those stated in the first paragraph, we did not review the financial statements of certain long-term investments carried on the equity method, which amounted to NT$60,541,062 thousand and NT$2,899,395 thousand as of March 31, 2003 and 2004, respectively, and the equity in net earnings of these investee companies amounted to NT$1,163,489 thousand and the equity in net losses amounted to NT$284,599 thousand for the periods ended March 31, 2003 and 2004, respectively. Nor were we able to satisfy ourselves as to the carrying value of the investments in these investee companies and the equity in their earnings or losses by other review procedures.

Based on our reviews and the reports of other auditors, we are not aware of any material modifications that should be made to the nonconsolidated financial statements referred to in the first paragraph in order for them to be in conformity with accounting principles generally accepted in the Republic of China, except for the effects of such adjustments, if any, as might have been determined to be necessary had the investee companies' financial statements been reviewed as stated in the third paragraph.

The accompanying nonconsolidated financial statements as of and for the three months ended March 31, 2004, have been translated into United States dollars solely for the convenience of the readers. We have reviewed the translation, and in our opinion, the nonconsolidated financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(b) of the notes to the consolidated financial statements.

Taipei, Taiwan (the Republic of China)
April 28, 2004

The accompanying nonconsolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the 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 nonconsolidated financial statements are those generally accepted and applied in the Republic of China.

FORMOSA PLASTICS CORPORATION

NONCONSOLIDATED BALANCE SHEETS
MARCH 31, 2003 AND 2004
(expressed in thousands of New Taiwan dollars and US dollars)
(Unaudited)

Assets	2003	2004	
	NTD	NTD	USD
Current assets:			
Cash and cash equivalents (note 4)	$ 521,902	$ 777,015	$ 23,546
Short-term investments (notes 4 and 18)	7,433,631	15,405,934	466,846
Notes receivable (note 5)	340,199	331,549	10,047
Accounts receivable (note 5)	2,047,328	3,384,280	102,554
Accounts receivable from related parties (notes 5 and 17)	2,201,162	3,072,422	93,104
Due from related parties (note 17)	3,061,798	6,026,548	182,623
Other financial assets — current (notes 16 and 17)	515,211	644,148	19,520
Inventories, net (note 6)	9,407,881	12,107,419	366,891
Prepayments	1,836,725	1,309,954	39,695
Deferred income taxes assets (note 15)	1,671,760	3,702,766	112,205
Total current assets	29,037,597	46,762,035	1,417,031
Fund and long-term investments:			
Long-term equity investments — equity method (notes 7 and 18)	71,264,481	72,121,954	2,185,514
Long-term equity investments — cost method (note 7)	4,206,495	4,195,202	127,127
Other financial assets (note 16)	103,406	88	3
	75,574,382	76,317,244	2,312,644
Property, plant and equipment (notes 8, 17 and 18):			
Cost:			
Land	1,840,254	2,331,169	70,641
Buildings and building improvements	12,541,084	12,739,765	386,053
Machinery and equipment	67,713,594	69,781,864	2,114,602
Transportation and miscellaneous equipment	2,340,469	2,381,809	72,176
Revaluation increments	633,217	629,862	19,087
Subtotal	85,068,618	87,864,469	2,662,559
Less: accumulated depreciation	(33,399,043)	(37,605,003)	(1,139,545)
Construction in progress	8,919,600	10,648,648	322,686
Advance payments for project and equipment	1,101,668	2,201,481	66,712
Property, plant and equipment, net	61,690,843	63,109,595	1,912,412
Intangible assets:			
Goodwill (note 7)	—	282,249	8,553
Deferred pension cost (note 12)	173,552	580,816	17,601
Total intangible assets	173,552	863,065	26,154
Other assets:			
Temporary payment	230,212	332,023	10,061
Leased-out and idle assets, net (note 9)	433,833	380,835	11,541
Refundable deposits (note 18)	988,471	1,609,952	48,786
Deferred expenses	599,713	523,510	15,864
Deferred income tax assets (note 15)	4,670,756	2,470,983	74,878
Total other assets	6,922,985	5,317,303	161,130
Total assets	**$ 173,399,359**	**$ 192,369,242**	**$ 5,829,371**

FORMOSA PLASTICS CORPORATION

NONCONSOLIDATED BALANCE SHEETS — (Continued)
MARCH 31, 2003 AND 2004
(expressed in thousands of New Taiwan dollars and US dollars)
(Unaudited)

Liabilities and Stockholders' Equity	2003	2004	
	NTD	NTD	USD
Current liabilities:			
Short-term borrowings (note 10)	$ 132,221	$ 81,740	$ 2,477
Employees' savings	365,458	385,983	11,696
Notes payable and accounts payable	587,558	943,154	28,581
Accounts payable to related parties (note 17)	2,382,524	4,570,108	138,488
Accrued expenses (note 17)	3,181,122	3,980,897	120,633
Current portion of long-term debt (note 11)	10,419,050	10,060,308	304,858
Other payables (notes 7 and 16)	386,378	992,525	30,077
Total current liabilities	17,454,311	21,014,715	636,810
Long-term liabilities (note 11):			
Long-term debt	36,313,973	29,712,681	900,384
Bonds payable	15,450,000	21,050,000	637,879
Total long-term liabilities	51,763,973	50,762,681	1,538,263
Other liabilities:			
Accrued pension liability (note 12)	3,768,350	4,726,806	143,237
Other miscellaneous liabilities (notes 7 and 16)	305,408	145,449	4,407
Total other liabilities	4,091,758	4,872,255	147,644
Total liabilities	73,310,042	76,649,651	2,322,717
Stockholders' equity (note 13):			
Capital stock (note 7)	45,347,335	48,068,685	1,456,627
Capital surplus:			
Capital surplus — stock premium (note 7)	8,129,174	8,130,081	246,366
Capital surplus — reserve for revaluation increment	180,379	180,379	5,466
Capital surplus — others	6,411,423	4,972,772	150,690
Total capital surplus	14,720,976	13,283,232	402,522
Retained earnings:			
Legal reserve	9,480,252	10,465,774	317,144
Special reserve	14,105,944	17,097,152	518,096
Unappropriated retained earnings	14,464,387	25,229,599	764,533
Total retained earnings	38,050,583	52,792,525	1,599,773
Unrealized loss on long-term equity investment devaluation (note 7)	(30,879)	—	—
Cumulative translation adjustments (note 7)	2,026,779	1,575,149	47,732
Treasury stock (notes 3 and 7)	(25,477)	—	—
Total stockholders' equity	100,089,317	115,719,591	3,506,654
Commitments and contingencies (note 19)			
Total liabilities and stockholders' equity	**$ 173,399,359**	**$ 192,369,242**	**$ 5,829,371**

See accompanying notes to nonconsolidated financial statements.

FORMOSA PLASTICS CORPORATION

NONCONSOLIDATED STATEMENTS OF INCOME
THREE-MONTH PERIODS ENDED MARCH 31, 2003 AND 2004
(expressed in thousands of New Taiwan dollars and US dollars, except earnings per share)
(Unaudited)

	2003	2004	
	NTD	NTD	USD
Operating revenues (note 17):			
Gross sales	$ 17,834,736	$ 26,476,258	$ 802,310
Sales returns and allowances	22,493	15,260	462
Total operating revenues	17,812,243	26,460,998	801,848
Cost of good sold (notes 17 and 21)	14,832,483	20,668,334	626,313
Gross profit	2,979,760	5,792,664	175,535
Realized (unrealized) inter-affiliate profit	26,811	(45,630)	(1,383)
Realized gross profit	3,006,571	5,747,034	174,152
Operating expenses (note 21):			
Selling expenses	644,701	845,168	25,611
General & administrative expenses	493,419	563,381	17,072
R&D expenses	98,383	118,211	3,582
Total operating expenses	1,236,503	1,526,760	46,265
Operating income	1,770,068	4,220,274	127,887
Non-operating income:			
Interest income (note 17)	36,479	48,458	1,468
Investment income recognized under equity method (note 7)	2,191,104	4,196,106	127,155
Gain on disposal of property, plant and equipment (note 9)	1,680	604,110	18,306
Gain on disposal of investments	3,717	100,605	3,049
Gain on physical inventory	37,192	2,784	84
Foreign exchange gain, net	21,895	42,610	1,291
Rental income (note 17)	27,088	27,765	842
Other items (note 16)	160,829	126,515	3,834
Total non-operating income	2,479,984	5,148,953	156,029
Non-operating expenses:			
Interest expenses (notes 8 and 17)	549,735	440,052	13,335
Investment loss recognized under equity method (note 7)	224,430	412,971	12,514
Loss on disposal of assets	20	219	7
Loss on physical inventory	138	1,849	56
Other items (note 16)	81,000	85,924	2,604
Total non-operating expenses	855,323	941,015	28,516
Net non-operating income	1,624,661	4,207,938	127,513
Income before income tax	3,394,729	8,428,212	255,400
Income tax (expense) benefit (note 15)	(316,231)	(384,558)	(11,653)
Net income	**$ 3,078,498**	**$ 8,043,654**	**$ 243,747**
Basic earnings per share — retroactively adjusted (note 14)			
— before tax	**$ 0.71**	**$ 1.75**	**$ 0.05**
— after tax	**$ 0.64**	**$ 1.67**	**$ 0.05**
Proforma information if stock held by subsidiaries is not treated as treasury stock			
Net income	**$ 3,078,498**		
Basic earnings per share — retroactively adjusted (note 14)			
— before tax	**$ 0.71**		
— after tax	**$ 0.64**		

See accompanying notes to nonconsolidated financial statements.

FORMOSA PLASTICS CORPORATION

NONCONSOLIDATED STATEMENTS OF CASH FLOWS
THREE-MONTH PERIODS ENDED MARCH 31, 2003 AND 2004
(expressed in thousands of New Taiwan dollars and US dollars)
(Unaudited)

	2003	2004	
	NTD	NTD	USD
Cash flows from operating activities:			
Net income	$ 3,078,498	$ 8,043,654	$ 243,747
Adjustments:			
Unrealized foreign exchange gain, net	(8,920)	(83,835)	(2,540)
Depreciation, amortization, and loss on disposal of assets	1,156,384	1,265,121	38,337
Provision for (reversal of) expenses and devaluations	(60,610)	11,580	351
Change in deferred income taxes, net	316,231	384,558	11,653
Long-term investment income under equity method, net	(1,966,674)	(3,783,135)	(114,641)
Gain on disposal of assets and idle assets, net	(1,680)	(604,110)	(18,306)
Gain on sale of short-term investments, net	(3,173)	(2,244)	(68)
Gain on sale of long-term investments	(543)	(98,361)	(2,981)
Decrease (increase) in accounts and notes receivable	9,716	(1,240,483)	(37,590)
Increase in other receivables	(99,499)	(208,599)	(6,321)
Decrease (increase) in inventories	137,973	(1,515,325)	(45,919)
Decrease (increase) in prepayments	(754,288)	92,262	2,796
Decrease in accounts and notes payable	(1,448,071)	(743,980)	(22,545)
Increase in accrued expenses and estimated expense payable	94,298	896,806	27,176
Increase (decrease) in other payables and other current liabilities	(115,830)	272,677	8,263
Cash dividends from investees accounted for by equity method	150,000	200,250	6,068
Adjustment for unrealized pension liability, net	67,198	115,916	3,512
Amortization of discount on forward exchange purchasing	(6,947)	(5,723)	(173)
Unrealized (realized) gross profit, net	(26,811)	45,630	1,383
Net cash provided by operating activities	517,252	3,042,659	92,202
Cash flows from investing activities:			
Increase in short-term investments	(704,504)	(3,641,447)	(110,347)
Proceeds from sales of assets and idle assets	1,681	644,969	19,545
Purchases of property, plant and equipment	(632,819)	(1,914,242)	(58,007)
Increase in long-term investments	(138,783)	(348,665)	(10,566)
Increase in refundable deposits	(102,459)	(303,203)	(9,188)
Increase in deferred expenses	(7,077)	(68,667)	(2,081)
Increase in temporary debits	(92,530)	(183,802)	(5,570)
Decrease in due from related parties	859,808	1,149,300	34,827
Proceeds from sales of short-term investments	703,173	300,000	9,091
Proceeds from sales of long-term investments	9,613	202,380	6,133
Proceeds from sales of forward exchange contracts	19,022	5,949	180
Net cash used in investing activities	(84,875)	(4,157,428)	(125,983)
Cash flows from financing activities:			
Decrease in short-term borrowings and borrowings from employees	(159,009)	(65,615)	(1,988)
Increase (decrease) in long-term debt and bonds payable	(561,663)	638,481	19,348
Payment of cash dividends	(915)	(778)	(24)
Payment of directors' and supervisors' compensation and employees' bonuses	(2,563)	—	—
Increase (decrease) in other miscellaneous liabilities	(7,723)	1,149	35
Net cash provided by (used in) financing activities	(731,873)	573,237	17,371
Decrease in cash and cash equivalents	(299,496)	(541,532)	(16,410)
Cash and cash equivalents at beginning of year	821,398	1,318,547	39,956
Cash and cash equivalents at end of year	**$ 521,902**	**$ 777,015**	**$ 23,546**
Supplemental cash flow information:			
Interest paid (excluding interest capitalized)	**$ 753,519**	**$ 636,200**	**$ 19,279**
Income tax paid	**$ 3,824**	**$ 24,019**	**$ 728**
Financing activities that have no effect on cash flow:			
Current portion of long-term debt	**$ 10,419,050**	**$ 10,060,308**	**$ 304,858**

See accompanying notes to consolidated financial statements.

FORMOSA PLASTICS CORPORATION

NOTES TO NONCONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2003 AND 2004
(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)
(Unaudited)

(1) ORGANIZATION AND BUSINESS SCOPE

Introduction to the Company

Formosa Plastics Corp. (the Company) was incorporated on October 30, 1954, and established its factories in Kaohsiung City. The Company is engaged in the manufacture and sale of plastic products, chemical fibers, and chemical products. The Company has gone through several capital increases, established many divisions, and become a well-diversified enterprise. The operating activities of each division are as follows:

Division	Product/Service
Plastic Division	PVC, caustic soda, VCM, HCFC, POM, MBS resin, etc.
Tairylan Division	Acrylic fiber, AE, carbon fiber, SAP, etc.
Carbide Division	Calcium carbide, quicklime, calcium carbonate master batch, etc.
Engineering and Construction Division	Electricity, steam, and plant design & construction
Polyolefin Division	HDPE, LDPE, LLDPE, EVA, etc.
Electronics Special Project Department	DCS
Chemical Division	AN, ECH, MMA, MTBE, B1, etc.
Polypropylene Division	PP

As of March 31, 2004, there were 4,653 employees in the Company.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency transactions and translations of foreign currency financial statements

The Company's functional and reporting currency is the New Taiwan dollar. Foreign currency transactions during the year are translated at the rates on the transaction dates. Foreign currency receivable and payable are translated into New Taiwan dollars at the market rate on the balance sheet date, and the resulting realized and unrealized gains or losses are recognized as nonoperating income or expenses. Exchange differences of the Company's long-term investments are included in the stockholders' equity as cumulative translation adjustments.

Exchange differences derived from the translation of the Company's foreign long-term investments are included in the stockholders' equity as cumulative translation adjustments.

(b) Convenience translation into US dollars

The nonconsolidated financial statements are stated in New Taiwan dollars. Translation of the March 31, 2004, New Taiwan dollar amounts into US dollar amounts is included solely for the convenience of the readers, using the noon buying rate of the Federal Reserve Bank in New York on March 31, 2004, of NT$33 to US$1 uniformly for all the financial statement accounts. The convenience translation should not be construed as a representation that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

(c) Cash and cash equivalents

Marketable securities that are highly liquid and have maturities of three months or less at the date of purchase are classified as cash equivalents.

(d) Short-term investments

Short-term investments are stated at the lower of aggregate cost or market value. Aggregate cost is determined by the weighted-average method. Market value is determined by averaging the closing prices of the last month of the accounting period. Losses resulting from decline in market value are recognized in the income statement of the current period. Stock dividends received are not recognized as investment income but are accounted for as an increase in the number of shares held. The cost per share after stock dividends is recalculated using the weighted-average method.

(e) Allowance for doubtful accounts

Allowance for doubtful accounts and sales allowances are shown in their net realizable value and calculated based upon the Company's evaluation of the collectibility of notes and accounts receivable.

(f) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by using the monthly weighted-average method. Market value represents replacement cost or net realizable value.

(g) Long-term equity investments

Long-term investments in listed equity securities that represent less than 20% of the investee's common stock ownership, and where the Company does not have significant influence on the investees, are stated at the lower of cost or market value. Unrealized loss resulting from decline in market value thereon is recorded as a reduction in stockholders' equity.

Long-term investments in non-listed equity securities are stated at cost. When there is evidence showing that a decline in the market value of such an investment is other than temporary and the probability of recovery is considered remote, the carrying value of the investment is reduced to reflect the market value and the resulting loss is recognized in the period of such a reduction. Stock dividends are not recognized as investment income but are booked as an increase in the number of shares held. The cost of long-term equity investment sold is calculated based on the weighted-average method.

Investments where the percentage of ownership exceeds 20%, or where the Company has significant influence on the operating and financial policies of the investee companies, are accounted for by the equity method. The difference between the cost of an investment and the amount of underlying equity in net assets of an investee is amortized by using the straight-line method over five years.

The Company recognizes concurrently its equity in the earnings and losses of a more than 20%-owned equity-method investee company if such an investee is more than 50% owned, or is less than 50% owned but meets all the criteria set out below:

(i) The beginning owners' equity of such an investee is in excess of NT$50,000,000 and is in excess of 5% of the Company's beginning issued share capital.

(ii) The Company is among the top three shareholders in terms of the holding percentage of such an investee, or the president or general manager of such an investee is nominated by the Company.

(iii) The Company owns more than 30% of such investee, or the combined holding percentage of such investee as held by the Company, the Company's directors, supervisors, and executive officers, and other entities controlled directly or indirectly by the Company are in excess of 50%.

As of March 31, 2003 and 2004, the more than 50%-owned equity-method investees Formosa Teletek Corporation, Formosa Plastics Corp. America, Yung-Chia Chemical Industries Company (merged on August 1, 2003), Formosa Plasma Display Corporation, and Formosa Plastics Corporation (Cayman) are accounted for using the equity method, and the investment gain of loss has to be recognized in the current period. Moreover, the principles referred to above are also applies to the less than 50%-owned investees Formosa Petrochemical Corp. and Formosa Heavy Industries Corp, since the net value of investment beginning is more than NT$50 million and 5% of the Company's capital; and (or) the company was one of the 3 largest stockholders; and (or) the Company owns more than 30% of the investees. For other investees under the equity method but not meeting the abovementioned criteria, the company deferred the recognition of investment gain/loss in the following year.

Unrealized gain or loss from transactions between the Company and subsidiaries or the investees under the equity method is deferred as an adjustment for sales gross profit or investment gain or loss. Unrealized gains or losses resulting from depreciable or amortizable assets are recognized yearly over the respective useful lives of the related assets. Unrealized gain or loss from the transactions between the investees under the equity method is accounted for by the proportion the Company owns and is deferred as adjustment of gain or loss on investment.

When the Company owns more than 50% of an investee's voting common stock, the investee is treated as a subsidiary and the Company is required to prepare annual consolidated financial statements. However, if both the subsidiary's total assets and operating revenue are below 10% of the Company's respective account balances, such a subsidiary is not required to be consolidated.

However, if the total assets and operating revenue of all nonconsolidated subsidiaries are over 30% of the Company's respective account balances, consolidated financial statements are still required for those subsidiaries whose total assets and operating revenue are more than 3% of the Company's respective account balances. The Company's interim financial statements are not required to be consolidated.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost. The Company can revalue its fixed assets in accordance with regulations prescribed by the ROC government and include the revaluation increment in the cost of property, plant and equipment. Interest due to asset acquisition is capitalized as part of the acquisition cost. Maintenance and improvement expense is recognized as current period expense. Depreciation is calculated using the straight-line method for the consolidated subsidiary's assets, and the Company's CFC plant, Polypropylene Division, Mai-Liao plant, and Formosa Plastics Corp., America. Depreciation of the other plants' assets is calculated using the declining-balance method. Assets that are still in service after reaching the end of their estimated useful lives are depreciated over their re-estimated useful lives.

The major fixed assets' economic lives are as follows:

(i) Building: 3~55 years

(ii) Machinery and equipment: 3~25 years

(v) Other equipment: 3 to 15 years

Gains or losses on the disposal of fixed assets are recorded as non-operating income or expenses in the accompanying statements of income.

(i) Goodwill

When acquiring Yung-Chia Chemical Industries Corp., the excess of cost over fair value of the identifiable net assets acquired was recognized as goodwill, which is amortized using the straight-line method over five years. The value and future benefits of goodwill are measured on the balance sheet date. If the value eventually disappears, goodwill should be charged to nonoperating expense or extraordinary loss over the period affected.

(j) Deferred expenses

Deferred expenses are stated at cost and primarily consist of bond issuance costs, electrical expenses, catalyst and patents. These costs are amortized over their estimated useful lives.

(k) Derivative financial instruments

The Company engages in derivative financial transactions to manage the risk of interest rate fluctuation, and discloses these financial instruments in accordance with SFAS No. 27, “Disclosure of Financial Instruments”.

(i) *Interest rate swap transactions*

Interest rate swap contracts entered into for hedging purposes are only recorded in a memo account on the contract signing date, since no principal is transferred. Any interest income or expense resulting from rate differences is measured on the balance sheet date and settlement date, and is reflected in the accompanying statements of income. The related interest receivable or payable resulting from the contract interest rate and market interest rate on the balance sheet date and settlement date is treated as an adjustment for the hedging assets’ or liabilities’ interest income or expense.

(ii) *Forward exchange transactions*

Foreign exchange forward contracts entered into for the purpose of hedging the risks of exchange rate fluctuation on foreign currency receivables and payables are translated into New Taiwan dollars using year-end exchange rates. The resulting translation difference is recorded as an exchange gain or loss in the accompanying nonconsolidated statements of income. The difference between the forward rate and spot rate at the contract date is amortized over the contract period.

(iii) *Cross currency swaps (CCSs)*

The Company enters into cross currency swaps in order to meet the need for different currencies. The current portion of foreign assets and liabilities is recognized at the contract date spot rate. The long-term part is recognized at the contract forward exchange rate. The spread between the spot and forward rate is amortized over the contract period as income or expense.

(l) Pension plan

In compliance with the Republic of China (“ROC”) Labor Standards Law, the Company has established employee benefit pension plans for its regular employees. The Company contributes the retirement fund monthly at 2% of the paid salaries and wages. The funds are deposited with the Central Trust of China. In accordance with the plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements, or becoming disabled.

The Company adopted ROC Statement of Financial Accounting Standards (“SFAS”) No. 18, “Accounting for Pensions”, for the plan. SFAS No. 18 requires that the Company calculate actuarial pension liability using the balance sheet date as the measurement date. The amount of accumulated benefit obligation in excess of fair value of pension plan assets is deemed the minimum pension liability and is to be recognized as accrued pension liability. The net periodic pension cost consists of service cost, amortization of net transition obligation, interest cost, and pension gain or loss. Net transaction obligation is amortized by 17 years as average employees future service period.

(m) Treasury stock

Effective on January 1, 2002, the Company's issued common stock held by its subsidiaries is considered as the Company's treasury stock in accordance with SFAS No. 30, "Accounting for Treasury Stock". SFAS No. 30 also prescribes that previous years' financial statements are not required to be restated. Cash dividends paid by the Company to its subsidiaries that held the Company's issued stock are accounted for as capital surplus.

(n) Income tax

The Company adopted ROC Statement for Financial Accounting Standards ("SFAS") No. 22, "Accounting for Income Taxes". Deferred income taxes are determined based on differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, loss carryforwards, and investment tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly.

Classification of the deferred income tax assets or liabilities as current or non-current is based on the classification of the related asset or liability. If a deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the expected realization date of such deferred income tax asset or liability.

According to the ROC Income Tax Law, the Company's undistributed income, if any, is subject to an additional 10% retained earnings tax. The surtax is charged to income tax expense after the stockholders' meeting in the following year approves the appropriation of earnings.

(o) Earnings per share

The Company adapted ROC SFAS No. 24, "Earnings per Share" to calculate and disclose the related information on earnings per share. The computation of basic earnings per share is based on the weighted-average number of common shares outstanding. Earnings per share are retroactively adjusted for stock dividends.

(3) CHANGE IN ACCOUNTING PRINCIPLE AND THE EFFECTS

Effective on January 1, 2002, the Company's issued common stock held by its subsidiaries is considered as the Company's treasury stock in accordance with SFAS No. 30, "Accounting for Treasury Stock". In accordance with this regulation, the long-term stock investment decreased and the treasury stock increased NT$25,477, and capital surplus — treasury increased and retained earnings decreased NT$611 as of March 31, 2003. This change in accounting principle had remote effect on the financial statements.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(4) CASH AND CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS

(a) Cash and cash equivalents

	2003	2004	
	NT$	NT$	US$
Cash on hand	701	768	23
Bank deposit	521,201	773,822	23,449
Certificate of deposit	—	2,425	74
	521,902	**777,015**	**23,546**

Certificates of deposit for guarantees have been reclassified to guarantee deposits paid. Please see note 18.

(b) Short-term investment

As of March 31, 2003 and 2004, short-term investments were as follows:

	2003		2004			
Investee	**Book value**	**Market value**	**Book value**		**Market value**	
	NT$	NT$	NT$	US$	NT$	US$
Stocks, mutual funds, and callable credit-linked deposit	**7,433,631**	**19,006,551**	**15,405,934**	**466,846**	**34,407,341**	**1,042,647**

Short-term investments pledged to banks as collateral for loans are described in note 18.

(5) NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

Accounts and notes receivable as of March 31, 2003 and 2004, consisted of:

	2003	2004	
	NT$	NT$	US$
Notes receivable	347,200	338,386	10,254
Less: allowance for doubtful accounts	(7,001)	(6,837)	(207)
	340,199	331,549	10,047
Accounts receivable	2,127,140	3,512,779	106,448
Less: allowance for doubtful accounts	(79,812)	(128,499)	(3,894)
	2,047,328	3,384,280	102,554
Accounts receivable due from related parties	2,201,162	3,072,422	93,104
Net book value	**4,588,689**	**6,788,251**	**205,705**

Details of accounts receivable from related parties are described in note 17.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(6) INVENTORIES

As of March 31, 2003 and 2004, inventories consisted of the following:

	2003	2004	
	NT$	NT$	US$
Finished goods	3,741,869	5,271,723	159,749
Work in process	1,273,773	1,370,015	41,515
Machinery and accessories in process	138,054	153,120	4,640
Raw materials	625,647	1,353,350	41,011
Supplies	3,707,559	4,057,612	122,958
Goods in transit	83,425	29,199	885
Others	260	12,333	373
Internal transfer pricing loss on inventory devaluation	(19,042)	(61,587)	(1,866)
Less: allowance for inventory devaluation	(143,664)	(78,346)	(2,374)
	9,407,881	**12,107,419**	**336,891**

Inventories have been insured against fire loss. Total insurance coverage amounted to NT$9,441,818 and NT$10,055,936 as of March 31, 2003 and 2004, respectively.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(7) LONG-TERM EQUITY INVESTMENTS

(a) As of March 31, 2003 and 2004, long-term equity investments consisted of the following:

	2003		2004		
Investee	NT$	% of ownership	NT$	US$	% of ownership
Equity method:					
Formosa Petrochemical Corp. .	43,185,094	32.65	47,215,215	1,430,764	31.84
Formosa Plastics Corp. America	5,920,528	100.00	5,696,241	172,613	100.00
Yung-Chia Chemical Industries Corp..	3,634,544	98.46	—	—	—
Formosa Heavy Industries Corp.	2,991,894	32.91	3,036,724	92,022	32.91
Formosa Teletek Corp.	204,653	98.90	146,596	4,442	97.68
Formosa Plasma Display Corp.	2,081,826	76.65	1,290,152	39,096	75.70
Formosa Plastics Corp. (Cayman Ltd.)	495,744	100.00	1,513,421	45,861	100.00
Formosa Komatsu Silicon Wafer	696,331	23.76	882,097	26,730	23.77
Taishih Textile Corp..	—	50.00	—	—	50.00
Mai Liao Power Corp.	8,224,090	24.94	8,598,655	260,565	24.94
Formosa Transportation Corp. .	437,903	33.33	491,194	14,885	33.33
Formosa Fairway Corp..	97,179	33.32	89,418	2,710	33.33
Yi-Jih Development Corp.	108,465	28.72	103,568	3,138	28.72
Ya Tai Development Corp.. . . .	15,709	35.03	20,606	625	35.03
Yue Chi Development Corp. . .	3,375	50.00	—	—	—
Formosa Plastics Group Management Consultant Corp..	569	33.40	574	17	33.40
Formosa Asahi Spandex Co., Ltd..	577,650	50.00	679,792	20,600	50.00
Formosa Automobile Corporation	466,544	45.00	426,978	12,939	45.00
Wha Ya Park Management Consulting Corporation Ltd. .	674	33.00	686	21	33.00
Formosa Daikin Advanced Chemical Co., Ltd.	45,646	50.00	65,525	1,986	50.00
Su-Hua Transportation Corporation	49,284	25.00	51,558	1,562	25.00
Formosa Environmental Technology Corporation. . . .	—	—	237,805	7,206	24.34
	69,237,702		70,546,805	2,137,782	
Translation adjustment	2,026,779		1,575,149	47,732	
Net	71,264,481		72,121,954	2,185,514	

(expressed in thousands of New Taiwan dollars and US dollars
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	2003		2004		
Investee	**NT$**	**% of ownership**	**NT$**	**US$**	**% of ownership**
Lower-of-cost-or-market-value method/cost method:					
FPC U.S.A.	1,387,020	6.04	1,387,020	42,031	6.04
Asian Pacific Investment Corporation Ltd.	727,804	15.00	777,804	23,570	16.17
Ours Commercial Banking Corporation	333,340	3.15	249,999	7,575	2.36
Mai Liao Harbor Administration Corp.	539,486	17.99	539,486	16,348	17.99
Taiwan Aerospace Corporation	42,500	0.81	42,500	1,288	0.81
Ampere Industrial Corporation Ltd.	31,130	18.00	31,130	943	18.00
China Television Service Corporation	28,609	0.89	28,609	867	0.89
Sequoia Bancshares, Inc.	8,831	3.84	—	—	—
China-Canada Investment & Development Corporation Ltd.	8,250	0.80	8,250	250	0.80
Central Leasing Corporation	19,246	1.43	19,246	583	1.43
Fomosa Plastics Investment Corporation	90,010	18.00	90,010	2,728	18.00
Asean-Ho Aircraft Leasing Corporation	19,000	9.55	19,000	576	9.55
Formosa Petrochemical Transportation Corporation	24,012	12.00	24,012	728	12.00
Formosa Network Technology Corporation	13,331	12.50	13,331	404	12.50
Formosa Plastics Marine Corporation	15,000	15.00	15,000	455	15.00
Formosa Group Ocean Marine Investment Corporation	856,948	19.00	856,948	25,968	19.00
Gala Television Constitution	91,162	6.25	91,162	2,762	6.25
Others	1,695	—	1,695	51	—
	4,237,374		4,195,202	127,127	
Unrealized devaluation loss	(30,879)		—	—	
Net	4,206,495		4,195,202	127,127	
	75,470,976		**76,317,156**	**2,312,641**	

(expressed in thousands of New Taiwan dollars and US dollars
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(b) The original cost of long-term investments accounted for under the equity method as of March 31, 2003 and 2004, is summarized as follows:

Investee	2003	2004	
	NT$	NT$	US$
Formosa Petrochemical Corporation	34,130,966	33,002,197	1,000,066
Formosa Plastics Corp. America	4,227,004	4,227,004	128,091
Yungchia Chemical Industries	2,697,744	—	—
Formosa Heavy Industries Corp.	2,497,723	2,497,723	75,689
Formosa Teletek Corporation	247,589	245,609	7,443
Fomosa Plasma Display Corp.	2,146,412	2,125,813	64,419
Formosa Plastic Corporation (Cayman Ltd.)	498,985	1,570,345	47,586
Formosa Komatsu Silicon Wafer	1,071,388	1,078,716	32,688
Taishih Textile Corporation	284,550	284,550	8,623
Mai Liao Power Corporation	5,985,531	5,985,531	181,380
Formosa Transportation Corporation	60,664	60,664	1,838
Formosa Fairway Corporation	33,320	33,330	1,010
Yi-jih Development Corporation	57,000	57,000	1,727
Ya Tai Development Corporation	10,183	10,183	309
Yue Chi Development Corp.	47,000	—	—
Formosa Plastics Group Management Consultant Corporation	334	334	10
Formosa Asahi Spandex Co., Ltd.	400,002	401,002	12,152
Formosa Automobile Corporation	674,980	674,980	20,454
Wha Ya Park Management Consulting Corporation Ltd.	341	341	10
Formosa Daikin Advanced Chemical Co., Ltd.	75,000	100,000	3,030
Su-Hua Transportation Corporation	50,000	50,000	1,515
Formosa Environmental Technology Corporation	—	243,375	7,375
	55,196,716	**52,648,697**	**1,595,415**

(c) As of March 31, 2003 and 2004, the Formosa Petrochemical Corp. stock pledged as collateral was 770,500 thousand shares and 1,070,500 thousand shares, respectively. Please see note 18.

(d) The board of directors' meeting held on March 6, 2003, resolved to merge with Yung-Chia Chemical Industries Company. The merger was registered with and approved by the authorities on July 7, 2003, and the merger took place on August 1, 2003. The long-term investment amounting to $3,067,872 and 194,432 thousand shares was eliminated due to the merger, and the Company issued 51,020 shares of new stock (par value $10 per share) amounting to NT$1,417 to minority stockholders. The Company incurred NT$65,899 in other payables due to the reacquisition of shares from the shareholders who objected to the merger. The Company also recognized Yung-Chia Chemical Industries Company's net assets amounting to NT$2,795,291. The excess of cost over fair value of the identifiable net assets acquired was capitalized as goodwill amounting to NT$339,897. As of March 31, 2004, the unamortized goodwill amounted to NT$282,249.

(e) The Company invested in Formosa Industries (Ningbo) Ltd. and Formosa Acrylic Acid and Esters (Ningbo) Ltd. through Formosa Plastics Corp. (Cayman). The Ministry of Economic Affairs approved the investment amount of US$43,050 and US$49,570 on May 21 and July 24, 2003, respectively. For the three-month period ended March 31, 2004, the Company transferred US$45,970 to Formosa Plastics Corp. (Cayman), of which US$30,450 was transferred to Formosa Industries (Ningbo) Ltd. and US$13,070 were transferred to Formosa Acrylic Acid and Esters (Ningbo) Ltd.

(f) The Company recognized investment gain or loss in Formosa Petrochemical Corp., Yung-Chia Chemical Industrial Corp. (before August 1, 2003), Formosa Plastics Corp. America, Formosa Heavy Industries Corp., Formosa Teletek Corp., Formosa Plasma Display Corp., and Formosa Plastics Corp. (Cayman) under the equity method and recognized in the current period. The ending balance of long-term investment amounted to NT$57,574,186 as of March 31, 2004, and the Company recognized investment gain amounting to NT$2,699,728 for the three-month period ended March 31, 2004, according to the CPA-reviewed financial statements of Formosa Petrochemical Corporation, Formosa Plastics Corp. America, and Formosa Heavy Industries Corporation. The ending balance of long-term investment in Formosa Petrochemical Corporation and Formosa Heavy Industries Corporation amounted to NT$50,245,676 as of March 31, 2004, and the Company recognized investment gain amounting to NT$2,777,845 for the three-month period ended March 31, 2004 according to the CPA-reviewed financial statements. The long-term investment under the equity method amounted to NT$60,541,062 and NT$2,899,395 as of March 31, 2003 and 2004, respectively; and the Company recognized investment gain amounting to NT$1,163,489 and investment loss amounting to NT$284,599 for the three-months periods ended March 31, 2003 and 2004, respectively, based on the investees' unreviewed financial statements.

(g) Due to the unavailability of current financial statements, the Company deferred the recognition of investment gain or loss for the more than 20%- but less than 50%-owned investees The ending balance of investment referred to above amounted to NT$10,723,419 and NT$11,648,373 as of March 31, 2003 and 2004, respectively. The Company recognized investment revenue amounting to NT$803,185 and NT$1,368,005 based on the investees' previous year financial statements audited by CPAs other than KPMG for the three-month periods ended March 31, 2003 and 2004, respectively.

(h) The Company deferred the recognition of investment loss in Taishih Textile Corp., which is accounted for using the equity method, due to the unavailability of current audited financial statements. The Company recognized investment loss amounting to NT$112,747 for the three-month period ended March 31, 2003. As of March 31, 2003, the accumulated investment loss in excess of the book value of investment amounted to NT$264,565. Since the Company intended continue the investment, the Company recognized the loss in excess of the book value of investment amounting to NT$151,819 as other liabilities. However, Taishih Textile Corp. was liquidated in September 2003, and the liquidation is still in process at the end of the year.

(expressed in thousands of New Taiwan dollars and US dollars
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(8) PROPERTY, PLANT AND EQUIPMENT

(a) Except for land, construction in progress, and advance payments for land and projects, the property, plant and equipment of the Company were revalued on December 31, 1974, and December 31, 1982. The balance of the revaluation increments as of March 31, 2003 and 2004, were as follows:

	2003	2004	
	NT$	NT$	US$
Building and equipment	138,160	138,160	4,187
Machinery and equipment	487,328	484,039	14,668
Miscellaneous equipment	7,729	7,663	232
	633,217	**629,862**	**19,087**

Reserve for asset revaluation increment referred to above amounting to NT$1,502,235 was recorded in the capital surplus account in 1976 and was converted into capital stock in 1988. Please see note 13 for the change in capital surplus.

(b) Interest incurred from the construction of property, plant and equipment amounting to NT$47,536, and NT$59,216 for the three-month periods ended 2003 and 2004, respectively, was capitalized as cost of the respective assets.

(c) The insurance coverage for property, plant, and equipment as of March 31, 2003 and 2004, amounted to NT$56,003,706 and NT$57,732,190, respectively.

(d) The property, plant and equipment pledged to secure bank loans as of December 31, 2001, 2002 and 2003, are described in note 18.

(e) As of March 31, 2003 and 2004, the property, plant and equipment under others' names amounted to NT$162,780 and was recorded in prepayment for land and construction. The Company has implemented a deed of trust with the authorities to secure the Company's rights related to the abovementioned properties.

(f) In the Sixth Naphtha Cracker Project, the ownership of the land for public use is uncertain. The Company is still in discussions with the ROC Ministry of Economic Affairs as of March 31, 2004.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(9) LEASED-OUT AND IDLE ASSETS, NET

Due to the shrinkage of the fiber products processing market, the Company's fiber division in Kuandu was discontinued on December 31, 1992. The fixed assets of the Company's fiber division were transferred into idle assets by net book value. The Company's land in Linkou was also transferred into idle assets and prepared for sell since it did not use for operation. In addition, the Asia Square real estate located in Taipei was leased to a non-related party and recorded in leased out assets. The lists of idle assets and leased-out assets was as follows:

	2003	2004	
	NT$	NT$	US$
Idle assets:			
Cost:			
Land	384,615	309,267	9,371
Building and building improvements	19,234	—	—
Machinery and equipment	170,729	170,728	5,174
	574,578	479,995	14,545
Less: accumulated depreciation	(140,745)	(152,470)	(4,620)
	433,833	327,525	9,925
Leased-out assets:			
Cost:			
Land	—	41,129	1,246
Building	—	19,234	583
	—	60,363	1,829
Less: accumulated depreciation	—	(7,053)	(213)
	—	53,310	1,616
Net book value of idle and leased-out assets	**433,833**	**380,835**	**11,541**

In February 2004, the Company sold the land located in Linkou to Prodisc Technology Inc. for NT$730,667. The gain on disposal of the assets amounted to NT$602,905 and was recorded in nonoperating revenue, after deducting cost of land amounting to NT$40,719 and related taxes amounting to NT$87,043.

(10) SHORT-TERM BORROWINGS

As of March 31, 2003 and 2004, short-term borrowings consisted of the following:

	2003		2004		
	NT$	Interest rate %	NT$	Interest rate %	US$
Bank overdrafts	21	5.000	—	—	—
Usance letters of credit	132,200	1.720~1.750	81,740	1.54~1.61	2,477
	132,221		**81,740**		**2,477**

The assets pledged for the above borrowings are described in note 18.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(11) LONG-TERM DEBT AND BONDS PAYABLE

Long-term debt and bonds payable as of March 31, 2003 and 2004, consisted of:

	2003	2004	
	NT$	NT$	US$
Formosa Plastics Corporation:			
Chiao Tung Bank and 29 other banks mortgage loan	16,065,023	13,918,653	421,777
Chiao Tung Bank and 32 other banks mortgage loan	11,398,000	10,684,336	323,768
Corp. bond issued in Oct. 1996	1,400,000	—	—
Corp. bond issued in Jane. 1998	4,000,000	2,500,000	323,768
Corp. bond issued in Jan. 1999	4,000,000	—	75,757
Corp. bond issued in Sep. 1999	3,150,000	3,150,000	95,455
Corp. bond issued in Mar. 2002	5,000,000	5,000,000	151,515
Corp. bond issued in Dec. 2002	4,800,000	4,800,000	145,454
Corp. bond issued in May. 2003	—	6,200,000	187,879
Corp. bond issued in Jan. 2004	—	5,200,000	157,576
Taiwan Cooperative Bank mortgage loan	4,000,000	2,500,000	75,758
Hua Nan Commercial Bank guarantee loan	7,400,000	5,900,000	178,788
Taishin International Bank mortgage loan	970,000	970,000	29,394
	62,183,023	60,822,989	1,843,121
Less: current portion	(10,419,050)	(10,060,308)	(304,858)
	51,763,973	**50,762,681**	**1,538,263**

(a) In order to raise capital for the Sixth Naphtha Cracker project and the construction of related factories, the Company signed a syndicated long-term loan agreement with the Chiao Tung Bank, the managing bank of the syndicated loan, and 29 other banks on April 28, 1995. The terms of contract were modified on May 6, 1999. Moreover, the current ratio was changed from 1.2 to 1 on December 31, 2000. The content of the syndicated long-term loan agreement was as follows:

Item	Mortgaged assets	Total credit line	Modified credit line	Loan balance as of 2003.3.31	Loan balance as of 2004.3.31	Interest rate	Interest payment	Period/ payment
		NT$	NT$	NT$	NT$			
A	Land	4,660,000	969,000	642,523	550,523	1-yr Post Office CD flexible rate + 1%	Monthly	Note 2
B	Factories	1,350,000	2,313,000	1,537,000	1,317,000	1-yr Post Office CD flexible rate + 1%	Monthly	Note 2
C	Automation equipment	3,900,000	3,900,000	3,333,000	2,960,000	1-yr Post Office CD flexible rate + 1%	Monthly	Note 3
D	Automation equipment (imported)	US$350,000	US$242,000	US$207,000	US$184,000	6-Month SIBOR + 0.75%	Semi-annual	Note 3
E	Anti-pollution equipment	470,000	470,000	364,250	317,250	The prime rate of Chiao Tung Bank - 5.155%	Monthly	Repay the principal on Jan. April, July, and Oct. 15 after the first appropriation date

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

Item	Mortgaged assets	Total credit line	Modified credit line	Loan balance as of 2003.3.31	Loan balance as of 2004.3.31	Interest rate	Interest payment	Period/ payment
		NT$	NT$	NT$	NT$			
F-A .	Machinery and equipment	420,000	3,148,000	2,998,000	2,698,200	1-yr Post Office CD flexible rate + 1%	Monthly	Note 3
F-B .	Automation equipment	—	3,350,000	—	—	Note 1	Monthly	Note 4

Note 1: The higher of the prime rate of Chiao Tung Bank and the average interest rate of Taiwan Bank, Hua Nan Bank, The First Bank, and Chang Hwa Bank, plus 1.25%

Note 2: Five years after the first appropriation date, repay the first installment; the rest of the principal is to be repaid semiannually in 10 installments after the first payment

Note 3: Five years after the first appropriation date or the date of finishing the project, pay the first installment; the rest of the principal is to be repaid semiannually in 10 installments after the first payment

Note 4: Two years after the first appropriation date or the date of finishing the project, pay the first installment; the rest of the principal is to be repaid semiannually in 17 installments after the first payment

(i) The land, buildings and equipment acquired using the loan referred to above are also pledged to the loan agreement as well. Please see note 18.

(ii) The abovementioned long-term loan was first appropriated in 1996. As of March 31, 2004, the available loan balance amounted to US$184,000 and NT$7,842,973. The item F-B mortgage referred to above has been used to issue domestic corporate bonds amounting to NT$3,150,000.

(iii) As of March 31, 2003 and 2004, the current portion of the long-term loan amounted to NT$1,828,050 and NT$1,788,260, respectively, and was recorded in current portion of long-term debt.

(iv) As of March 31, 2003 and 2004, the credit lines approved by the banks were NT$3,350,000 and NT$3,340,575, respectively.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(b) In order to raise capital for constructing factories in the Yunlin Mailiao Industrial Zone Area, the Company signed a syndicated long-term mortgage loan agreement with the Chiao Tung Bank, the managing bank of the syndicated loan, and other 32 banks on December 6, 2000. The details of the loan are as follows:

Item	Mortgaged assets	Total credit line amount	Loan balance as of 2003.3.31	Loan balance as of 2004.3.31	Interest rate	Interest payment	Period/ payment
		NT$	NT$	NT$			
A . .	Factories and affiliated equipment	1,085,000	800,000	800,000	2-yr Post Office CD flexible rate + 0.18% (cost) + 0.75%	Monthly	Note 1
B . .	Machinery and equipment	10,448,000	10,448,000	9,751,336	2- yr Post Office CD flexible rate + 0.18% (cost) + 0.75%	Monthly	Note 1
C . .	Anti-pollution equipment	241,000	150,000	133,000	The prime rate of Chiao Tung Bank -5.155%	Monthly	Note 1

Note 1: Three years after the first appropriation date, pay the first installment; the rest of the principal is to be repaid semiannually in 15 installments after the first payment

(i) The land, buildings and equipment acquired using the loan referred to above are pledged to the loan agreement as well. Please see note 18.

(ii) The item A loan was first appropriated on December 28, 2001.

(iii) The item B loan was first appropriated on December 26, 2000.

(iv) The item C loan was first appropriated on March 30, 2001.

(v) As of March 31, 2003 and 2004, the current portion of the long-term loan referred to above amounted to NT$721,000 and NT$1,502,048, respectively, and was recorded in the current portion of long-term debt.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(c) Issuance of domestic unsecured nonconvertible corporate bonds in October 1996

In order to improve the Company's financial structure, repay short-term loans, and take advantage of prevailing low interest rates, the board of directors' meeting held on March 11, 1998, resolved to issued domestic unsecured nonconvertible corporate bonds. The issuance was approved by the ROC SFC on October 16, 1996, and the issuance took place on October 29, 1996. The terms of the bonds were as follows:

(i)	Total issued principal amount	A bonds:	NT$1,400,000
		B bonds:	NT$1,400,000
		C bonds:	NT$1,400,000
(ii)	Issuance date	October 29, 1996	
(iii)	Maturity	A bonds:	five years (1996.10.29~2001.10.29)
		B bonds:	six years (1996.10.29~2002.10.29)
		C bonds:	seven years (1996.10.29~2003.10.29)
(iv)	Bearing annual rate	A bonds:	6.8%
		B bonds:	6.86%
		C bonds:	6.94%
(v)	Principal repayment	All bonds are repaid at maturity	

As of March 31, 2003, the maturity of the C bonds amounting to NT$1,400,000 was within one year; therefore, the amount was transferred to the current portion of long-term debt. As of March 31, 2004, all bonds had been repaid.

(d) Issuance of domestic unsecured nonconvertible corporate bonds in June 1998

In order to improve the Company's financial structure, repay short-term loans, and take advantage of prevailing low interest rates, the board of directors' meeting held on March 11, 1998 resolved to issue domestic unsecured nonconvertible corporate bonds with a principal amount of NT$4,000,000. The issuance was approved by the ROC SFC on June 3, 1998, and the issuance took place on June 16, 1998. Details of the bonds were as follows:

(i)	Total issued principal amount	A bonds:	NT$1,000,000
		B bonds:	NT$500,000
		C bonds:	NT$1,000,000
		D bonds:	NT$500,000
		E bonds:	NT$500,000
		F bonds:	NT$500,000
(ii)	Issuance date	June 16, 1998, at par value	

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(iii)	Maturity	A bonds:	five years (1998.6.16~2003.6.16)
		B bonds:	six years (1998.6.16~2004.6.16)
		C bonds:	seven years (1998.6.16~2005.6.16)
		D bonds:	five years (1998.6.17~2003.6.17)
		E bonds:	six years (1998.6.17~2004.6.17)
		F bonds:	seven years (1998.6.17~2005.6.17)
(iv)	Bearing annual rate	A bonds:	7.5%
		B bonds:	7.56%
		C bonds:	7.62%
		D bonds:	7.5%
		E bonds:	7.56%
		F bonds:	7.62%
(v)	Principal repayment	All bonds are repaid at maturity	

The terms of bondholder redemption were as follows:

(i)	Redemption period	A bonds:	(2001.5.1~2001.5.16)
		B bonds:	(2002.5.1~2002.5.16)
		C bonds:	(2003.5.1~2003.5.16)
		D bonds:	(2001.5.2~2001.5.17)
		E bonds:	(2002.5.2~2002.5.17)
		F bonds:	(2003.5.2~2003.5.17)
(ii)	Redemption price	Coupon value plus coupon interest	
(iii)	Redemption date	A bonds:	2001.6.16
		B bonds:	2002.6.16
		C bonds:	2003.6.16
		D bonds:	2001.6.17
		E bonds:	2002.6.17
		F bonds:	2003.6.17

As of March 31, 2003 and 2004, the maturity of the A bonds and D bonds amounting to NT$1,500,000, and B bonds and E bonds amounting to NT$1,000,000 were within one year; therefore, the amount was transferred to the current portion of long-term debt. In addition, A and D bonds amounting to NT$1,500,000 were repaid on June 16 and 17, 2003.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(e) Issuance of domestic unsecured nonconvertible corporate bonds in January 1999

In order to improve the Company's financial structure, repay short-term loans, and take advantage of prevailing low interest rates, the board of directors' meeting held on December 22, 1998, resolved to issue domestic unsecured nonconvertible corporate bonds with a principal amount of NT$4,000,000. The issuance was approved by the ROC SFC on January 13, 1999, and the issuance took place on January 26, 1999. The terms of the bonds issued are as follows:

(i)	Total issued principal amount	A bonds:	NT$1,500,000
		B bonds:	NT$1,500,000
		C bonds:	NT$300,000
		D bonds:	NT$300,000
		E bonds:	NT$200,000
		F bonds:	NT$200,000
(ii)	Issuance date	January 26, 1999, at par value	
(iii)	Maturity	A bonds:	five years (1999.1.26~2004.1.26)
		B bonds:	five years (1999.1.26~2004.1.26)
		C bonds:	five years (1999.1.27~2004.1.27)
		D bonds:	five years (1999.1.27~2004.1.27)
		E bonds:	five years (1999.1.28~2004.1.28)
		F bonds:	five years (1999.1.28~2004.1.28)
(iv)	Bearing annual rate	A bonds:	6.5%, compounded semiannually
		B bonds:	6.4% compounded semiannually
		C bonds:	6.5% compounded semiannually
		D bonds:	6.4% compounded semiannually
		E bonds:	6.5% compounded semiannually
		F bonds:	6.4% compounded semiannually
(v)	Principal repayment	All bonds are repaid at maturity	

The redemption rights of bondholders: Only B, D, and F bondholders could redeem their bonds. The terms of redemption are as follows:

(i)	Redemption period	B bonds:	(2001.12.11~2001.12.16)
		D bonds:	(2001.12.12~2001.12.17)
		F bonds:	(2001.12.13~2001.12.28)
(ii)	Redemption price	Coupon value plus coupon interest	
(iii)	Redemption date	B bonds:	2002.1.26
		D bonds:	2002.1.27
		F bonds:	2002.1.28

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

As of March 31, 2003, the maturity of all bonds referred to above amounting to NT$4,000,000 was within one year; therefore, the amount was transferred to the current portion of long-term debt account. In addition, all bonds amounting to NT$4,000,000 were repaid in January 2004.

(f) Issuance of domestic secured nonconvertible corporate bonds in September 1999

In order to improve the Company's financial structure, repay short-term loans, and take advantage of prevailing low interest rates, the board of directors' meeting held on August 25, 1998, resolved to issue domestic unsecured nonconvertible corporate bonds with a principal amount of NT$3,150,000. The issuance was approved by the ROC SFC on September 9, 1999, and the issuance took place on September 28, 1999. The terms of the bonds issued are as follows:

(i)	Total issued principal amount	A bonds:	NT$100,000
		B bonds:	NT$100,000
		C bonds:	NT$200,000
		D bonds:	NT$200,000
		E bonds:	NT$200,000
		F bonds:	NT$200,000
		G bonds:	NT$250,000
		H bonds:	NT$300,000
		I bonds:	NT$500,000
		J bonds:	NT$500,000
		K bonds:	NT$600,000
(ii)	Issuance date	September 28, 1999	
(iii)	Maturity	Five years (1999.9.28~2004.9.28)	
(iv)	Bearing annual rate	6.05%	
(v)	Principal repayment	All bonds are repaid at maturity	

As of December 31, 2003, the maturity of all bonds referred to above amounting to NT$3,150,000 was within one year; therefore, the amount was transferred to the current portions of long-term debt.

(g) Issuances of domestic unsecured nonconvertible corporate bonds in March 2002

In order to improve the Company's financial structure, repay short-term loans, and take advantage of prevailing low interest rates, the board of directors' meeting held on December 28, 2001 resolved to issue domestic unsecured nonconvertible corporate bonds with a principal amount of NT$5,000,000. The ROC SFC approved the issuance on January 10, 2002, and the issuance took place on March 4, 2002. The terms of the bonds issued are as follows:

(i)	Total issued principal amount	A-A ~ A-M bonds:	NT$2,600,000
		B-A ~ B-L bonds:	NT$2,400,000

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(ii)	Issuance date	March 4, 2002 at par value	
(iii)	Maturity	A-A ~ A-M bonds:	five years (March 2002~ March 2007)
		B-A ~ B-L bonds:	five years (March 2002~ March 2007)
(iv)	Bearing annual rate	A series bonds:	3.07%
		B series bonds:	3.0468%, compounded semiannually
(v)	Principal repayment	All bonds are repaid 33%, 33%, and 34% at the end of 3rd, 4th, and 5th year, respectively	

As of March 31, 2004, the maturity of the bonds referred to above amounting to NT$1,650,000 were transferred to the current portion of long-term debt.

(h) Issuance of domestic unsecured nonconvertible corporate bonds in May 2003

In order to improve the Company's financial structure, repay short-term loans, and take advantage of prevailing low interest rates, the board of directors' meeting held on November 11, 2002, resolved to issue domestic unsecured nonconvertible corporate bonds with a principal amount of NT$4,800,000. ROC SFC approved the issuance on November 27, 2002 and the bonds were issued on December 16, 2002. The terms of the bonds issued are as follows:

(i)	Total issued principal amount	A-A ~ A-I bonds:	NT$3,000,000
		B-A ~ B-D bonds:	NT$1,100,000
		C-A ~ C-B bonds:	NT$700,000
(ii)	Issuance date	December 16, 2002, at par value	
(iii)	Maturity	A-A ~ A-I bonds:	five years (2002.12~2007.12)
		B-A ~ B-D bonds:	five years (2002.12~2007.12)
		C-A ~ C-B bonds:	five years (2002.12~2007.12)
(iv)	Bearing annual rate	A bonds:	5.5% — USD 6-Month LIBOR
		B bonds:	5.5% — USD 6-Month LIBOR
		C bonds:	5.9% — USD 6-Month LIBOR
(v)	Principal repayment	A-A ~ A-I bonds:	repay at maturity
		B-A ~ B-D bonds:	repay at maturity
		C-A ~ C-B bonds:	repay at maturity (redeemable after 5years)

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(i) Issuance of domestic unsecured nonconvertible corporate bonds May 2003

In order to improve the Company's financial structure, repay short-term loans, and take advantage of prevailing low interest rates, the board of directors' meeting held on April 21, 2003 resolved to issue domestic unsecured nonconvertible corporate bonds with a principal amount of NT$6,200,000. The issuance was approved by the ROC SFC on May 9, 2003, and the bonds were issued on May 22, 2003. The terms of the bonds issued are as follows:

(i)	Total issued principal amount	A: A-X bonds:	NT$5,600,000
		B: A-B bonds:	NT$600,000
(ii)	Issuance date	May 22, 2003, at par value	
(iii)	Maturity	A: A-X bonds:	five years (May, June 2003~May, June 2008)
		B: A-B bonds:	five years (May, June 2003~May, June 2008)
(iv)	Bearing annual rate	A: A-X bonds:	4.1% — USD 6-Month LIBOR
		B: A-B bonds:	TWD 3-month swap offer rate + 0.3%
(v)	Principal repayment	All bonds are repaid at maturity	

(j) Issuance of domestic unsecured nonconvertible corporate bonds in January 1, 2004

In order to improve the company's financial structure, repay short-term loans, and take advantage of prevailing low interest rates, the board of directors' meeting held on December 27, 2003 resolved to issue domestic unsecured nonconvertible corporate bonds with a principal amount of NT$5,200,000. The issuance was approved by the ROC SFC on January 9, 2004, and the bonds were issued on January 27, 2004. The terms of the bonds issued are as follows:

(i)	Total issued principal amount	A-A ~ A-K bonds:	NT$3,300,000
		B-A ~ B-B bonds:	NT$500,000
		C-A ~ C-B bonds:	NT$500,000
		D-A ~ D-C bonds:	NT$600,000
		E-A bonds:	NT$300,000
(ii)	Issuance date	January 27, 2004, at par value	
(iii)	Maturity	A-A ~ A-K bonds:	five years (2004.1~2009.1)
		B-A ~ B-B bonds:	five years (2004.1~2009.1)
		C-A ~ C-B bonds:	five years (2004.1~2009.1)
		D-A ~ D-C bonds:	five years (2004.1~2009.1)
		E-A bond:	five years (2004.1~2009.1)

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(iv)	Bearing annual rate	Note	
(v)	Principal repayment	A-A ~ A-K bonds:	repay at maturity
		B-A ~ B-B bonds:	repay at maturity
		C-A ~ C-B bonds:	repay at maturity
		D-A ~ D-C bonds:	repay at maturity
		E-A bonds:	repay at maturity

Note:

A series bonds: 2.5* flexible interest rate A (note 1) minus flexible interest rate B (note 2) plus 0.35%; coupon interest between 0% and 3.5%; pay interest semiannually since issuance

B series bonds: coupon interest = flexible interest rate C (note 3) plus 1.65% if interest rate C $<$1.1%; coupon interest = 4.95% minus flexible interest rate C if interest rate C $>$=1.1%;
coupon interest rate must be greater than 0%; pay interest semiannually since issuance

C series bonds: coupon interest = flexible interest rate C (note 3) if interest rate C $<$1.1%;
coupon interest = 5% minus flexible interest rate C if interest rate C $>$=1.1%;
coupon interest rate must be greater than 0%; pay interest semiannually since issuance

D series bonds: coupon interest = flexible interest rate C (note 3) if interest rate C $<$1.05%;
coupon interest = 3.7% if interest rate C is between 1.05% (inclusive) and 2% (inclusive);
coupon interest = 4.9% minus flexible interest rate C if interest rate C $>$ 2% (inclusive) and 2% (inclusive);
coupon interest rate must be greater than 0%; pay interest semiannually since issuance

E series bonds: coupon interest = flexible interest rate C (note 3) if interest rate C $<$ 1.05%;
coupon interest = 3.6% if interest rate C between 1.05% (inclusive) and 2% (inclusive);
coupon interest = 4.9% minus flexible interest rate C if interest rate C $>$ 2% (inclusive) and 2% (inclusive);
coupon interest rate must be greater than 0%; pay interest semiannually since issuance

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note 1: TWD 5-Year Interest Rate Swap
note 2: TWD 2-Year Interest Rate Swap
note 3: USD 6 Month LIBOR

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(k) Mortgage loan from Taiwan Cooperative Bank

In order to improve its financial structure and increase working capital, the Company contracted with Taiwan Cooperation Bank for a mortgage loan. The terms of the loan were as follows:

Mortgaged assets	Period	Loan balance as of March 31, 2003	Loan balance as of March 31, 2004	Interest rate	Principal repayment
		NT$	NT$		
Formosa Petrochemical Corp. stock	1999.12.16~ 2005.12.16	4,000,000	2,500,000	1-yr CD Post Office flexible rate + 1.1%, interest paid monthly	Repay at maturity

There was no “current portion of long-term loan” as of March 31, 2003 and 2004.

(l) Mortgaged loan from Hua Nan Commercial Bank

In order to improve its financial structure and increase working capital, the Company contracted a loan agreement with Hua Nan Commercial Bank. The terms of the loans were as follows:

Mortgaged assets	Period	Loan balance as of March 31, 2003	Loan balance as of March 31, 2004	Interest rate	Principal repayment
		NT$	NT$		
Land and factories in Jen-Wu	1999.12.23~ 2005.12.23	1,400,000	—	1-yr CD Post Office flexible rate + 1.1%, interest paid monthly	Repay at maturity
Land and factories in Jen-Wu	1999.12.24~ 2005.12.24	3,000,000	3,000,000	1-yr CD Post Office flexible rate + 1.1%, interest paid monthly	Repay at maturity
Land and factories in Jen-Wu	1999.12.27~ 2005.12.27	2,000,000	2,000,000	1-yr CD Post Office flexible rate + 1.1%, interest paid monthly	Repay at maturity
Land and factories in Jen-Wu	1999.12.29~ 2005.12.29	1,000,000	900,000	1-yr CD Post Office flexible rate + 1.1%, interest paid monthly	Repay at maturity
		7,400,000	5,900,000		

There was no current portion as of March 31, 2003 and 2004.

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except earnings per share information or unless otherwise stated)

(m) Mortgage loan from Tai-Shin Bank

In order to improve its financial structure and increase working capital, the Company contracted with Tai-Shin Bank for a long-term mortgage loan. The terms of the loan were as follows:

Mortgaged Assets	Period	Amount	Interest Rate	Principal Repayment
		NT$		
Formosa Petrochemical Corp. stock	2000.12.17~ 2003.10.25	970,000	1.79%~5.95%, interest paid monthly	Repay at maturity

The Company has modified the contract with Tai-Shin Bank to extend the loan to October 31, 2004. All abovementioned loans are due within a year; therefore, the company transferred the amount to the current portion of long-term loan as of March 31, 2003 and 2004.

(n) Long-term debt as of March 31, 2004, long-term debt will be repaid in the following periods:

Periods	Total long-term debt
	NT$
April 1, 2004 to March 31, 2005	10,060,308
April 1, 2005 to March 31, 2006	14,907,308
April 1, 2006 to March 31, 2007	5,057,308
April 1, 2007 to March 31, 2008	7,457,308
April 1, 2008 to March 31, 2009	9,530,308
After April 1, 2009	13,810,449
	60,822,989

(12) ACCRUED PENSION LIABILITY

The Company adopted SFAS No. 18; “Accounting for Pensions” for the recognition of net pension cost and minimum pension liability based on actuarial reports, which used the balance sheet date as the measurement date. The Company recognized deferred pension liability based on actuarial reports amounting to NT$3,786,350, and NT$4,726,806, and accrued pension cost amounting to NT$173,552, and NT$580,816 as of December 31, 2003 and 2004, respectively.

(13) STOCKHOLDERS’ EQUITY

(a) Capital stock

On May 23, 2003, the stockholders’ meeting resolved to increase the capital stock to NT$48,083,675 and to transfer unappropriated retained earnings and capital surplus amounting to NT$1,360,420 and NT$1,360,420, respectively, to capital stock. The total amounted to NT$2,720,840. The capital increase referred to above was approved by the ROC SFC on June 9, 2003, and executed on July 7, 2003, and was registered with the authorities. As of December 31, 2003, the Company’s total authorized and issued stock amounted to NT$48,068,175 and 4,806,817,519 shares at NT$10 par value per share.

(expressed in thousands of New Taiwan dollars and US dollars
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Due to the merger with Yung-Chia Chemical Industries Corp., the Company resolved to increase capital stock by NT$510. The capital increase was approved by the ROC SFC on July 11, 2003, and the issuance took place on August 1, 2003. As of December 31, 2003, the Company's total authorized and issued stock amounted to NT$48,068,685 and 4,806,868,539 shares with NT$10 par value per share.

(b) Capital surplus

(i) *Capital surplus*

As of March 31, 2003 and 2004, the details of capital surplus were as follows:

	2003	2004	
	NT$	NT$	US$
Paid-in capital in excess of par value	8,129,174	8,130,081	246,366
Gains on disposal of property, plant and equipment, net of income tax	—	—	—
Revaluation increments	180,379	180,379	5,466
Equity in capital surplus of investee companies	522,138	428,899	12,997
Overdue unpaid directors' remuneration and dividends	88,691	88,047	2,668
Paid-in capital in excess of the par value derived from overseas corporate bond conversion	5,799,983	4,439,563	134,532
Treasury stock transactions	611	16,263	493
	14,720,976	**13,283,232**	**402,522**

(ii) The ROC Company Law stipulates that capital surplus can only be used to offset a deficit and only realized capital surplus can be used to increase share capital. The realized capital surplus is limited to capital surplus generated from paid-in capital in excess of par value and donated assets. Capital surplus derived from conversion of foreign corporate convertible bonds were converted into capital in accordance with applicable accounting standard and principle.

(iii) As of March 31, 2003 and 2004, the details of assets revaluation increments converted into capital, were as follows:

	2003	2004	
	NT$	NT$	US$
Assets revalued in 1974	676,163	676,163	20,490
Assets revalued in 1982	826,072	826,072	25,032
Amount transferred to capital from 1976 to 1988	(1,321,856)	(1,321,856)	(40,056)
	180,379	**180,379**	**5,466**

(iv) The corporate overseas convertible bonds, which issued in September 1995, were all converted in September 1998 and generated capital surplus amounting to NT$8,056,793. As of December 31, 2002, the balance of capital surplus was NT$5,799,983. The stockholders' meeting held on May 23, 2003, resolved to transfer the capital surplus to capital stock amounting to NT$1,360,420; as a result, the balance of capital surplus referred to above was NT$4,439,563 as of March 31, 2004.

(c) Legal reserve

The ROC Company Law stipulates that a company must retain 10% of its annual net earnings as legal reserve until such retention equals to the amount of issued share capital. The legal reserve may be used to offset an accumulated deficit, but cannot be distributed as cash dividends. However, up to 50% of the balance of legal reserve can be converted to capital stock upon approval at a stockholders' meeting when the balance of legal reserve reaches an amount equal to one-half of the issued capital stock.

(d) Distribution of earnings

The Company's articles of incorporation stipulate that the investment income recognized based on the equity method and the deferred income tax benefit recognized from the increase in unexpired income tax credit are deemed unrealized and should be appropriated as special reserve before the distribution of interest on capital. Such special reserve is to be reversed to unappropriated retained earnings only when it is realized, that is, when investee companies declare dividends or income tax credits are used.

According to the ROC Company Law and the Company's articles of incorporation, the Company's earnings are to be appropriated in the following order:

a. Pay income tax;

b. Offset prior year's deficit, if any;

c. Of the remaining balance, if any, 10% is to be set aside as legal reserve;

d. After setting aside the legal reserve, NT$0.01 per share is to be distributed to shareholders as interest on capital.

e. The remaining balance is to be distributed to owners as dividends or retained. In addition, 1% or more should be distributed as employee bonus, and 1% should be distributed as directors' and supervisors' remuneration, if the general stockholders' meeting resolves to make an earnings distribution.

f. Of the remaining balance, if any, set aside as special reserve;

g. The rest of balance, if any, is reserved as retained earnings or distributed as stock dividend.

(e) As of March 31, 2004, the balance of unappropriated retained earnings prior to 1998 amounted to NT$1,243,508, and from 1998 amounted to NT$23,986,092.

(expressed in thousands of New Taiwan dollars and US dollars
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(f) Treasury stock

As of December 31, 2002, Yung-Chia Chemical Industries Corp. had acquired 948,016 shares of the Company's issued shares with an average book value of NT$27.29 per share, and the market price was NT$45.49 per share. No purchases or sales transaction of the Company's stock for the three-month period ended March 31, 2003.

Effective on January 1, 2002, pursuant to ROC SFC regulations, the Company's issued common stock held by a subsidiary is to be recognized by the Company as treasury stock. The Company is required to appropriate a special reserve on the balance sheet date equal to the amount of that treasury stock's book value in excess of market value multiplied by the Company's holding percentage in said subsidiary. Said special reserve is to be reversed upon the recovery of market price.

(14) EARNINGS PER SHARE

The Company had no outstanding stock warrants or preferred stock, and the domestic unsecured corporate bonds issued by the Company were nonconvertible; therefore, no potential dilutive effects exists. For the three-month ended March 31, 2003 and 2004, the weighted-average number of outstanding shares of common stock for calculating the basic EPS consisted of the following:

Basic earnings per share adjusted retroactively

Unit: thousands of NT$ and shares of common stock

	2003				
	Amount			Earnings per share	
	Income before income tax	Income after income tax	Total shares outstanding	Before income tax	After income tax
Basic earnings per share — retroactively adjusted	3,394,729	3,078,498	4,806,869	0.71	0.64

	2004				
	Amount			Earnings per share	
	Income before income tax	Income after income tax	Total shares outstanding	Before income tax	After income tax
Basic earnings per share — retroactively adjusted	8,428,212	8,043,654	4,806,869	1.75	1.67

Unit: thousands of NT$ and shares of common stock

	2004				
	Amount			Earnings per share	
	Income before income tax	Income after income tax	Total shares outstanding	Before income tax	After income tax
Basic earnings per share — retroactively adjusted	255,400	243,747	4,806,869	0.05	0.05

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(15) INCOME TAX

(a) The Company has adopted SFAS No. 22, "Accounting for Income Taxes". The components of the Company's income tax expense for the three-month periods ended March 31, 2003 and 2004, were as follows:

	2003	2004	
	NT$	NT$	US$
Current income tax expense	—	—	—
Deferred income tax expense	316,231	384,558	11,653
Estimated income tax expense	316,231	384,558	11,653

(b) The reconciliation of the income tax calculated based on financial pretax income and the reported income tax expense (benefit) for the three-month periods ended March 31, 2003 and 2004, was as follows:

	2003	2004	
	NT$	NT$	US$
Income tax expense calculated based on financial pretax income	848,672	2,107,043	63,849
Unrealized investment income recognized based on equity method, net	(470,655)	(969,218)	(29,370)
Gain on disposal of land	(420)	(150,726)	(4,567)
Gain on disposal of equity securities	(929)	(25,151)	(762)
Unrealized devaluation (reversal) of inventory	(14,967)	(940)	(28)
Bad debt expense not recognizable for tax purposes	—	816	24
Other adjustments for income tax filing purposes	(45,470)	(51,270)	(1,554)
10% income surtax on undistributed earnings	—	—	—
Change in valuation allowance	—	(525,996)	(15,939)
Income tax expense	**316,231**	**384,558**	**11,653**

(c) Deferred income tax expense for three-month periods ended March 31, 2003 and 2004, was as follows:

	2003	2004	
	NT$	NT$	US$
Foreign investment revenue under equity method	21,014	(23,434)	(710)
Difference from using two depreciation methods under Statute for Upgrading Industries	(2,026)	(1,287)	(39)
Difference in depreciation expense for tax purposes	70	(4,499)	(136)
Unrealized exchange benefit	17,034	33,866	1,026
Unrealized gross profit on sales	—	(11,408)	(346)
Unrealized pension cost, net	(16,799)	(28,979)	(878)
Unused investment deduction	296,938	946,295	28,675
Change in valuation allowance	—	(525,996)	(15,939)
	316,231	**384,558**	**11,653**

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(d) Deferred income tax assets and liabilities as of March 31, 2003 and 2004, were as follows:

	2003	2004	
	NT$	NT$	US$
Current:			
Deferred income tax assets	1,671,760	3,702,766	112,205
Valuation allowance for deferred income tax assets	—	—	—
	1,671,760	3,702,766	112,205
Deferred income tax liabilities	—	—	—
Current deferred income tax assets, net	**1,671,760**	**3,702,766**	**112,205**
Noncurrent:			
Deferred income tax assets	9,677,909	5,858,708	177,537
Valuation allowance for deferred income tax assets	(4,510,125)	(2,912,629)	(88,262)
	5,167,784	2,946,079	89,275
Deferred income tax liabilities	(497,028)	(475,096)	(14,397)
Noncurrent deferred income tax assets, net	**4,670,756**	**2,470,983**	**74,878**
Total deferred income tax assets	**11,349,669**	**9,561,474**	**289,742**
Total valuation allowance for deferred income tax assets	**4,510,125**	**2,912,629**	**88,262**
Total deferred income tax liabilities	**497,028**	**475,096**	**14,397**

(e) The temporary difference of deferred tax assets and liabilities and the income tax effect for the three-month periods ended March 31, 2003 and 2004, were as follows:

	2003		2004		
		Income tax effect		Income tax effect	
	NT$	NT$	NT$	NT$	US$
Deferred income tax assets:					
Unrealized net periodic pension cost	3,612,798	903,199	4,145,990	1,036,498	31,409
Unrealized foreign currency exchange loss (gain) and others	349,116	87,279	64,822	16,206	491
Unrealized gross profit on sales	—	—	94,597	23,649	717
Tax credits of investing in major industries	3,524,102	3,524,102	3,780,175	3,780,175	114,551
Tax credits of investing in resource-poor area	6,789,619	6,789,619	4,518,842	4,518,842	136,935
Other investment tax credits	45,470	45,470	186,104	186,104	5,639
		11,349,669		**9,561,474**	**289,742**
Deferred in income tax liabilities:					
Difference under Statute for Upgrading Industries for tax purposes	71,116	17,779	44,513	11,128	337
Depreciation difference for tax purposes	226,711	56,678	443,561	110,890	3,361
Overseas investment income recognized by equity method	1,690,283	422,571	1,412,312	353,078	10,699
		497,028		**475,096**	**14,397**

(expressed in thousands of New Taiwan dollars and US dollars
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(f) The deduction for investing in major industries, resource-poor or less-developed rural areas, and others, and the expiry year as of March 31, 2004, were as follows:

	Tax credits of investing in major industries		Tax credits of investing in resource-poor area		Other investment tax credits		Deduction expiry year
	NT$	US$	NT$	US$	NT$	US$	
2000	707,697	21,445	—	—	—	—	2003
2001	3,072,478	93,106	2,791,416	84,589	—	—	2004
2002	—	—	733,823	22,237	—	—	2005
2003	—	—	993,603	30,109	134,834	4,086	2006
2004	—	—	—	—	51,270	1,554	2007
	3,780,175	114,551	4,518,842	136,935	186,104	5,640	

The investment tax credits were recognized as deferred tax assets upon the receipt of automation machinery, and completion of investment projects in resource-poor or less-developed rural areas, and those approved by receiving a proof of investment deduction from ROC tax authority.

(g) The Company's income tax returns have been assessed and approved through 2000 by the ROC tax authorities.

(h) Imputation credit account (ICA) and creditable ratio

As of March 31, 2003 and 2004, the ending balance of the imputation credit account amounted to NT$12,401 and NT$24,785, respectively. The estimated creditable ratio for earnings distribution for 2002 was 1.19% at the time of filing the 2002 tax return, and the actual creditable ratio for the 2002 earnings distribution was 1.79% at the time the stock dividend was distributed. The Company estimates the creditable ratio for the 2003 earnings distribution will be 0.16% at the time of filing the 2003 tax return.

(16) FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Derivatives

(i) *Interest rate swaps*

The Company engages in interest rate swap transactions to hedge the risk of fluctuations in interest rates of long-term debt. A summary of the swaps is as follows:

Financial product	Notional principal 2002	2003	
		NT$	US$
Interest rate swap contract — 1998	US$50,000	—	—
Interest rate swap contract — Jan. Feb., June, July 2002	NT$7,507,692	7,123,077	215,851
Interest rate swap contract — December 2002	NT$4,800,000	4,800,000	145,455
Interest rate swap contract — May 2003	—	6,200,000	187,879
Interest rate swap contract — July, Aug., Sep. 2003	—	12,600,000	381,818
Interest rate swap contract — Jan. 2004	—	5,200,000	157,576

a. *Interest rate swap contracts in 1998*

The purpose of the following interest rate swap contracts was to hedge the risk of fluctuations in variable interest rates of a US dollar-denominated syndicated loan which the Company had arranged with Chiao Tung Bank and 29 other banks. The appropriation began in 1995, and the Company pays interest semiannually at the floating interest rate.

The Company signed five interest rate swap contracts with Bank of America and ABN-AMRO Bank in September and October 1998, with a nominal principal amount of US$50,000. The contracts expired in September 2003. According to the contracts, the Company paid interest at a contracted fixed rate ranging from 4.895% to 5.38% to the contracted banks and collects interest based on a London Inter-Bank Offered Rate (LIBOR) on March 22 and September 22. The differences between these interest rate swaps were recognized in interest income or interest expense in the current period. For the three-month periods ended March 31, 2003, the interest expense derived from the interest rate swaps amounted to NT$29,607.

b. *Interest rate swap contracts in Jan., May, June and July in 2002*

The purpose of the following interest rate swap contracts was to hedge the risk of fluctuations in variable interest rates of an NT dollar-denominated syndicated loan which the Company had arranged with Chiao Tung Bank and 29 other banks. The appropriation began in 1995, and the Company pays interest monthly based on the floating interest rate.

The Company signed an interest rate swap contract with ABN-AMRO Bank in January 2002, four interest rate swap contracts with Bank of America and Deutsche Bank in May 2002, three interest rate swap contracts with Bank of America in June 2002, and four interest rate swap contracts with Bank of America in July 2002, with a notional principal amount of NT$7,700,000. As of December 31, 2002 and 2003, the balance amounted to NT$7,507,692 and NT$7,123,077, respectively. According to the contracts, the Company pays interest at a contracted fixed rate ranging from 2.940% to 3.70% to the contracted banks and collects interest at the CP rate offered in the secondary market quarterly. The differences between these interest rate swaps were recognized in interest income or interest expense in the current period. The interest expense derived from the interest rate swaps amounted to NT$32,602, and NT$45,131 for the three-month periods ended March 31, 2003 and 2004, respectively.

c. *Interest rate swap contracts entered into in December 2002*

The purpose of the following interest rate swap contracts was to hedge the risk of fluctuations in interest rates of the domestic corporate bond issued in November 2002. According to the bond terms, the Company pays interest semiannually based on the fixed annual interest rate of 5.5% or 5.9% minus 6-month LIBOR.

The Company signed seven interest rate swap contracts with Bank of America and Deutsche Bank in December 2002, with a notional principal amount of NT$4,800,000. According to the contracts, the Company pays interest at a contracted fixed rate 2.575% to the contracted banks and collects interest of 5.5%~5.9% minus 6-Month LIBOR semiannually. The differences between these interest rate swaps were recognized in interest income or interest expense in the current period. There was no interest expense derived from the interest swaps for the three-month periods ended March 31, 2003 and 2004, respectively.

d. *Interest rate swap contracts in May 2003*

The purpose of the following interest rate swap contracts was to hedge the risk of fluctuations in interest rates of the domestic corporate bond issued in May and June 2002. According to the bond terms, the Company pays interest semiannually based on the fixed annual interest rate of 4.10% minus 6-month LIBOR or TWD-3-Month swap offer rate plus 0.3%.

The Company signed five interest rate swap contracts with Bank of Paris and Deutsche Bank in December 2002, with a notional principal amount of NT$6,200,000. According to the contracts, the Company pays interest at a contracted fixed rate of 1.68% or 1.66% to the contracted banks and collects interest of the 4.1% minus 6-Month LIBOR or TWD-3-Month swap offer rate semiannually. The differences between these interest rate swaps were recognized in interest income or interest expense in the current period. There was no interest expense derived from the interest swaps for the three-month periods ended March 31, 2003 and 2004, respectively.

e. *Interest rate swap contracts in July, August, and September 2003*

The purpose of the following interest rate swap contracts was to hedge the risk of fluctuations in variable interest rates of an NT dollar-denominated syndicated loan which the Company had arranged with from Chiao Tung Bank and 29 other banks. The appropriation began in 1995, and the Company pays interest semiannually at the floating interest rate.

The Company signed ten interest rate swap contracts with Bank of America, Deutsche Bank, and Taipei Bank in July, August, and September 2003 with a notional principal amount of NT$12,600,000. According to the contracts, the Company pays 3-Month LIBOR to the contracted banks and collects interest at the CP rate offered in the secondary market. The differences between these interest rate swaps were recognized in interest income or interest expense in the current period. The interest expense derived from the interest swaps amounted to NT$7,022 for the three-month periods ended March 31, 2004.

f. *Interest rate swap contracts in January 2004*

The purpose of the following interest rate swap contracts was to hedge the risk of fluctuations in interest rates of the domestic unsecured unconvertible corporate bond issued in January 2004. For the bond terms regarding the interest rate and repayment please see note 11(j).

The Company signed five interest rate swap contracts with Deutsche Bank in January 2004, with a notional principal amount of NT$5,200,000. According to the contracts, the Company pays interest at a contracted fixed rate of 1.78% to the contracted banks and collects interest at the same rate as the bond referred to above semiannually. The differences between these interest rate swaps were recognized in interest income or interest expense in the current period. There was no interest expense derived from the interest swaps for the three-month periods ended March 31, 2004.

g. The Company believes that the possibility of loss incurred by contract breaches is minimal because the counter-parties are all internationally well-known banks with good reputations.

(ii) *Forward exchange contracts*

The Company signed two forward exchange contracts with Citibank on June 29 and July 3, 2001, to hedge the risk of fluctuations in foreign exchange rates on a long-term US dollar-denominated syndicated loan with Chiao Tung Bank. According to the contracts, the Company is to pay the total amount of NT$32,471 and NT$16,186 in 13 installments semiannually to the counterparty, and collect principal amounting to US$1,000 and US$500 in 13 installments semiannually from March 2002 to March 2008. In addition, the difference between the spot and forward rate is amortized using the straight-line method in excess of the contract period and recognized as interest income or expense. The recognized interest income amounted to NT$2,146 and NT$1,767 for the three-month periods ended March 31, 2003 and 2004, respectively.

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As of March 31, 2003 and 2004, details of receivables and payables resulting from forward exchange contract transactions were as follows:

	2003	2004	
	NT$	NT$	US$
Current:			
Forward exchange contract receivables — foreign currencies	104,250	99,060	3,002
Forward exchange contract payables	(97,313)	(97,313)	(2,949)
Unamortized premium on forward exchange contract	(7,555)	(5,942)	(180)
	(618)	**(4,195)**	**(127)**
Noncurrent:			
Forward exchange contract receivables — foreign currencies	417,000	297,180	9,005
Forward exchange contract payables	(389,252)	(291,939)	(8,847)
Unamortized premium on forward exchange contract	(14,206)	(8,264)	(250)
	(13,542)	**(3,023)**	**(92)**

The net amount due to the transactions referred to above is recognized as other financial assets — current (other payables) if it is due within one year, or other financial assets — non-current (other miscellaneous liabilities) if it is due beyond one year.

(iii) *Cross currency swaps (CCSs)*

a. *Financial instruments*

	Notional principal	
	2003	2004
	US$	US$
CCS contracts entered into in 2001	70,000	56,000

The purpose of the following CCSs was to hedge the risk of fluctuations in foreign exchange rates on a long-term US dollar-denominated syndicated loan which the Company had arranged with Chiao Tung Bank and 29 other banks. The Company signed five US$ /NT$ CCSs with Citibank, Bank of Paris and Chinatrust Commercial Bank, with notional principal amounting to US$70,000, US$56,000 as of March 31, 2003 and 2004, respectively. According to the contracts, the Company pays a fixed interest rate of 5% to the banks and collects interest based on SIBOR semiannually. The differences between these interest rate swaps were recognized in interest income or interest expense in the current period. The interest expenses derived from the CCSs amounted to NT$37,931 and NT$38,702 for the three-month periods ended March 31, 2003 and 2004, respectively.

In addition, the Company is to pay total amount of NT$228,045 in 13 installments to the bank and collects principal amounting to US$7,000 with 13 installments semiannually. The difference between the spot and forward rate is amortized using the straight-line method in excess of the contract period and recognized as interest income or expense. The interest income derived from the CCSs amounted to NT$4,801 and NT$3,956 for the three-month periods ended March 31, 2003 and 2004, respectively.

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b. *Financial instruments*

	Notional principal	
	2003	2004
	US$	US$
CCS contracts entered into in 2004	—	7,500

The Company engaged in CCSs to hedge the risk of interest rate fluctuations of short-term investment-callable credit-linked deposits. As of March 31, 2004, the Company had unexpired US dollar CCS contracts with Deutsche Bank amounting to US$7,500. According to the contracts, the Company collects a fixed interest rate of 0.62% from the bank and pays interest based on LIBOR-BBA in May, August, Nov., and February. The differences in interest derived from these transactions are recognized as nonoperating income or expense. There was no nonoperating revenue or expense derived from the abovementioned CCSs for the three-month period ended March 31, 2004.'

The purpose of the CCSs was to hedge the risk of fluctuations in short-term investment-callable credit-linked deposits which the Company contracted with Deutsche Bank with notional principal amounting to US$7,500 as of March 31, 2004. According to the contracts, the Company collects interest based on a contracted fixed rate of 0.62% and pays interest based on LIBOR-BBA. The differences between these interest rate swaps were recognized in interest income or interest expense in the current period. There was no interest expense derived from the interest swaps for the three-month periods ended March 31, 2004.

(b) Fair value of financial instruments

In accordance with SFAS No. 27, "Disclosure of Financial Instruments", the fair value of the Company's non-derivative financial instruments is as follows.

(i) The methods and assumptions used to estimate the fair value of each class of financial instruments

a) Because the maturity dates of short-term financial instruments are within one year, their book value is the best estimate of their fair value. This principle is applied in estimating the fair value of short-term financial instruments.

b) The market price is the fair value of marketable securities if an open market exists, whereas other financial methodologies are used in estimating the fair value of securities without an existing trading market.

c) The discounted present value of anticipated cash flows is the fair value of long-term debt and bonds payable. The applied discounting rates are based on the proposed interest rates of the assumed long-term loans with terms similar to those of the Company's existing long-term liabilities.

(ii) As of March 31, 2003 and 2004, the fair values of non-derivative financial instruments approximated the book values as of the balance sheet date, except for the short-term investments in listed stocks which had an aggregate book value of NT$7,433,631 and NT$15,405,934, respectively, and an aggregate fair value of

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NT$19,006,551 and NT$34,407,341, respectively, and the long-term investments in Ours Commercial Banking Corporation, which had an aggregate book value of NT$333,340 and NT$249,999, respectively, and an aggregate fair value of NT$302,461 and NT$380,671, respectively, and allowance for devaluation of NT$30,879 as of March 31, 2003.

(17) RELATED-PARTY TRANSACTIONS

(a) Name and relationship

Name	Relationship
Nan Ya Plastics Corporation	Same president as the Company
Formosa Chemicals & Fibre Corporation	Same president as the Company
Formosa Plastics Corp. U.S.A. (FPC U.S.A.)	Same president as the Company
Formosa Plastic Marine Corporation (Liberia)	Same president as the Company
Formosa Group Ocean Marine Investment Corporation	Same president as the Company
Mai Liao Harbor Administration Corp.	Same president as the Company
Chang Gung Medical Supplies and Equipment Corp.	Same president as the Company
Asia Pacific Development Company	Same president as the Company
Chang Gung Biotechnology Co., Ltd.	The president is a second-degree relative of the Company's president
Yungchia Chemical Industries	A subsidiary of the Company (combined on August 1, 2003)
Formosa Plastics Corporation, America (FPC, America)	A subsidiary of the Company
Formosa Teletek Corporation	A subsidiary of the Company
Formosa Plasma Display Corporation	A subsidiary of the Company
Formosa Petrochemical Corporation	Investee accounted for by the equity method
Taishih Textile Corporation	Investee accounted for by the equity method
Formosa Daikin Advanced Chemical Co., Ltd.	Investee accounted for by the equity method
Formosa Heavy Industries Corp.	Investee accounted for by the equity method
Ya Tai Development Corporation	Investee accounted for by the equity method
Mai Liao Power Corporation	Investee accounted for by the equity method
Formosa Asahi Spandex Co., Ltd.	Investee accounted for by the equity method
Formosa Komatsu Silicon Wafer	Investee accounted for by the equity method
Hwa Ya Power Corporation	A subsidiary of an investee accounted for by the equity method
Formosa Industries Ltd. (Ningbo) Co., Ltd.	A subsidiary of a subsidiary accounted for by the equity method
Nan Ya Plastics (Guangzhou) Co., Ltd.	A subsidiary of Nan Ya Plastics Corp. with the same president as the Company
Nantong Plastics Co., Ltd.	A subsidiary of Nan Ya Plastics Corp. with the same president as the Company
Hwa Ya Plastics Fittings (Xiamen) Co., Ltd.	A subsidiary of Nan Ya Plastics Corp. with the same president as the Company
Hwa Ya Plastics (Xiamen) Co., Ltd.	A subsidiary of Nan Ya Plastics Corp. with the same president as the Company
Nan Ya Plastics Construction Materials (Guangzhou) Co., Ltd.	A subsidiary of Nan Ya Plastics Corp. with the same president as the Company
Nan Ya Plastics (Huizhou) Co., Ltd.	A subsidiary of Nan Ya Plastics Corp. with the same president as the Company
Nantong Huafu Co., Ltd.	A subsidiary of Nan Ya Plastics Corp. with the same president as the Company
Nan Ya Plastics Construction Materials (Nantong) Co., Ltd.	A subsidiary of Nan Ya Plastics Corp. with the same president as the Company
Nan Ya Rigid Film (Guangzhou) Co., Ltd.	A subsidiary of Nan Ya Plastics Corp. with the same president as the Company

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(b) Significant related-party transactions

(i) *Operating revenue, notes receivable, and accounts receivable*

Significant sales to related parties for the three-month periods ended March 31, 2003 and 2004 were as follows:

	2003		2004		
	Amount	% of net revenue	Amount	Amount	% of net revenue
	NT$		NT$	US$	
Nan Ya Plastics Corporation	2,948,305	16.55	3,935,877	119,269	14.87
Formosa Chemicals & Fibre Corporation	775,130	4.35	969,927	29,392	3.67
Formosa Asahi Spandex Co., Ltd.	473	—	306	9	—
Yungchia Chemical Industries	96,336	0.54	—	—	—
Formosa Heavy Industries Corp.	26,265	0.15	19,380	587	0.07
Formosa Petrochemical Corporation	670,228	3.76	689,707	20,900	2.61
FPC, America	100,051	0.56	120,871	3,663	0.46
Mai Liao Power Corporation	9,433	0.05	13,699	415	0.05
Formosa Daikin Advanced Chemical Co., Ltd.	11,449	0.07	20,841	632	0.08
Formosa Plasma Display Corporation	7,107	0.04	577	17	—
Formosa Teletek Corp.	1,049	0.01	9	—	—
Nan Ya Plastics (Guangzhou) Co., Ltd.	170,223	0.96	351,620	10,655	1.33
Nantong Plastics Co., Ltd.	243,988	1.37	199,263	6,038	0.75
Nan Ya Plastics Construction Materials (Nantong) Co., Ltd.	100,811	0.57	163,132	4,943	0.62
Nan Ya Rigid Film (Guangzhou) Co., Ltd.	257,136	1.44	374,413	11,346	1.42
Hwa Ya Plastics Fittings (Xiamen) Co., Ltd.	9,246	0.05	11,392	345	0.04
Hwa Ya Plastics (Xiamen) Co., Ltd.	9,246	0.05	—	—	—
Nantong Huafu Co., Ltd.	3,610	0.02	23,130	701	0.09
Nan Ya Plastics Construction Materials (Guangzhou) Co., Ltd.	12,096	0.07	22,220	674	0.08
Nan Ya Plastics (Huizhou) Co., Ltd.	—	—	12,986	394	0.05
	5,452,182	**30.61**	**6,929,350**	**209,980**	**26.19**

NOTES TO NONCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
MARCH 31, 2003 AND 2004
(expressed in thousands of New Taiwan dollars and US dollars except earnings per share information or unless otherwise stated)
(Unaudited)

The balance of receivables from related parties as of March 31, 2003 and 2004 consisted of the following:

	2003		2004		
	Amount	%	Amount	Amount	%
	NT$		NT$	US$	
Nan Ya Plastics Corporation	1,171,612	25.05	1,613,598	48,897	23.31
Yungchia Chemical Industries	33,752	0.72	—	—	—
Formosa Chemicals & Fibre Corporation	292,332	6.25	374,939	11,362	5.42
Formosa Asahi Spandex Co., Ltd.	265	0.01	120	4	—
Formosa Heavy Industries Corp	50,690	1.08	2,262	69	0.03
Formosa Petrochemical Corporation	134,561	2.88	287,050	8,698	4.15
FPC, America	77,966	1.67	161,428	4,892	2.33
Mai Liao Power Corporation	2,638	0.06	4,077	124	0.06
Formosa Teletek Corporation	255	0.01	9	—	—
Formosa Daikin Advanced Chemical Co., Ltd.	5,125	0.11	6,695	203	0.10
Formosa Plasma Display Corporation	2,123	0.05	207	6	—
Nan Ya Plastics (Guangzhou) Co., Ltd.	145,965	3.12	153,904	4,663	2.22
Nantong Plastics Co., Ltd.	63,828	1.36	147,511	4,470	2.13
Nan Ya Plastics Construction Materials (Nantong) Co., Ltd.	57,582	1.23	96,020	2,910	1.39
Han Ya Rigid Film (Guangzhou) Co., Ltd.	157,020	3.36	180,959	5,484	2.61
Hwa Ya Plastics Fittings (Xiamen) Co., Ltd.	—	—	11,392	345	0.16
Nantong Huafu Co., Ltd.	309	0.01	12,263	371	0.18
Nan Ya Plastics Construction Materials (Guangzhou) Co., Ltd.	5,139	0.11	11,550	350	0.17
Nan Ya Plastics (Huizhou) Co., Ltd.	—	—	8,438	256	0.12
	2,201,162	**47.08**	**3,072,422**	**93,104**	**44.38**

Receivable are collected within15 days after the end of the month. The Company collects from Formosa Plastics Corporation, America, according to exporting conditions.

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(ii) ***Purchases and accounts payable***

Purchases from related parties for the three month periods ended March 31, 2003 and 2004, were as follows:

	2003		2004		
	Amount	% of net purchases	Amount	Amount	% of net purchases
	NT$		NT$	US$	
FPC America	499,403	4.77	244,494	7,409	1.39
Nan Ya Plastics Corporation	137,536	1.31	221,443	6,710	1.26
Formosa Chemicals & Fibre Corporation	203,559	1.94	388,730	11,780	2.21
Yungchia Chemical Industries	11,633	0.11	—	—	—
Formosa Petrochemical Corporation	6,365,413	60.77	11,185,789	338,963	63.62
Formosa Heavy Industries Corp.	185,236	1.77	669,109	20,276	3.80
Formosa Plastics Marine Corporation (Liberia)	105,020	—	113,945	3,453	0.65
	7,507,800	71.67	12,823,510	388,591	72.93

The balances of payables to related parties as of March 31, 2003 and 2004, consisted of the following:

	2003		2004		
	Amount	%	Amount	Amount	%
	NT$		NT$	US$	
Nan Ya Plastics Corporation	84,194	2.84	86,708	2,627	1.57
Formosa Chemicals & Fibre Corporation	69,528	2.34	156,803	4,751	2.84
FPC America	242,768	8.17	—	—	—
Yungchia Chemical Industries	4,411	0.15	—	—	—
Formosa Petrochemical Corporation	1,801,092	60.64	4,205,905	127,452	76.29
Formosa Heavy Industries Corp	160,354	5.40	120,568	3,654	2.19
Formosa Plastics Marine Corporation (Liberia)	20,177	0.68	124	4	—
	2,382,524	80.22	4,570,108	138,488	82.89

Payment for a purchase is made after goods are inspected and accepted, and payment made to Formosa Plastics Corporation, America is in accordance with the importing conditions.

(iii) ***Construction contract***

The Company contracted with Formosa Heavy Industries Corp. to undertake the construction of its factory expansion projects. The contract amounts were NT$185,236, and NT$669,109 for the three-month periods ended March 31, 2003 and 2004, respectively. As of March 31, 2003 and 2004, the unpaid amounts were NT$160,355 and NT$120,568, respectively.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(iv) *Fixed assets*

(a) For the three-month periods ended March 31, 2003 and 2004, the Company bought the machinery and accessories from Nan Ya Plastics Corporation amounted to NT$104,632 and NT$25,141, respectively. As of March 31, 2003 and 2004, the unpaid amount were NT$152,770 and NT$9,556, respectively.

(b) The Company signed a purchase agreement with Taishih Textile Corp to purchase a parcel of land and a building located in YiLan and Kaohsiung for NT$230,050. As of March 31, 2003, the title had not been transferred yet. Payment has been paid in full and recorded in the advance payments for project and equipment account.

(v) *Financing transactions*

The details of the Company's financing transactions of March 31, 2003 and 2004, consisted of the following:

	2003				
	Maximum balance	Date of maximum balance	Ending balance	Interest rate	Amount of interest
	NT$		NT$		NT$
Due from related parties:					
Formosa Petrochemical Corporation	2,830,000	2/6	449,400	3.434%~3.657%	10,175
Hwa Ya Power Corporation	31,500	2/26	—	3.434%~3.440%	3
Formosa Plasma Display Corporation	1,000,000	3/31	1,000,000	3.434%~3.675%	4,420
Formosa Group Ocean Marine Investment Corporation	564,648	1/29	541,248	3.434%~3.675%	4,539
Ya Tai Development Corporation	426,700	3/20	390,800	3.434%~3.675%	3,499
Taishih Textile Corporation	255,350	1/30	248,050	3.434%~3.675%	2,160
Nan Ya Plastics Corporation	771,200	2/21	212,700	3.434%~3.675%	1,102
Formosa Heavy Industries Corp.	973,900	1/15	—	3.434%~3.675%	597
Mai Liao Power Corporation	2,000,000	1/1	—	3.434%~3.675%	3,491
Formosa Teletek Corporation	219,600	3/31	219,600	3.434%~3.675%	1,633
Formosa Chemicals & Fibre Corporation	18,500	2/7	—	3.434%	5
Formosa Daikin Advanced Chemical Co., Ltd.	116,800	3/10	—	3.434%~3.440%	217
			3,061,798		31,841

NOTES TO NONCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
MARCH 31, 2003 AND 2004
(expressed in thousands of New Taiwan dollars and US dollars except earnings per share information or unless otherwise stated)
(Unaudited)

	2004							
	Maximum balance		Date of maximum balance	Ending balance		Interest rate	Amount of interest	
	NT$	US$		NT$	US$		NT$	US$
Due from related parties:								
Nan Ya Plastics Corporation	734,200	22,248	1/1	—	—	2.660%~2.849%	107	3
Formosa Chemicals & Fibre Corporation	363,100	11,003	2/4	—	—	2.660%	31	1
Formosa Petrochemical Corporation	2,377,200	72,036	2/12	—	—	2.537%~2.849%	3,074	93
Formosa Teletek Corporation	452,600	13,715	3/31	452,600	13,715	2.537%~2.849%	2,842	86
Formosa Group Ocean Marine Investment Corporation	907,548	27,501	3/31	907,548	27,501	2.537%~2.849%	5,781	175
Ya Tai Development Corporation	367,900	11,148	1/7	321,300	9,736	2.537%~2.849%	2,140	65
Mai Liao Power Corporation	2,500,000	75,758	1/2	1,046,900	31,724	2.537%~2.849%	11,887	360
Formosa Heavy Industries Corp.	1,548,400	46,921	1/2	508,400	15,406	2.537%~2.849%	2,655	80
Formosa Daikin Advanced Chemical Co., Ltd.	90,100	2,730	2/27	—	—	1.430%~2.849%	240	7
Formosa Plasma Display Corporation.	1,500,000	45,455	1/15	1,392,500	42,197	1.430%~2.849%	8,071	245
Chang Gung Biotechnology Co., Ltd.	141,700	4,294	3/16	110,100	3,337	2.537%~2.849%	739	22
Chang Gung Medical Supplies and Equipment Corp.	13,600	412	3/18	11,700	355	2.537%~2.849%	51	2
Asia Pacific Development Company	1,117,200	33,855	3/31	1,117,200	33,855	2.537%~2.849%	5,497	167
Formosa Komatsu Silicon Wafer	500,000	15,152	1/12	158,300	4,797	1.430%~2.849%	486	15
				6,026,548	**182,623**		**43,601**	**1,321**
Due to related parties:								
Nan Ya Plastics Corporation	33,000	1,000	3/2	—	—	2.537%	2	—
Formosa Petrochemical Corporation	8,000	242	3/2	—	—	2.537%	1	—
Formosa Chemicals & Fibre Corporation	15,000	455	3/2	—	—	2.537%	—	—
				—	**—**		**3**	**—**

(a) As of March 31, 2003 and 2004, the interest revenue from the abovementioned transactions amounted to NT$8,357 and NT$15,249, respectively, recognized as other financial assets — current.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(b) As of March 31, 2003 and 2004, the interest expense from the abovementioned transactions amounted to NT$0 and NT$3, respectively, recognized as accrued expenses.

(vi) *Endorsements and guarantees*

Obligations of related parties guaranteed by the Company as of March 31, 2003 and 2004, were as follows:

	2003	2004	
	NT$	NT$	US$
FPC U.S.A.	10,425,000	—	—
Formosa Petrochemical Corporation	3,000,000	3,000,000	90,909
Mai Liao Harbor Administration Corp.	2,098,426	2,098,426	63,589
Mai Liao Power Corporation	6,099,500	4,048,000	122,667
Formosa Plastics Marine Corporation (Liberia)	1,251,000	1,188,720	36,022
Formosa Daikin Advanced Chemical Co., Ltd.	475,000	325,000	9,848
Formosa Plasma Display Corporation	—	2,000,000	60,606
Formosa Komatsu Silicon Wafer	300,000	—	—
	23,648,926	**12,660,146**	**383,641**

The Company provided a comfort letter for Formosa Industries (Ningbo) Co. Ltd. to obtain a loan from Citibank amounting to US$85,000. The Company guaranteed the completion of construction, providing management support, and repaying the loan if necessary.

(vii) *Pledged properties*

As of March 31, 2003 and 2004, the Nan Ya Plastics Corp. common stock held by the Company amounting to 98,000,000 shares, 98,000,000 shares, and 140,000,000 shares, respectively, was provided as pledges for Formosa Petrochemical Corporation to obtain loans from banks.

(viii) *Rental*

Rental (as rental revenue or other payable)

Related party	2003	2004	
	NT$	NT$	US$
Nan Ya Plastics Corporation	16,539	17,171	520
Formosa Petrochemical Corporation	7,855	7,845	238
Mai Liao Power Corporation	496	496	15
Formosa Daikin Advanced Chemical Co., Ltd.	1,179	1,179	36
Formosa Plasma Display Corporation	742	840	25
Formosa Teletek Corporation	646	1,029	31
Formosa Heavy Industries Corp.	2,436	2,235	68
Yungchia Chemical Industries	307	—	—
Ya Tai Development Corporation	136	136	4
Formosa Asahi Spandex Co., Ltd.	298	298	9
	30,634	**31,229**	**946**

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(18) PLEDGED PROPERTIES

As of March 31, 2003 and 2004, the pledges provided to banks or courts were as follows:

Pledged properties	Object	2003	2004	
		NT$	NT$	US$
Property, plant and equipment . . .	Land, building and equipment	51,235,285	51,235,285	1,552,584
Guarantee deposits paid	Certificate of deposit	902,660	1,501,860	45,511
		Thousands of shares	Thousands of shares	Thousands of shares
Short-term investment	Shares of Nan Ya Plastics Corp.	148,542	188,490	188,490
Short-term investment	Shares of Formosa Chemicals & Fibre Corp.	17,000	17,000	17,000
Long-term investment	Shares of Formosa Petrochemical Corp.	770,500	1,070,500	1,070,500

As of March 31, 2003, and 2004, the Nan Ya Plastics Corp. common stock held by the Company amounting to 98,000,000 shares, 98,000,000 shares, and 140,000,000 shares, respectively, was provided as pledges for Formosa Petrochemical Corporation to obtain loans from banks.

(19) COMMITMENTS AND CONTINGENCIES

As of March 31, 2003 and 2004, commitments and contingencies of the Company were as follows:

(a) Endorsements for affiliates and related parties amounted to NT$23,648,926 and NT$12,660,146 as of March 31, 2003 and 2004, respectively. The Company also provided commitment letters for affiliates to obtain loans from banks amounting to US$85,000 as of March 31, 2004. Please see note 17 for details.

(b) The purpose of guarantee deposits and guarantee notes receivable provided by customers was to ensure the collection of sales and performance of construction contracts. As of March 31, 2003, and 2004, the total amount received was NT$874,660 and NT$844,812, respectively.

(c) The Company had outstanding letters of credit of approximately NT$329,025 and NT$743,618 as of March 31, 2003 and 2004, respectively.

(d) In February 2000, the Ping Tung County government requested the Company to remove and clean the mercury-polluted waste which was found in a rural area in the county. The Company claimed that the cleaning process would be performed upon a verdict from court. Ping Tung County government continued to pursue the case and requested NT$51,700 from the Company in order to clean the waste in November 2000. The Company filed a legal action to against the Ping Tung County government. As a result, the Company and the Ping Tung County government reached agreement in a court session; the Company would retrieve the waste and the Ping Tung County government would pay NT$90,000 as part of the processing fee. The case was closed as of March 31, 2003.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(20) SUBSEQUENT EVENTS

(a) As of March 31, 2004, the Nan Ya Plastics Corporation stock held by the Company was pledged to the banks as collateral amounting to 140,000 thousand shares for Formosa Petrochemical Corporation' long-term debt and the pledges were withdrawn on April 27, 2004.

(b) The Company purchased 63,777,000 shares of Nan Ya Plastics Corporation stock amounting to NT$3,088,878,997 between April 1, 2004 and issue date of first quarter reviewed financial statements. The average purchasing cost was NT$48.43 per share.

(c) On April 23, 2004, an explosion happened in the factory of Formosa Plastics Corporation, U.S.A , a 6.04%-owned cost-method investee located in Illinois U.S.A. The average production of the plant was about 84,000 tons a year. Formosa Plastics Corporation, U.S.A had to temporarily stop supplying products to its customers. The Company accounted for only about 2% of the total revenue of Formosa Plastics Corporation, U.S.A. for the year ended December 31, 2003 and the plant is covered by insurance; therefore, the accident has no significant effect on the Company's operation.

(21) OTHERS

The personnel, depreciation, and amortization expenses of the Company by function were as follows:

	2003				2004				2004			
	Operating cost	Operating exp.	Non-operating exp.	Total	Operating cost	Operating exp.	Non-operating exp.	Total	Operating cost	Operating exp.	Non-operating exp.	Total
	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$	US$	US$	US$	US$
Personnel exp.												
Salaries	699,056	407,330	—	1,106,386	766,705	438,235	—	1,204,940	23,233	13,280	—	36,513
Insurance exp.	38,612	22,498	—	61,110	40,498	23,148	—	63,646	1,227	702	—	1,929
Retirement exp.	91,320	65,673	—	156,993	82,362	62,368	—	144,730	2,496	1,890	—	4,386
Other exp.	19,098	9,228	—	28,326	19,521	9,734	—	29,255	592	295	—	887
Depreciation	1,028,562	76,108	252	1,104,922	1,084,796	101,284	227	1,186,307	32,873	3,069	7	35,949
Amortization	38,274	5,855	7,313	51,442	41,705	36,889	—	78,594	1,264	1,118	—	2,382

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Formosa Plastics Corp.:

We have audited the accompanying consolidated balance sheets of Formosa Plastics Corp. and subsidiaries as of December 31, 2001, 2002, and 2003, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. Except for Yung Chia Chemical Industries Corp. and Formosa Plastics Corp. (Cayman), we did not audit the financial statements of long-term equity investments as outlined in note 7. The Company's investments in these companies was NT$51,958,556 thousand, NT$58,244,862 thousand, and NT$60,492,693 thousand at December 31, 2001, 2002, and 2003, respectively and its equity in net earnings of these companies was NT$1,039,193 thousand, NT$5,025,865 thousand, and NT$6,547,751 thousand in 2001, 2002, and 2003, respectively. The financial statements of the above-mentioned investee companies were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these 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 the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Formosa Plastics Corp. and subsidiaries as of December 31, 2001, 2002 and 2003, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

The accompanying consolidated financial statements as of and for the year ended December 31, 2003, have been translated into United States dollars solely for the convenience of the readers. We have audited the translation, and in our opinion, the consolidated financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(c) of the notes to the consolidated financial statements.

Taipei, Taiwan (the Republic of China)

February 12, 2004

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the 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 corroborated financial statements are those generally accepted and applied in the Republic of China.

FORMOSA PLASTICS CORP. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2001, 2002, AND 2003
(expressed in thousands of New Taiwan dollars and US dollars)

Assets	2001	2002	2003	
	NTD	NTD	NTD	USD
Current assets:				
Cash and cash equivalents (note 4)	$ 1,483,427	$ 821,502	$ 4,206,766	$ 123,765
Short-term investments (notes 4 and 18)	6,642,968	7,429,127	12,063,030	354,899
Notes receivable (note 5)	303,768	285,148	385,775	11,350
Accounts receivable (note 5)	2,754,330	3,331,362	2,471,272	72,706
Accounts receivable from related parties (notes 5 and 17)	1,248,549	2,326,015	3,216,365	94,627
Due from related parties (note 17)	2,627,870	3,919,707	7,175,848	211,116
Other financial assets — current (notes 16 and 17)	695,344	414,909	440,145	12,949
Inventories, net (note 6)	10,515,263	9,784,500	11,425,024	336,129
Prepayments and other current assets	1,119,715	1,118,974	1,443,822	42,478
Deferred income taxes assets (note 15)	1,249,117	2,092,295	4,530,870	133,300
Total current assets	28,640,351	31,523,539	47,358,917	1,393,319
Fund and long-term investments (notes 7 and 18):				
Long-term equity investments — equity method	53,415,005	62,136,773	61,660,345	1,814,073
Long-term equity investments — cost method	4,091,739	4,113,020	4,287,374	126,137
Other financial assets	130,721	116,586	53,648	1,578
	57,637,465	66,366,379	66,001,367	1,941,788
Property, plant and equipment (notes 8, 17 and 18):				
Cost:				
Land	1,750,902	1,844,102	2,334,931	68,694
Buildings and building improvements	11,937,824	13,432,166	13,609,207	400,389
Machinery and equipment	78,756,705	86,193,789	87,666,308	2,579,179
Transportation and miscellaneous equipment	2,273,945	2,421,511	2,463,392	72,474
Revaluation increments	633,551	633,223	629,862	18,531
Subtotal	95,352,927	104,524,791	106,703,700	3,139,267
Less: accumulated depreciation	(39,043,895)	(44,207,475)	(49,254,852)	(1,449,098)
Construction in progress	14,602,268	9,039,193	10,729,277	315,660
Advance payments for project and equipment	1,488,418	1,105,659	1,507,980	44,365
Property, plant and equipment, net	72,399,718	70,462,168	69,686,105	2,050,194
Intangible assets:				
Goodwill (note 7)	—	—	303,867	8,940
Deferred pension cost (note 12)	287,274	173,552	580,816	17,088
Total intangible assets	287,274	173,552	884,683	26,028
Other assets:				
Temporary payment	117,191	137,682	148,221	4,361
Leased-out and idle asset, net (note 9)	461,341	440,425	418,412	12,310
Refundable deposits (note 18)	1,002,970	886,012	1,306,748	38,445
Deferred expenses	1,234,288	1,021,669	532,040	15,653
Long-term due from related parties (note 17)	2,261,517	2,977,394	1,565,944	46,071
Deferred income tax assets (note 15)	7,225,694	5,494,322	2,859,580	84,130
Other miscellaneous assets (notes 7 and 16)	—	—	292,634	8,609
Total other assets	12,303,001	10,957,504	7,123,579	209,579
Total assets	**$ 171,267,809**	**$ 179,483,142**	**$ 191,054,651**	**$ 5,620,908**

FORMOSA PLASTICS CORP. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS — (Continued)
DECEMBER 31, 2001, 2002, AND 2003
(expressed in thousands of New Taiwan dollars and US dollars)

Liabilities and Stockholders' Equity	2001	2002	2003	
	NTD	NTD	NTD	USD
Current liabilities:				
Short-term borrowings (note 10)	$ 7,136,007	$ 404,552	$ 237,380	$ 6,984
Employees' savings	228,595	252,374	299,878	8,823
Short-term commercial paper payable, net (note 10)	1,498,541	—	—	—
Accounts payable	1,189,149	1,200,082	2,908,120	85,558
Accounts payable to related parties (note 17)	1,815,713	3,156,067	3,872,287	113,924
Accrued expenses (note 17)	3,222,865	3,344,452	3,274,032	96,323
Due to related parties (note 18)	600,000	—	—	—
Current portion of long-term debt (note 11)	3,658,952	7,270,768	13,146,880	386,787
Other payables (notes 7 and 16)	685,919	506,015	711,225	20,925
Total current liabilities	20,035,741	16,134,310	24,449,802	719,324
Long-term liabilities				
Long-term debt (note 11)	43,838,906	41,193,795	34,835,467	1,024,874
Bonds payable (note 11)	12,550,000	19,450,000	17,500,000	514,857
Long-term due to related parties (note 17)	1,046,495	150,932	151,835	4,467
Total long-term liabilities	57,435,401	60,794,727	52,487,302	1,544,198
Other liabilities:				
Accrued pension liability (note 12)	3,367,212	3,719,151	4,610,891	135,654
Deferred income tax liabilities (note 15)	199,962	1,724,826	1,507,073	44,339
Other miscellaneous liabilities (note 7)	198,928	192,554	64,791	1,906
Total other liabilities	3,766,102	5,636,531	6,182,755	181,899
Total liabilities	81,237,244	82,565,568	83,119,859	2,445,421
Stockholders' equity (note 13):				
Capital stock (note 7)	42,380,687	45,347,335	48,068,685	1,414,201
Capital surplus:				
Capital surplus — stock premium	8,129,174	8,129,174	8,130,081	239,190
Capital surplus — reserve for revaluation increment	180,379	180,379	180,379	5,307
Capital surplus — gain on sale of property, plant and equipment	2,846,115	—	—	—
Capital surplus — others	6,529,434	6,559,124	4,972,786	146,302
Total capital surplus	17,685,102	14,868,677	13,283,246	390,799
Retained earnings:				
Legal reserve	8,527,224	9,480,252	10,465,773	307,907
Special reserve	12,601,017	14,105,944	17,097,152	503,005
Unappropriated retained earnings	6,914,165	11,238,204	17,185,946	505,618
Total retained earnings	28,042,406	34,824,400	44,748,871	1,316,530
Unrealized loss on long-term equity investment devaluation (note 7)	(143,352)	(124,353)	—	—
Cumulative translation adjustments (note 7)	2,065,722	2,026,992	1,833,990	53,957
Treasury stock (notes 3 and 7)	—	(25,477)	—	—
Total stockholders' equity	90,030,565	96,917,574	107,934,792	3,175,487
Commitments and contingencies (note 19)				
Total liabilities and stockholders' equity	**$ 171,267,809**	**$ 179,483,142**	**$ 191,054,651**	**$ 5,620,908**

See accompanying notes to consolidated financial statements.

FORMOSA PLASTICS CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002, AND 2003
(expressed in thousands of New Taiwan dollars and US dollars, except earnings per share)

	2001	2002	2003	
	NTD	NTD	NTD	USD
Operating revenues (note 17):				
Gross sales	$ 68,811,019	$ 76,761,887	$ 95,540,899	$ 2,810,853
Sales returns and allowances	275,930	426,843	384,367	11,308
Total operating revenues	68,535,089	76,335,044	95,156,532	2,799,545
Cost of good sold (note 17)	59,653,368	63,436,573	80,313,209	2,362,848
Gross profit	8,881,721	12,898,471	14,843,323	436,697
Operating expenses:				
Selling expenses	2,738,967	2,807,355	3,249,238	95,594
General & administrative expenses	2,705,200	2,051,974	2,160,265	63,556
R&D expenses	901,792	634,469	487,009	14,328
Total operating expenses	6,345,959	5,493,798	5,896,512	173,478
Operating income	2,535,762	7,404,673	8,946,811	263,219
Non-operating income:				
Interest income (note 17)	770,525	317,374	363,225	10,686
Investment income recognized under equity method (note 7)	2,400,197	5,211,444	7,455,224	219,336
Dividend income	424,897	405,096	691,648	20,349
Gain on disposal of property, plant and equipment (notes 8 and 9)	1,928,378	522,126	25,741	757
Gain on disposal of investments	9,191	703,896	1,654,037	48,663
Gain on physical inventory	211,666	15,320	91,579	2,694
Foreign exchange gain	—	66,649	120,336	3,540
Rental income (note 17)	141,693	118,029	103,929	3,058
Other items	566,891	507,011	579,668	17,054
Total non-operating income	6,453,438	7,866,945	11,085,387	326,137
Non-operating expenses:				
Interest expenses (notes 8 and 17)	2,996,104	2,453,542	2,241,897	65,958
Investment loss recognized under equity method (note 7)	282,365	313,223	714,068	21,008
Loss on disposal of assets	11,590	419	12,743	375
Foreign exchange loss	306,558	—	—	—
Loss on physical inventory	21,646	7,430	5,365	158
Other items	263,619	263,793	484,404	14,251
Total non-operating expenses	3,881,882	3,038,407	3,458,477	101,750
Net non-operating income	2,571,556	4,828,538	7,626,910	224,387
Income before income tax	5,107,318	12,233,211	16,573,721	487,606
Income tax (expense) benefit (note 15)	1,598,580	(2,334,738)	32,428	954
Net income	**$ 6,705,898**	**$ 9,898,473**	**$ 16,606,149**	**$ 488,560**
Basic earnings per share — retroactively adjusted (note 14)				
— before tax	**$ 1.15**	**$ 2.44**	**$ 3.47**	**$ 0.10**
— after tax	**$ 1.40**	**$ 2.06**	**$ 3.45**	**$ 0.10**
Proforma information if stock held by subsidiaries is not treated as treasury stock				
Net income		**$ 9,899,084**		
Basic earnings per share — retroactively adjusted (note 14)				
— before tax		**$ 2.44**		
— after tax		**$ 2.06**		

See accompanying notes to consolidated financial statements.

FORMOSA PLASTICS CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2001, 2002, AND 2003 (expressed in thousands of New Taiwan dollars)

			Retained earnings						
	Capital stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation adjustments	Unrealized loss on long-term equity investments	Treasury stock	Total
Balance as of January 1, 2001	NT$ 38,527,897	18,850,320	7,239,110	7,627,348	13,096,829	1,643,527	(160,451)	—	86,824,580
Appropriation and distribution of earnings:									
Legal reserve	—	—	1,288,114	—	(1,288,114)	—	—	—	—
Special reserve	—	—	—	5,154,751	(5,154,751)	—	—	—	—
Special reserve transferred	—	—	—	(181,082)	181,082	—	—	—	—
Stock dividends	3,852,790	(1,155,837)	—	—	(2,696,953)	—	—	—	—
Directors' and supervisors' remuneration and employees' bonuses	—	—	—	—	(55,308)	—	—	—	(55,308)
Cash dividends	—	—	—	—	(3,852,790)	—	—	—	(3,852,790)
Corresponding adjustments to comply with investees' transfer of gain on sales of fixed assets to capital surplus	—	21,728	—	—	(21,728)	—	—	—	—
Effect of not subscribing to investees' newly issued shares in accordance with holding percentage	—	(41,528)	—	—	—	—	—	—	(41,528)
Transfer of unpaid cash dividend and of directors' and supervisors' remuneration outstanding for over five years to capital surplus	—	10,478	—	—	—	—	—	—	10,478
Payment of unpaid cash dividend outstanding for over five years	—	(59)	—	—	—	—	—	—	(59)
Unrealized loss on long-term equity investment	—	—	—	—	—	—	17,099	—	17,099
Change in cumulative translation adjustments	—	—	—	—	—	422,195	—	—	422,195
Net income of 2001	—	—	—	—	6,705,898	—	—	—	6,705,898
Balance as of December 31, 2001	**NT$ 42,380,687**	**17,685,102**	**8,527,224**	**12,601,017**	**6,914,165**	**2,065,7221**	**(143,352)**	**—**	**90,030,565**
Balance as of January 1, 2002	NT$ 42,380,687	17,685,102	8,527,224	12,601,017	6,914,165	2,065,722	(143,352)	—	90,030,565
Appropriation and distribution of earnings:									
Reclassification of capital surplus resulting from disposal of property and equipment to unappropriated retained earnings	—	(2,846,114)	—	—	2,846,114	—	—	—	—
Legal reserve	—	—	953,028	—	(953,028)	—	—	—	—
Special reserve	—	—	—	2,049,649	(2,049,649)	—	—	—	—
Special reserve transferred	—	—	—	(544,722)	544,722	—	—	—	—
Directors' and supervisors' remuneration and employees' bonuses	—	—	—	—	(5,455)	—	—	—	(5,455)
Cash dividends	—	—	—	—	(2,966,648)	—	—	—	(2,966,648)
Stock dividends	2,966,648	—	—	—	(2,966,648)	—	—	—	—
Corresponding adjustments to comply with investees' transfer of gain on sales of fixed assets to capital surplus	—	43,259	—	—	(43,259)	—	—	—	
Corresponding adjustments of capital surplus to comply with investees' adjustment	—	(19,417)	—	—	19,417	—	—	—	—
Adjustment of capital surplus resulting from disposal of long-term investments accounted for by equity method	—	(29)	—	—	—	—	—	—	(29)
Effect of not subscribing to investees' newly issued shares in accordance with holding percentage	—	196	—	—	—	—	—	—	196
Transfer of unpaid cash dividend outstanding for over five years to capital surplus	—	5,138	—	—	—	—	—	—	5,138
Payment of unpaid cash dividend outstanding for over five years	—	(69)	—	—	—	—	—	—	(69)
Recognition of issued common stock held by subsidiaries as treasury stock (note 3)	—	—	—	—	—	—	—	(25,477)	(25,477)
Recognition of capital surplus resulting from treasury stock (note 3)	—	611	—	—	—	—	—	—	611
Unrealized loss on long-term equity investment	—	—	—	—	—	—	18,999	—	18,999
Change in cumulative translation adjustments	—	—	—	—	—	(38,730)	—	—	(38,730)
Net income of 2002	—	—	—	—	9,898,473	—	—	—	9,898,473
Balance as of December 31, 2002	**NT$ 45,347,335**	**14,868,677**	**9,480,252**	**14,105,944**	**11,238,204**	**2,026,992**	**(124,353)**	**(25,477)**	**96,917,574**

See accompanying notes to consolidated financial statements.

FORMOSA PLASTICS CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002, AND 2003
(expressed in thousands of New Taiwan dollars and US dollars)

			Retained earnings						
	Capital stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation adjustments	Unrealized loss on long-term equity investments	Treasury stock	Total
Balance as of January 1, 2003	NT$ 45,347,335	14,868,677	9,480,252	14,105,944	11,238,204	2,026,992	(124,353)	(25,477)	96,917,574
Appropriation and distribution of earnings (note 13):									
Legal reserve	—	—	985,521	—	(985,521)	—	—	—	—
Special reserve	—	—	—	5,204,853	(5,204,853)	—	—	—	—
Special reserve transferred	—	—	—	(2,213,645)	2,213,645	—	—	—	—
Stock dividends	2,720,840	(1,360,420)	—	—	(1,360,420)	—	—	—	—
Directors' and supervisors' remuneration and employees' bonuses	—	—	—	—	(27,263)	—	—	—	(27,263)
Cash dividends	—	—	—	—	(5,441,680)	—	—	—	(5,441,680)
Adjustments of capital surplus resulting from disposal of long-term investments accounted for by equity method	—	(93,238)	—	—	—	—	—	—	(93,238)
Newly issued shares in consolidating with Yungchia Chemical Industries Corp.	510	907	—	—	—	—	—	—	1,417
Payment of unpaid cash dividend outstanding for over five years	—	(647)	—	—	—	—	—	—	(647)
Reclassification of capital surplus resulting from disposal of property, plant and equipment to unappropriated earnings	—	(147,685)	—	—	147,685	—	—	—	—
Unrealized loss on long-term equity investment	—	—	—	—	—	—	124,353	—	124,353
Change in cumulative translation adjustments	—	—	—	—	—	(193,002)	—	—	(193,002)
Reversal of recognition of issued common stock held by subsidiaries as treasury stock	—	—	—	—	—	—	—	25,477	25,477
Recognition of capital surplus resulting from treasury stock	—	15,652	—	—	—	—	—	—	15,652
Net income of 2003	—	—	—	—	16,606,149	—	—	—	16,606,149
Balance as of December 31, 2003	**NT$ 48,068,685**	**13,283,246**	**10,465,773**	**17,097,152**	**17,185,946**	**1,833,990**	**—**	**—**	**107,934,792**
Balance as of January 1, 2003	US$ 1,334,138	437,443	278,913	415,002	330,632	59,635	(3,658)	(750)	2,851,355
Appropriation and distribution of earnings (note 13):									
Legal reserve	—	—	28,994	—	(28,994)	—	—	—	—
Special reserve	—	—	—	153,129	(153,129)	—	—	—	—
Special reserve transferred	—	—	—	(65,126)	65,126	—	—	—	—
Stock dividends	80,048	(40,024)	—	—	(40,024)	—	—	—	—
Directors' and supervisors' remuneration and employees' bonuses	—	—	—	—	(802)	—	—	—	(802)
Cash dividends	—	—	—	—	(160,096)	—	—	—	(160,096)
Adjustments of capital surplus resulting from disposal of long-term investments accounted for by equity method	—	(2,743)	—	—	—	—	—	—	(2,743)
Newly issued shares in consolidating with Yungchia Chemical Industries Corp.	15	27	—	—	—	—	—	—	42
Payment of unpaid cash dividend outstanding for over five years	—	(19)	—	—	—	—	—	—	(19)
Reclassification of capital surplus resulting from disposal of property, plant and equipment to unappropriated earnings	—	(4,345)	—	—	4,345	—	—	—	—
Unrealized loss on long-term equity investment	—	—	—	—	—	—	3,658	—	3,658
Change in cumulative translation adjustments	—	—	—	—	—	(5,678)	—	—	(5,678)
Reversal of recognition of issued common stock held by subsidiaries as treasury stock	—	—	—	—	—	—	—	750	750
Recognition of capital surplus resulting from treasury stock	—	460	—	—	—	—	—	—	460
Net income of 2003	—	—	—	—	488,560	—	—	—	488,560
Balance as of December 31, 2003	**US$ 1,414,201**	**390,799**	**307,907**	**503,005**	**505,618**	**53,957**	**—**	**—**	**3,175,487**

See accompanying notes to consolidated financial statements.

FORMOSA PLASTICS CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002, AND 2003
(expressed in thousands of New Taiwan dollars and US dollars)

	2001	2002	2003	
	NTD	NTD	NTD	USD
Cash flows from operating activities:				
Net income	$ 6,705,898	9,898,473	16,606,149	488,560
Adjustments:				
Unrealized foreign exchange (gain) loss, net	357,843	(35,951)	(97,657)	(2,873)
Depreciation, amortization, and loss on disposal of assets	5,089,595	5,619,787	5,893,735	173,396
Provision for (reversal of) expenses and devaluations	152,989	(49,387)	(91,793)	(2,700)
Decrease (increase) in deferred income taxes, net	(1,570,930)	2,393,528	(40,828)	(1,201)
Long-term investment income under equity method, net	(2,118,306)	(4,898,222)	(6,741,156)	(198,327)
Gain on disposal of assets and idle assets, net	(1,911,478)	(500,870)	(13,433)	(395)
Gain on sale of short-term investments, net	(9,191)	(701,552)	(40,475)	(1,190)
Gain on sale of long-term investments		(2,344)	(1,613,561)	(47,472)
Decrease (increase) in accounts and notes receivable	(107,009)	(1,013,840)	539,826	15,882
Decrease (increase) in other receivables	4,695	226,037	(29,185)	(860)
Decrease (increase) in inventories	(283,433)	680,325	(812,841)	(23,914)
Decrease (increase) in prepayments and other current assets	1,058,067	145,837	(223,216)	(6,567)
Increase (decrease) in accounts and notes payable	(1,324,708)	770,456	1,686,427	49,615
Increase (decrease) in accrued expenses and estimated expense payable	(473,657)	91,433	(290,858)	(8,557)
Increase (decrease) in other payables and other current liabilities	(61,823)	(188,906)	11,316	333
Cash dividends from investees accounted for by equity method	605,246	648,340	4,143,907	121,915
Adjustment for unrealized pension liability, net	421,146	464,990	355,259	10,452
Amortization of discount on forward exchange purchasing	(10,706)	(39,313)	(25,683)	(756)
Compensation due to directors and supervisors over 5 yr. as income	—	(5,506)	(4,175)	(123)
Net cash provided by operating activities	6,524,238	13,503,315	19,211,758	565,218
Cash flows from investing activities:				
Increase in short-term investments	(2,718,234)	(3,501,312)	(10,899,666)	(320,673)
Proceeds from sales of assets and idle assets	1,997,158	564,660	37,703	1,110
Purchases of property, plant and equipment	(4,754,304)	(3,562,180)	(3,653,312)	(107,482)
Increase in long-term investments	(8,761,447)	(4,474,304)	(1,140,308)	(33,548)
Decrease (increase) in refundable deposits	137,546	116,958	(417,063)	(12,270)
Increase in deferred expenses	(178,505)	(18,106)	(59,953)	(1,764)
Decrease (increase) in temporary debits	(10,354)	(20,491)	21,873	644
Decrease (increase) in due from related parties	8,480,630	(1,290,556)	(3,498,881)	(102,939)
Decrease in revenue received in advance for land sales	(924,227)	(39,204)	—	—
Proceeds from sales of short-term investments	36,191	3,416,706	6,348,122	186,764
Proceeds from sales of long-term investments	—	5,563	2,761,980	81,259
Proceeds from sales of forward exchange contract	—	40,242	32,094	944
Net cash provided in consolidating with Yungchia Chemical Industries Corp.	—	—	1,065,460	31,346
Net cash used in investing activities	(6,695,546)	(8,762,024)	(9,401,951)	(276,609)

FORMOSA PLASTICS CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002, AND 2003
(expressed in thousands of New Taiwan dollars and US dollars)

	2001	2002	2003	
	NTD	NTD	NTD	USD
Cash flows from financing activities:				
Increase (decrease) in commercial paper payable	998,603	(1,498,541)	—	—
Decrease in short-term borrowings and borrowings from employees	(1,274,367)	(6,708,309)	(160,553)	(4,724)
Increase (decrease) in long-term debt and bonds payable	2,096,492	7,971,498	(2,157,039)	(63,461)
Payment of cash dividends	(3,816,721)	(2,945,538)	(5,401,538)	(158,916)
Payment of directors' and supervisors' compensation and employees' bonuses	(65,351)	(7,974)	(26,501)	(780)
Increase (decrease) in other miscellaneous liabilities	(71,436)	6,019	(7,794)	(229)
Increase (decrease) in due to related parties	1,351,903	(2,222,279)	1,372,530	40,381
Net cash used in financing activities	(780,877)	(5,405,124)	(6,380,895)	(187,729)
Effect of foreign currency exchange translation	1,574	1,908	(43,648)	(1,284)
Increase (decrease) in cash and cash equivalents	(950,611)	(661,925)	3,385,264	99,596
Cash and cash equivalents at beginning of year	2,434,038	1,483,427	821,502	24,169
Cash and cash equivalents at end of year	**$ 1,483,427**	**821,502**	**4,206,766**	**123,765**
Supplemental cash flow information:				
Interest paid (excluding interest capitalized)	**$ 3,124,671**	**2,377,807**	**2,339,836**	**68,839**
Income tax paid	**$ 56,350**	**83,564**	**117,320**	**3,452**
Financing activities that have no effect on cash flow:				
Increase in uncollected compensation of directors and supervisors	**$ 15,606**	**8,015**	**37,376**	**1,100**
Current portion of long-term debt	**$ 3,630,405**	**7,270,768**	**13,146,880**	**386,787**
Net cash provided by merging Yungchia Chemical Industries:				
Acquisition of Yungchia Chemical Industries' non-cash assets	—	—	**(2,703,985)**	**(79,552)**
Acquisition of Yungchia Chemical Industries' liabilities	—	—	**974,154**	**28,660**
Issuance of common stock (including additional paid-in capital)	—	—	**1,417**	**41**
Increase in other payables	—	—	**65,899**	**1,939**
Decrease in long-term investments	—	—	**3,067,872**	**90,258**
Increase in goodwill	—	—	**(339,897)**	**(10,000)**
	—	—	**1,065,460**	**31,346**

See accompanying notes to consolidated financial statements.

FORMOSA PLASTICS CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001, 2002, AND 2003
(expressed in thousands of New Taiwan dollars and US dollars except earnings per share information or unless otherwise stated)

(1) ORGANIZATION AND BUSINESS SCOPE

Introduction to the Company

Formosa Plastics Corp. ("FPC") was incorporated on October 30, 1954, and established its factories in Kaohsiung City. FPC is engaged in the manufacture and sale of plastic products, chemical fibers, and petrochemical products. FPC has gone through several capital increases, established many divisions, and become a well-diversified enterprise. The operating activities of each division are as follows:

Division	Product/Service
Plastic Division	PVC, caustic soda, VCM, HCFC, POM, MBS resin, etc.
Tairylan Division	Acrylic fiber, AE, carbon fiber, SAP, etc.
Carbide Division	Calcium carbide, quicklime, calcium carbonate master batch, etc.
Engineering and Construction Division	Electricity, water, and steam power system, plant design and equipment maintenance
Polyolefin Division	HDPE, LDPE, LLDPE, EVA, etc.
Electronics Special Project Department	DCS
Chemical Division	AN, ECH, MMA, MTBE, B1, etc.
Polypropylene Division	PP

Formosa Plastics Corp. America ("FPCA") was incorporated in Texas, USA, in 1989. FPCA is engaged in the manufacture and sale of EDC and Chlor-alkali, primarily for related parties, and has been a 100%-owned subsidiary of FPC since 1994. The consolidated financial statements include the accounts of FPC and FPCA (the "Company") and all material inter-company balances and transactions have been eliminated in the consolidated financial statements.

As of December 31, 2003, there were 4,713 employees in the consolidated company.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

When FPC owns more than 50% of an investee's voting common stock, the investee is treated as a subsidiary and FPC is required to prepare annual consolidated financial statements. However, if both the subsidiary's total assets and operating revenue are below 10% of FPC's respective account balances, such a subsidiary is not required to be consolidated.

However, if the total assets and operating revenue of all unconsolidated subsidiaries are over 30% of FPC's respective account balances, consolidated financial statements are still required for those subsidiaries whose total assets and operating revenue are more than 3% of FPC's respective account balances.

The subsidiaries in which FPC had more than 50% of ownership were Formosa Plastics Corp. America, Formosa Teletek Corp., Formosa Plasma Display Corp., and Formosa Plastics Corporation (Cayman Ltd.) in 2003; Formosa Plastics Corp. America, Formosa Teletek Corp., Yung Chia Chemical Industries Corp., Formosa Plasma Display Corp., and Formosa Plastics Corporation (Cayman Ltd.) in 2002; and Formosa Plastics Corp. America and Formosa Teletek

Corp. in 2001. Formosa Teletek Corp., Yung Chia Chemical Industries Corp., Formosa Plasma Display Corp., and Formosa Cayman (Cayman Ltd.) do not meet the criteria; therefore, they are excluded from the consolidated financial statements.

The consolidated financial statements are mainly composed of the accounts of the Company and Formosa Plastics Corp., America (the consolidated entity). All inter-company transactions have been eliminated. The functional currency of Formosa Plastics Corp., America is the US dollar, and its financial statements have been translated into New Taiwan dollars in accordance with Republic of China Statement of Financial Accounting Standards No. 14.

(b) Foreign currency transactions and translations of foreign currency financial statements

FPC's functional and reporting currency is the New Taiwan dollar. Foreign currency dominated transactions during the year are translated at the rates on the transaction dates. Foreign currency dominated receivable and payable are translated into New Taiwan dollars at the market rate on the balance sheet date, and the resulting realized and unrealized gains or losses are recognized as non-operating income or expenses. Exchange differences of FPC's long-term investments are included in the stockholders' equity as cumulative translation adjustments.

Gains and losses on translation of FPC's equity interests in its foreign unconsolidated subsidiaries and affiliates are not included in the consolidated statements of income but reported separately and accumulated in the "cumulative translation adjustments" in the consolidated balance sheets.

(c) Convenience translation into US dollars

The consolidated financial statements are stated in New Taiwan dollars. Translation of the 2003 New Taiwan dollar amounts into US dollar amounts is included solely for the convenience of the readers, using the noon buying rate of the Federal Reserve Bank in New York on March 31, 2003, of NT$33.99 to US$1 uniformly for all the financial statement accounts. The convenience translation should not be construed as a representation that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

(d) Cash and cash equivalents

Cash equivalents are defined as highly liquid short-term investments readily convertible into known amounts of cash and with maturities within three months. Interest rate fluctuations have little effect on the values of these investments. Cash equivalents include commercial paper and banker's acceptances and are stated at cost.

(e) Short-term investments

Short-term investments are stated at the lower of aggregate cost or market value. Aggregate cost is determined by the weighted-average method. Market value is determined by averaging the closing prices of the last month of the accounting period. Losses resulting from decline in market value are recognized in the income statement of the current period. Stock dividends received are not recognized as investment income but are accounted for as an increase in the number of shares held. The cost per share after stock dividends is recalculated using the weighted-average method.

(f) Allowance for doubtful accounts

Allowance for doubtful accounts and sales allowances are shown in their net realizable value and calculated based upon the Company's evaluation of the collectibility of notes and accounts receivable.

(g) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by using the monthly weighted-average method. Market value represents replacement cost or net realizable value.

(h) Long-term equity investments

Long-term investments in listed equity securities that represent less than 20% of the investee's common stock ownership, and where the Company does not have significant influence on the investees, are stated at the lower of cost or market value. Unrealized loss resulting from decline in market value thereon is recorded as a reduction in stockholders' equity.

Long-term investments in non-listed equity securities are stated at cost. When there is evidence showing that a decline in the market value of such an investment is other than temporary and the probability of recovery is considered remote, the carrying value of the investment is reduced to reflect the market value and the resulting loss is recognized in the period of such a reduction. Stock dividends are not recognized as investment income but are booked as an increase in the number of shares held. The cost of long-term equity investment sold is calculated based on the weighted-average method.

Investments where the percentage of ownership exceeds 20%, or where the consolidated entity has significant influence on the operating and financial policies of the investee companies, are accounted for by the equity method. The difference between the cost of an investment and the amount of underlying equity in net assets of an investee is recognized as investment gain or loss, and is amortized by using the straight-line method over five years.

The Company recognizes concurrently its equity in the earnings and losses of a more than 20%-owned equity-method investee company if such an investee is more than 50% owned, or is less than 50% owned but meets all the criteria set out below:

(i) The beginning owners' equity of such an investee is in excess of NT$50,000, and is in excess of 5% of the consolidated entity's beginning capital.

(ii) The consolidated entity is among the top three shareholders in terms of the holding percentage of such an investee, or the president or general manager of such an investee is nominated by the Company.

(iii) The consolidated entity owns more than 30% of such investee, or the combined holding percentage of such investee as held by the consolidated entity the Company's directors, supervisors, executive officers, and other entities controlled directly or indirectly by the Company is in excess of 50%.

The Company defers the recognition of its equity in the net earnings or losses of those nonsubsidiary investee companies that do not meet all the criteria referred to above, based on the consolidated entity's average holding percentage in such investee companies during the preceding period, and based on the audited financial statements of such investee companies for the preceding period. The Company's accounting policy on the recognition of its equity in earnings or losses of Nan Chung Petrochemical Corp., which was a 50%-owned equity-method investee company, changed from deferred recognition to concurrent recognition in 2002.

When the Company owns more than 50% of an investee's common stock, the investee is treated as a subsidiary and included in the consolidated financial statements. However, if the subsidiary's total assets and operating revenue are both below 10% of the Company's respective account balances, consolidated financial statements are not required. However, if the total assets and operating revenue of all unconsolidated subsidiaries are over 30% of the Company's respective account balances, consolidated financial statements are still required for any subsidiaries whose total assets and operating revenue are more than 3% of the Company's respective account balances.

Gain or loss on disposal of long-term equity is recognized as investment income or loss. Unrealized gains or losses from transactions between the Company and investees or subsidiaries are eliminated. Unrealized gains or losses resulting from depreciable or amortizable assets will be recognized yearly over the respective useful lives of the related assets. However, the gains or losses will be recognized in the year of realization if the unrealized gains or losses result from non-depreciable assets.

(i) Property, plant and equipment

Property, plant and equipment are stated at cost. The Company can revalue its fixed assets in accordance with regulations prescribed by the ROC government and include the revaluation increment in the cost of property, plant and equipment. Interest due to asset acquisition is capitalized as part of the acquisition cost. Maintenance and improvement expense is recognized as current period expense. Depreciation is calculated using the straight-line method for the consolidated subsidiary's assets, and the Company's CFC plant, Polypropylene Division, Mai-Liao plant, and Formosa Plastics Corp., America. Depreciation of the other plants' assets is calculated using the declining-balance method. Assets that are still in service after reaching the end of their estimated useful lives are depreciated over their re-estimated useful lives.

The major fixed assets' economic lives are as follows:

(i) Building: 3~55 years

(ii) Machinery and equipment: 3~25 years

(iii) Other equipment: 3 to 15 years

Gains or losses on the disposal of property, plant and equipment are recorded as nonoperating income or expenses.

(j) Goodwill

When acquiring Yung-Chia Chemical Industries Corp., the excess of cost over fair value of the identifiable net assets acquired was recognized as goodwill, which is amortized using the straight-line method over five years. The value and future benefits of Goodwill are measured on the balance sheet date. If the value eventually disappears, goodwill should be charged to nonoperating expense or extraordinary loss over the period affected.

(k) Deferred expenses

Deferred expenses are stated at cost and primarily consist of bond issuance costs, technology service expenses, catalyst, and patents. These costs are amortized over their estimated useful lives.

(l) Derivative financial instruments

FPC engages in derivative financial transactions to manage the risk of interest rate fluctuation, and discloses these financial instruments in accordance with SFAS No. 27, “Disclosure of Financial Instruments”.

(i) *Interest rate swap transactions*

Interest rate swap contracts entered into for hedging purposes are only recorded in a memo account on the contract signing date, since no principal is transferred. Any interest income or expense resulting from rate differences is measured on the balance sheet date and settlement date, and is reflected in the accompanying consolidated statements of income. The related interest receivable or payable resulting from the contract interest rate and market interest rate on the balance sheet date and settlement date is treated as an adjustment for the hedging assets’ or liabilities’ interest income or expense.

(ii) *Forward exchange transactions*

Foreign exchange forward contracts entered into for the purpose of hedging the risks of exchange rate fluctuation on foreign currency receivables and payables are translated into New Taiwan dollars using year-end exchange rates. The resulting translation difference is recorded as an exchange gain or loss in the accompanying unconsolidated statements of income. The difference between the forward rate and spot rate at the contract date is amortized over the contract period.

(iii) *Cross currency swaps (CCSs)*

The Company enters into cross currency swaps in order to meet the need for different currencies. The current portion of foreign assets and liabilities is recognized at the contract date spot rate. The long-term part is recognized at the contract forward exchange rate. The spread between the spot and forward rate is amortized over the contract period as income or expense.

(m) Pension plan

In compliance with the Republic of China ("ROC") Labor Standards Law, FPC has established employee benefit pension plans for its regular employees. FPC contributes the retirement fund monthly at 2% of the paid salaries and wages. The funds are deposited with the Central Trust of China. In accordance with the plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements, or becoming disabled.

FPC adopted ROC Statement of Financial Accounting Standards ("SFAS") No. 18, "Accounting for Pensions", for the plan. SFAS No. 18 requires that FPC calculate actuarial pension liability using the balance sheet date as the measurement date. The amount of accumulated benefit obligation in excess of fair value of pension plan assets is deemed the minimum pension liability and is to be recognized as accrued pension liability. The net periodic pension cost consists of service cost, amortization of net transition obligation, interest cost, and pension gain or loss. Net transaction obligation is amortized by 17 years as average employees future service period.

FPCA adopted a defined contribution pension plan.

(n) Treasury stock

Effective on January 1, 2002, FPC's issued common stock held by its subsidiaries is considered as FPC's treasury stock in accordance with SFAS No. 30, "Accounting for Treasury Stock". SFAS No. 30 also prescribes that previous years' financial statements are not required to be restated. Cash dividends paid by FPC to its subsidiaries that held FPC's issued stock are accounted for as capital surplus.

(o) Income tax

FPC adopted ROC Statement for Financial Accounting Standards ("SFAS") No. 22, "Accounting for Income Taxes". Deferred income taxes are determined based on differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, loss carryforwards, and investment tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly.

(expressed in thousands of New Taiwan dollars and US dollars
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Classification of the deferred income tax assets or liabilities as current or non-current is based on the classification of the related asset or liability. If a deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the expected realization date of such deferred income tax asset or liability.

According to the ROC Income Tax Law, FPC's undistributed income, if any, is subject to an additional 10% retained earnings tax. The surtax is charged to income tax expense after the stockholders' meeting in the following year approves the appropriation of earnings. Formosa Plastics Corp. America (FPCA) adopted FASB Statement No. 109, "Accounting For Income Taxes".

(p) Earnings per share

The Company adapted ROC SFAS No. 24, "Earnings per Share" to calculate and disclose the related information on earnings per share. The computation of basic earnings per share is based on the weighted-average number of common shares outstanding. Earnings per share are retroactively adjusted for stock dividends.

(3) CHANGE IN ACCOUNTING PRINCIPLE AND THE EFFECTS

In accordance with ROC Securities and Futures Commission ("SFC") regulations and SFAS No. 30, "Accounting for Treasury Stock", the common stock held by subsidiaries is recorded as treasury stock effective January 1, 2002. Based on the provision, long-term investment decreased by NT$25,477 and treasury stock increased by NT$25,477, capital surplus — treasury stock transactions increased by NT$611, and retained earnings decreased by NT$611 as of December 31, 2002. Moreover, the net income decreased by NT$611 and EPS decreased by NT$0.0001. This change in accounting principle had no material impact on the presentation of the consolidated financial statements and earnings per share as of and for the year ended December 31, 2002.

(4) CASH AND CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS

(a) Cash and cash equivalents

	2001	2002	2003	
	NT$	NT$	NT$	US$
Cash on hand	1,168	661	454	13
Bank deposit	1,032,245	820,841	4,206,312	123,752
Commercial paper	450,014	—	—	—
	1,483,427	**821,502**	**4,206,766**	**123,765**

Certificates of deposit for guarantees have been reclassified to guarantee deposits paid. Please see note 18.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(b) Short-term investment

As of December 31, 2001, 2002, and 2003, short-term investments were as follows:

	2001		2002		2003			
Investee	Book value	Market value	Book value	Market value	Book value		Market value	
	NT$	NT$	NT$	NT$	NT$	US$	NT$	US$
Stocks and mutual funds. . . .	6,642,968	13,625,903	7,429,127	18,075,432	12,063,030	354,899	32,128,601	945,237

Short-term investments pledged to banks as collateral for loans are described in note 18.

(5) NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

Accounts and notes receivable as of December 31, 2001, 2002, and 2003 consisted of:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Notes receivable.	310,769	291,105	393,767	11,585
Less: allowance for doubtful accounts	(7,001)	(5,957)	(7,992)	(235)
	303,768	285,148	385,775	11,350
Accounts receivable	2,830,265	3,421,090	2,583,278	76,001
Less: allowance for doubtful accounts	(75,935)	(89,728)	(112,006)	(3,295)
	2,754,330	3,331,362	2,471,272	72,706
Accounts receivable due from related parties.	1,248,549	2,326,015	3,216,365	94,627
Net book value	**4,306,647**	**5,942,525**	**6,073,412**	**178,683**

Details of accounts receivable from related parties are described in note 17.

(6) INVENTORIES

As of December 31, 2001, 2002, and 2003, inventories consisted of the following:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Finished goods.	5,103,645	4,226,175	4,744,283	139,579
Work in process	800,459	1,311,946	1,245,150	36,633
Machinery and accessories in process	288,065	138,982	156,672	4,609
Raw materials	809,672	704,309	895,867	26,357
Supplies	3,663,087	3,571,176	4,392,293	129,223
Goods in transit	92,962	90,247	103,880	3,056
Others.	—	2	8,563	252
Internal transfer pricing loss of inventory devaluation . . .	23,100	(54,803)	(39,580)	(1,164)
Less: allowance for inventory devaluation	(265,727)	(203,534)	(82,104)	(2,416)
	10,515,263	**9,784,500**	**11,425,024**	**336,129**

Inventories have been insured against fire loss. Total insurance coverage amounted to NT$9,447,879, NT$11,285,721, and NT$10,055,936 as of December 31, 2001, 2002, and 2003, respectively.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(7) LONG-TERM EQUITY INVESTMENTS

(a) As of December 31, 2001, 2002, and 2003, long-term equity investments consisted of the following:

	2001		2002		2003		
Investee	NT$	% of ownership	NT$	% of ownership	NT$	US$	% of ownership
Equity method:							
Formosa Petrochemical Corp.	38,420,807	33.00	42,166,533	32.65	44,441,989	1,307,502	31.84
Yung-Chia Chemical Industries Corp.	1,456,449	49.00	3,528,401	98.46	—	—	—
Formosa Heavy Industries Corp.	2,883,126	32.91	2,985,882	32.91	3,032,106	89,206	32.91
Formosa Teletek Corp.	246,896	99.98	219,409	99.98	162,584	4,783	98.93
Formosa Plasma Display Corp.	—	—	2,127,420	76.90	1,554,870	45,745	76.24
Formosa Plastics Corp. (Cayman Ltd.)	—	—	359,020	100.00	1,180,668	34,736	100.00
Formosa Komatsu Silicon Wafer	837,971	23.76	694,977	23.76	703,488	20,697	23.76
Taishih Textile Corp.	—	50.00	—	50.00	—	—	50.00
Mai Liao Power Corp.	7,203,907	24.94	7,489,940	24.94	7,725,248	227,280	24.94
Formosa Transportation Corp.	355,611	33.33	394,427	33.33	437,903	12,883	33.33
Formosa Fairway Corp.	86,291	33.32	86,694	33.32	87,909	2,586	33.33
Yi-Jih Development Corp.	102,023	28.72	102,144	28.72	102,765	3,023	28.72
Ya Tai Development Corp.	12,361	35.30	13,155	35.03	13,473	396	35.03
Yue Chi Development Corp.	3,390	50.00	3,385	50.00	—	—	—
Formosa Plastics Group Management Consultant Corp.	543	33.40	560	33.40	569	17	33.40
Formosa Asahi Spandex Co., Ltd.	382,212	50.00	551,314	50.00	578,650	17,024	50.00
Formosa Automobile Corporation	589,589	45.00	521,956	45.00	466,544	13,726	45.00
Wha Ya Park Management Consulting Corporation Ltd.	555	33.00	654	33.00	674	20	33.00
Formosa Daikin Advanced Chemical Co., Ltd.	68,231	50.00	48,067	50.00	70,646	2,079	50.00
Su-Hua Transportation Corporation	50,000	25.00	50,000	25.00	49,285	1,450	25.00
Formosa Environmental Technology Corporation.	—	—	—	—	243,375	7,160	24.34
Formosa Utility Venture	651,951	12.09	701,454	12.09	716,936	21,093	12.09
Formosa Material Supply venture, Ltd.	61,773	23.00	85,180	23.00	102,790	3,024	23.00
	53,413,686		62,130,572		61,672,472	1,814,430	
Translation adjustment	1,319		6,201		(12,127)	(357)	
Net	53,415,005		62,136,773		61,660,345	1,814,073	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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	2001		2002		2003		
Investee	NT$	% of ownership	NT$	% of ownership	NT$	US$	% of ownership
Lower-of-cost-or-market-value method/ cost method:							
FPC USA.	1,387,020	6.04	1,387,020	6.04	1,387,020	40,807	6.04
Asian Pacific Investment Corporation Ltd.	727,804	15.00	727,804	15.00	777,804	22,884	16.17
Ours Commercial Banking Corporation	333,340	3.16	333,340	3.15	333,340	9,807	3.15
Mai Liao Harbor Administration Corp.	539,486	17.99	539,485	17.99	539,486	15,872	17.99
Taiwan Aerospace Corporation	42,500	0.81	42,500	0.81	42,500	1,250	0.81
Ampere Industrial Corporation Ltd.	31,130	18.00	31,130	18.00	31,130	916	18.00
China Television Service Corporation	28,609	0.89	28,609	0.89	28,609	842	0.89
Sequoia Bancshares, Inc.	8,831	3.84	8,831	0.96	8,831	260	0.96
China-Canada Investment & Development Corporation Ltd.	8,250	0.08	8,250	0.80	8,250	243	0.80
Central Leasing Corporation	19,246	1.43	19,246	1.43	19,246	566	1.43
Formosa Plastics Investment Corporation	90,010	18.00	90,010	18.00	90,010	2,648	18.00
Asean-Ho Aircraft Leasing Corporation	19,000	10.00	19,000	9.55	19,000	559	9.55
Formosa Petrochemical Transportation Corporation	24,012	12.00	24,012	12.00	24,012	706	12.00
Formosa Network Technology Corporation.	6,250	12.50	13,331	12.50	13,331	392	12.50
Formosa Plastics Marine Corporation	15,000	15.00	15,000	15.00	15,000	441	15.00
Formosa Group Ocean Marine Investment Corporation	856,948	19.00	856,948	19.00	856,948	25,212	19.00
Gala Television Constitution	—		91,162	6.25	91,162	2,682	6.25
Others.	1,695		1,695		1,695	50	
	4,139,131		4,237,373		4,287,374	126,137	
Prepaid capital stock — Gala Constitution	95,960		—		—	—	
Unrealized devaluation loss	(143,352)		(124,353)		—	—	
Net	4,091,739		4,113,020		4,287,374	126,137	
	57,506,744		**66,249,793**		**65,947,719**	**1,940,210**	

(expressed in thousands of New Taiwan dollars and US dollars
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(b) The original cost of long-term investments accounted for under the equity method as of December 31, 2001, 2002, and 2003, is summarized as follows:

	2001	2002	2003	
Investee	**NT$**	**NT$**	**NT$**	**US$**
Formosa Plastics Corp.:				
Formosa Petrochemical Corporation	34,134,129	34,130,966	33,002,197	970,938
Formosa Plastics Corp. America	4,227,004	4,227,004	4,227,004	124,360
Yungchia Chemical Industries	744,310	2,697,744	—	—
Formosa Heavy Industries Corp.	2,497,723	2,497,723	2,497,723	73,484
Formosa Teletek Corporation	249,940	249,940	247,663	7,286
Fomosa Plasma Display Corp.	—	2,153,130	2,135,484	62,827
Formosa Plastic Corporation (Cayman Ltd.)	—	360,417	1,221,973	35,951
Formosa Komatsu Silicon Wafer	1,071,017	1,071,173	1,078,545	31,731
Taishih Textile Corporation	284,550	284,550	284,550	8,371
Mai Liao Power Corporation	5,985,531	5,985,531	5,985,531	176,097
Formosa Transportation Corporation	60,664	60,664	60,664	1,785
Formosa Fairway Corporation	33,320	33,320	33,330	981
Yi-jih Development Corporation	57,000	57,000	57,000	1,677
Ya Tai Development Corporation	10,183	10,183	10,184	300
Yue Chi Development Corp.	47,000	47,000	—	—
Formosa Plastics Group Management Consultant Corporation	334	334	334	10
Formosa Asahi Spandex Co., Ltd.	400,002	400,002	401,002	11,798
Formosa Automobile Corporation	674,980	674,980	674,980	19,858
Wha Ya Park Management Consulting Corporation Ltd.	341	341	341	10
Formosa Daikin Advanced Chemical Co., Ltd.	75,000	75,000	100,000	2,942
Su-Hua Transportation Corporation	50,000	50,000	50,000	1,471
Formosa Environmental Technology Corporation	—	—	243,375	7,160
	50,603,028	**55,067,002**	**52,311,880**	**1,539,037**
Formosa Plastics Corp. America:				
Formosa Utility Venture	US$ 8,000	US$ 8,000	US$ 8,000	
Formosa Material Supply Venture, Ltd.	184	184	184	
	US$ 8,184	**US$ 8,184**	**US$ 8,184**	

(c) As of December 31, 2001, 2002, and 2003, the Formosa Petrochemical Corp. stock pledged as collateral was 1,070,500 thousand shares, 770,500 thousand shares, and 1,070,500 thousand shares, respectively. Please see note 18.

(d) On March 6, 2003, the board of directors resolved to merge with Yung-Chia Chemical Industries Company, a 98.46%-owned subsidiary of FPC. The merger was also approved by the shareholders' meeting on May 23, 2003, and by the SFC on July 11, 2003. As of August 1, 2003, the date of acquisition, the long-term investment in Yung-Chia Chemical Industries Company amounting to NT$3,067,872 (194,432 thousand shares) was eliminated, and FPC issued 51,020 shares of new stock (par value $10 per share) amounting to NT$1,417 to minority stockholders. The resulting additional paid-in capital amounted to NT$907. FPC recognized NT$65,899 in other payables due to the reacquisition of shares from the shareholders who objected to the merger. FPC also recognized Yung-Chia Chemical Industries Company's net assets amounting to NT$2,795,291. The excess of cost over fair value of the identifiable net assets acquired was capitalized as goodwill amounting to NT$339,897.

(e) FPC invested in Formosa Plasma Display Corp beginning on June 2002. As of December 31, 2003, FPC had acquired 213,465 shares amounting to NT$1,554,870, and representing 76.24% ownership; the investment is accounted for using the equity method.

(f) FPC invested in Formosa Environmental Technology Corp. in August 2003. As of December 31, 2003, the total shares acquired were 24,337,500 shares amounting to NT$243,375 and representing 24.34% ownership; the investment is accounted for using the equity method.

(g) FPC invested in Formosa Industries (Ningbo) Ltd. and Formosa Acrylic Acid and Esters (Ningbo) Ltd. through Formosa Plastics Corp. (Cayman). The Ministry of Economic Affairs approved the investment amount of US$43,050 and US$49,570 on May 21, 2003 and July 24, 2003, respectively. As of December 31, 2003, the Company had transferred to Formosa Plastics Corp. (Cayman) US$35,570, of which US$26,450 was transferred to Formosa Industries (Ningbo) Ltd. and US$9,070 was transferred to Formosa Acrylic Acid and Esters (Ningbo) Ltd.

(h) FPC recognized investment gain or loss in Formosa Petrochemical Corp., Yung-Chia Chemical Industrial Corp. (before August 1, 2003), Formosa Plastics Corp. America, Formosa Heavy Industries Corp., Formosa Teletek Corp., Formosa Plasma Display Corp., and Formosa Plastics Corp. (Cayman) under the equity method and recognized in the current period. The net investment gain amounted to NT$526,468, NT$5,038,141 and NT$5,717,026 in 2001, 2002 and 2003, respectively, based on the investees' audited reports. Formosa Plastics Corp. America recognized gain from investment under the equity method amounting to US$3,446, US$2,242 and US$1,490 in 2001, 2002 and 2003, respectively.

(i) FPC deferred the recognition of investment gain or loss in Taishih Textile Corp., which accounted for using the equity method, due to the unavailability of current audited financial statements. FPC recognized investment loss amounting to NT$49,931 and NT$27,481 in 2001 and 2002, respectively. As of December 31, 2001 and 2002, the accumulated investment loss in excess of the book value of investment amounted to NT$124,338 and NT$151,819, respectively. Since FPC intended to continue the investment, FPC recognized the loss in excess of the book value of investment amounting to NT$151,819 as other liabilities. However, Taishih Textile Corp. was liquidated in September 2003, and the process was not finished at the end of 2003. FPC forfeited credit right amounting to NT$242,740 which was deducted from other liabilities of NT$151,819 (the loss in excess of the book value of investment) and capital surplus NT$84,763 (derived from long-term investment); as a result, FPC recognized net investment loss of NT$6,158,179 for the year ended December 31, 2003.

(j) FPC deferred the recognition of investment gain or loss in Yue Chi Development Corp., which is accounted for under the equity method. However, Yue Chi Development Corp. was liquidated in October 2003, and FPC recognized investment gain for the year ended December 31, 2003.

(k) Please see note 22 for other investments.

(expressed in thousands of New Taiwan dollars and US dollars
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(8) PROPERTY, PLANT AND EQUIPMENT

(a) Except for land, construction in progress, and advance payments for land and projects, the property, plant and equipment of FPC were revalued on December 31, 1974, and December 31, 1982. The balance of the revaluation increments as of December 31, 2001, 2002 and 2003, were as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Building and equipment	138,160	138,160	138,160	4,065
Machinery and equipment	487,341	487,328	484,039	14,241
Miscellaneous equipment	8,050	7,735	7,663	225
	633,551	**633,223**	**629,862**	**18,531**

Reserve for asset revaluation increment referred to above amounting to NT$1,502,235 was recorded in the capital surplus account in 1976 and was converted into capital stock in 1988. Please see note 13 for the change in capital surplus.

(b) Interest incurred from the construction of property, plant and equipment amounting to NT$917,837, NT$284,514, and NT$197,820 in 2001, 2002, and 2003, respectively, was capitalized as cost of the respective assets. The capitalized interest payments of Formosa Plastics Corp. America (FPCA) amounted to US$0, US$615, and US$337 in 2001, 2002, and 2003, respectively.

(c) The insurance coverage for property, plant and equipment as of December 31, 2001, 2002, and 2003, amounted to NT$51,082,527, NT$53,548,262 and NT$57,732,190, respectively.

(d) The property, plant and equipment pledged to secure bank loans as of December 31, 2001, 2002 and 2003, are described in note 18.

(e) As of December 31, 2001, 2002 and 2003, the property, plant and equipment under others' names amounted to NT$162,780 and were recorded in prepayment for land and construction. FPC has implemented a deed of trust with the authorities to secure FPC's rights related to the abovementioned properties.

(f) FPC purchased land and the building located in Jenwu Hsiang, Kaohsiung from Nan Ya Plastics Corp. for NT$157,957. The title was transferred on August 14, 2003.

(g) FPC purchased land and the building located in YiLan and Kaohsiung from Taishih Textile Corp. for NT$230,050. As of December 31, 2003, the title transfer was still in progress. The Company has paid NT$80,517, recorded in prepayment for land and construction.

(h) On April 11, 2002, FPC sold a parcel of land located in Hsin Kang Hsiang to Nan Ya Plastics Corp. for NT$553,302. After subtracting cost of land amounting to NT$41,040 and related taxes amounting to NT$64,753, FPC recorded gain on sale of land amounting to NT$447,509 in nonoperating income.

(expressed in thousands of New Taiwan dollars and US dollars
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(i) In the Sixth Naphtha Cracker Project, the ownership of land for public use is uncertain. FPC is still negotiating with the ROC Ministry of Economic Affairs.

(9) LEASED-OUT AND IDLE ASSETS, NET

(a) Due to the shrinkage of the fiber products processing market, FPC's fiber division in Kuandu was discontinued on December 31, 1992. The fixed assets of FPC's fiber division were transferred into idle assets by net book value. FPC's land in Linkou was also transferred into idle assets and prepared for sell since it did not use for operating. In addition, the Asia Square real estate located in Taipei was leased to a non-related party and recorded in leased out assets. The lists of idle assets and leased-out assets was as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Idle assets:				
Cost:				
Land	331,094	343,486	343,486	10,106
Machinery and equipment	170,728	170,728	170,728	5,023
	501,822	514,214	514,214	15,129
Less: accumulated depreciation	(94,996)	(127,756)	(149,242)	(4,391)
	406,826	386,458	364,972	10,738
Leased-out assets:				
Cost:				
Land	41,129	41,129	41,129	1,210
Building	19,235	19,235	19,235	566
	60,364	60,364	60,364	1,776
Less: accumulated depreciation	(5,849)	(6,397)	(6,924)	(204)
	54,515	53,967	53,440	1,572
Net book value of idle and leased-out assets	**461,341**	**440,425**	**418,412**	**12,310**

(b) FPC has contracted with several companies to sell the idle land in Linkou and Kuandu since 1997. In 2001, FPC received a total amount of NT$2,073,321 from two sales transactions, and recorded the amount of NT$1,926,420 to nonoperating revenue gain on sale of fixed assets account, after deducting cost of goods sold of NT$68,781 and related taxes of NT$78,120. In 2002, FPC received a total amount of NT$56,985 from the sales transaction; after subtracting the cost amounting to NT$1,421 and related taxes amounting to NT$3,151, FPC recorded gain on sale of land amounting to NT$52,414 in nonoperating income.

There was no sale of idle land in 2003.

(expressed in thousands of New Taiwan dollars and US dollars
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(10) SHORT-TERM BORROWINGS

(a) As of December 31, 2001, 2002, and 2003, short-term borrowings consisted of the following:

	2001		2002		2003		
	NT$	Interest rate %	NT$	Interest rate %	NT$	Interest rate %	US$
Bank overdrafts	787	6.00~7.00	104	5.00~6.00	—	—	—
Usance letters of credit	71,520	2.43~4.32	109,948	1.90~2.67	237,380	1.50~1.75	6,984
Credit loans	6,863,700	2.58~2.90	294,500	1.72~2.48	—	—	—
Secured loans	200,000	2.58	—	—	—		—
	7,136,007		**404,552**		**237,380**		**6,984**

The assets pledged for the above borrowings are described in note 18.

(b) Commercial paper payable

Commercial paper payable as of December 31, 2001, 2002 and 2003, was as follows:

	2001		2002		2003		
	NT$	Interest rate %	NT$	Interest rate %	NT$	Interest rate %	US$
Commercial paper payable	1,500,000	1.77~3.56	—	—	—	—	—
Less: discount	(1,459)		—		—		—
	1,498,541		**—**		**—**		**—**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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(11) LONG-TERM DEBT AND BONDS PAYABLE

Long-term debt and bonds payable as of December 31, 2001, 2002, and 2003, consisted of:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Formosa Plastics Corporation:				
Chiao Tung Bank and 30 other banks mortgage loan	17,314,281	16,627,054	14,647,322	430,930
Chiao Tung Bank and 33 other banks mortgage loan	10,350,000	11,398,000	10,701,336	314,838
Corp. bond issued in Oct. 1996	2,800,000	1,400,000	—	—
Corp. bond issued in June. 1998	4,000,000	4,000,000	2,500,000	73,551
Corp. bond issued in Jan. 1999	4,000,000	4,000,000	4,000,000	117,682
Corp. bond issued in Sep. 1999	3,150,000	3,150,000	3,150,000	92,674
Corp. bond issued in Mar. 2002	—	5,000,000	5,000,000	147,102
Corp. bond issued in Dec. 2002	—	4,800,000	4,800,000	141,218
Corp. bond issued in May. 2003	—	—	6,200,000	182,407
Taiwan Cooperative Bank mortgage loan	4,000,000	4,000,000	2,500,000	73,551
Hua Nan Commercial Bank guarantee loan	7,400,000	7,400,000	5,900,000	173,580
Taishin International Bank mortgage loan	970,000	970,000	970,000	28,538
	53,984,281	62,745,054	60,368,658	1,776,071
Less: current portion	(2,801,476)	(6,419,319)	(12,433,342)	(365,794)
	51,182,805	56,325,735	47,935,316	1,410,277
Formosa Plastics Corporation, America:				
Senior secured term loan or business loan agreement	6,063,577	5,169,509	5,113,689	150,447
	US$ (173,250)	US$ (148,750)	US$ (150,500)	
Less: current portion	(857,476)	(851,449)	(713,538)	(20,993)
	US$ (24,500)	US$ (24,500)	US$ (21,000)	
	5,206,101	4,318,060	4,400,151	129,454
	56,388,906	**60,643,795**	**52,335,467**	**1,539,731**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
DECEMBER 31, 2001, 2002, AND 2003
(expressed in thousands of New Taiwan dollars and US dollars except earnings per share information or unless otherwise stated)

(a) In order to raise capital for the Sixth Naphtha Cracker project and the construction of related factories, FPC signed a syndicated long-term loan agreement with Chiao Tung Bank, the managing bank of the syndicated loan, and 31 other banks on April 28, 1995. The terms of contract were modified on May 6, 1999. Moreover, the current ratio was changed from 1.2 to 1 on December 31, 2000. The content of the syndicated long-term loan agreement was as follows:

Item	Mortgaged assets	Total credit line	Modified credit line	Loan balance as of 2001.12.31	Loan balance as of 2002.12.31	Loan balance as of 2003.12.31	Interest rate	Interest payment	Period/payment
		NT$	NT$	NT$	NT$	NT$			
A . . .	Land	4,660,000	969,000	691,523	642,523	550,523	1-yr Post Office CD flexible rate + 1%	Monthly	Note 2
B . . .	Factories	1,350,000	2,313,000	1,650,000	1,537,000	1,317,000	1-yr Post Office CD flexible rate + 1%	Monthly	Note 2
C . . .	Automation equipment	3,900,000	3,900,000	3,310,000	3,333,000	2,960,000	1-yr Post Office CD flexible rate + 1%	Monthly	Note 3
D . . .	Automation equipment (imported)	US$350,000	US$242,000	US$,242,000	US$218,500	US$195,500	6-Month SIBOR + 0.75%	Semi-annual	Note 3
E . . .	Anti-pollution equipment	470,000	470,000	423,000	376,000	329,000	The prime rate of Chiao Tung Bank – 4%	Monthly	Repay the principal on Jan. April, July, and Oct. 15 after the first appropriation date
F-A . .	Machinery and equipment	420,000	3,148,000	2,770,000	3,148,000	2,848,100	1-yr Post Office CD flexible rate + 1%	Monthly	Note 3
F-B . .	Automation equipment	—	3,350,000	—	—	—	Note 1	Monthly	Note 4

Note 1: The higher of the prime rate of Chiao Tung Bank and the average interest rate of Taiwan Bank, Hua Nan Bank, The First Bank, and Chang Hwa Bank, plus 1.25%

Note 2: Five years after the first appropriation date, repay the first installment; the rest of the principal is to be repaid semiannually in 10 installments after the first payment

Note 3: Five years after the first appropriation date or the date of finishing the project, repay the first installment; the rest of the principal is to be repaid semiannually in 10 installments after the first of payment

Note 4: Two years after the first appropriation date or the date finishing the project, repay the first installment; the rest of the principal is to be repaid semiannually in 17 installments after the first payment

(i) The land, buildings and equipment acquired using the loan referred to above are also pledged to the loan agreement as well. Please see note 18.

(ii) The abovementioned long-term loan was first appropriated in 1996. As of December 31, 2001, 2002 and 2003, the available loan balance amounted to US$242,000, US$218,500, and US$195,500, respectively, and NT$8,844,523, NT$9,033,523 and NT$8,004,623, respectively. The item F-B mortgage referred to above has been used to issue domestic corporate bonds amounting to NT$3,150,000.

(iii) As of December 31, 2001, 2002, and 2003, the current portion of the long-term loan amounted to NT$1,401,477, NT$1,845,319, and NT$1,810,294, respectively, and was recorded in current portion of long-term debt.

(iv) As of December 31, 2001, 2002, and 2003, the credit lines provided by the banks was NT$3,350,000, respectively.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(b) In order to raise capital for constructing factories in the Wun-Ling Fundamental Industry Area, FPC signed a syndicated long-term loan agreement with Chiao Tung Bank, the managing bank of the syndicated loan, and other 33 banks on December 6, 2000. Details of the loan are as follows:

Item	Mortgaged assets	Total credit line amount	Loan balance as of 2001.12.31	Loan balance as of 2002.12.31	Loan balance as of 2003.12.31	Interest rate	Interest payment	Period/ payment
		NT$	NT$	NT$	NT$			
A	Factories and affiliated equipment	1,085,000	800,000	800,000	800,000	2-yr Post Office CD flexible rate + 0.18% (cost) + 0.75%	Monthly	Note 1
B	Machinery and equipment	10,448,000	9,400,000	10,448,000	9,751,336	2- yr Post Office CD flexible rate + 0.18% (cost) + 0.75%	Monthly	Note 1
C	Anti-pollution equipment	241,000	150,000	150,000	150,000	The prime rate of Chiao Tung Bank -4%	Monthly	Note 1

Note 1: Three years after the first appropriation date, repay the first installment; the rest of the principal is to be repaid semiannually in 15 installments after the first payment

(i) (i) The land, buildings and equipment acquired using the loan referred to above are pledged to the loan agreement as well. Please see note 18.

(ii) The item A loan was first appropriated on December 28, 2001.

(iii) The item B loan was first appropriated on December 26, 2000.

(iv) The item C loan was first appropriated on March 30, 2001.

(v) As of December 31, 2002, and 2003, the current portion of the long-term loan referred to above amounted to NT$704,000 and NT$1,503,048, respectively, and was recorded in current portion of long-term debt.

(c) Issuance of domestic unsecured nonconvertible bonds in October 1996

In order to improve FPC's financial structure, repay short-term loans, and take advantage of prevailing low interest rates, the board of directors' meeting held on March 11, 1998, resolved to issued domestic unsecured nonconvertible corporate bonds. The issuance was approved by the ROC SFC on October 16, 1996, and the issuance took place on October 29, 1996. The terms of the bonds were as follows:

(i)	Total issued principal amount	A bonds:	NT$1,400,000
		B bonds:	NT$1,400,000
		C bonds:	NT$1,400,000
(ii)	Issuance date	October 29, 1996	

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(iii)	Maturity	A bonds:	five years (1996.10.29 ~ 2001.10.29)
		B bonds:	six years (1996.10.29 ~ 2002.10.29)
		C bonds:	seven years (1996.10.29 ~ 2003.10.29)
(iv)	Bearing annual rate	A bonds:	6.8%
		B bonds:	6.86%
		C bonds:	6.94%
(v)	Principal repayment	All bonds are repaid at maturity	

As of December 31, 2002, the maturity of the C bonds amounting to NT$1,400,000 was within one year; therefore, the amount was transferred to the current portion of long-term debt. The principal amount of the A bonds amounting to NT$1,400,000, B bonds amounting to NT$1,400,000, and C bonds amounting to NT$1,400,000 was paid on October 29, 2001, 2002, and 2003, respectively.

(d) Domestic unsecured nonconvertible bonds in June 1998

In order to improve FPC's financial structure, repay short-term loans, and take advantage of prevailing low interest rates, the board of directors' meeting held on March 11, 1998, resolved to issue domestic unsecured nonconvertible corporate bonds with a principal amount of NT$4,000,000. The issuance was approved by the ROC SFC on June 3, 1998, and the issuance took place on June 16, 1998. Details of the bonds were as follows:

(i)	Total issued principal amount	A bonds:	NT$1,000,000
		B bonds:	NT$500,000
		C bonds:	NT$1,000,000
		D bonds:	NT$500,000
		E bonds:	NT$500,000
		F bonds:	NT$500,000
(ii)	Issuance date	June 16, 1998, at par	
(iii)	Maturity	A bonds:	five years (1998.6.16 ~ 2003.6.16)
		B bonds:	six years (1998.6.16 ~ 2004.6.16)
		C bonds:	seven years (1998.6.16 ~ 2005.6.16)
		D bonds:	five years (1998.6.17 ~ 2003.6.17)
		E bonds:	six years (1998.6.17 ~ 2004.6.17)
		F bonds:	seven years (1998.6.17 ~ 2005.6.17)
(iv)	Bearing annual rate	A bonds:	7.5%
		B bonds:	7.56%
		C bonds:	7.62%
		D bonds:	7.5%
		E bonds:	7.56%
		F bonds:	7.62%

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(v)	Principal repayment	All bonds are repaid at maturity

The terms of bondholder redemption were as follows:

(i)	Redemption period	A bonds: (2001.5.1 ~ 2001.5.16) B bonds: (2002.5.1 ~ 2002.5.16) C bonds: (2003.5.1 ~ 2003.5.16) D bonds: (2001.5.2 ~ 2001.5.17) E bonds: (2002.5.2 ~ 2002.5.17) F bonds: (2003.5.2 ~ 2003.5.17)
(ii)	Redemption price	Coupon value plus coupon interest
(iii)	Redemption date	A bonds: 2001.6.16 B bonds: 2002.6.16 C bonds: 2003.6.16 D bonds: 2001.6.17 E bonds: 2002.6.17 F bonds: 2003.6.17

As of December 31, 2002, the maturity of the A bonds and D bonds amounting to NT$1,500,000 was within one year; therefore, the amount was transferred to the current portion of long-term debt. On December 31, 2003, the maturity of the B bonds and E bonds amounting to NT$1,000,000 was within one year; therefore, the amount was transferred to the current portion of long-term debt. Furthermore, principal of the A bonds and D bonds amounting to NT$1,500,000 was paid on June 16 and 17, 2003, respectively.

(e) Domestic unsecured nonconvertible bonds in January 1999

In order to improve FPC's financial structure, repay short-term loans, and take advantage of prevailing low interest rates, the board of directors' meeting held on December 22, 1998, resolved to issue domestic unsecured nonconvertible corporate bonds with a principal amount of NT$4,000,000. The issuance was approved by the ROC SFC on January 13, 1999, and the issuance took place on January 26, 1999. The terms of the bonds issued are as follows:

(i)	Total issued principal amount	A bonds: NT$1,500,000 B bonds: NT$1,500,000 C bonds: NT$300,000 D bonds: NT$300,000 E bonds: NT$200,000 F bonds: NT$200,000
(ii)	Issuance date	January 26, 1999, at par value

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(iii)	Maturity	A bonds:	five years (1999.1.26 ~ 2004.1.26)
		B bonds:	five years (1999.1.26 ~ 2004.1.26)
		C bonds:	five years (1999.1.27 ~ 2004.1.27)
		D bonds:	five years (1999.1.27 ~ 2004.1.27)
		E bonds:	five years (1999.1.28 ~ 2004.1.28)
		F bonds:	five years (1999.1.28 ~ 2004.1.28)
(iv)	Bearing annual rate	A bonds:	6.5% compounded semiannually
		B bonds:	6.4% compounded semiannually
		C bonds:	6.5% compounded semiannually
		D bonds:	6.4% compounded semiannually
		E bonds:	6.5% compounded semiannually
		F bonds:	6.4% compounded semiannually
(v)	Principal repayment	All bonds are repaid at maturity	

The redemption rights of bondholders: Only B, D, and F bondholders could redeem their bonds. The terms of redemption are as follows:

(i)	Redemption period	B bonds:	(2001.12.11 ~ 2001.12.16)
		D bonds:	(2001.12.12 ~ 2001.12.17)
		F bonds:	(2001.12.13 ~ 2001.12.28)
(ii)	Redemption price	Coupon value plus coupon interest	
(iii)	Redemption date	B bonds:	2002.1.26
		D bonds:	2002.1.27
		F bonds:	2002.1.28

As of December 31, 2003, the maturity of all bonds referred to above amounting to NT$4,000,000 was within one year; therefore, the amount was transferred to the current portion of long-term debt.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(f) Domestic secured nonconvertible bonds in September 1999

In order to improve FPC's financial structure, repay short-term loans, and take advantage of prevailing low interest rates, the board of directors' meeting held on August 25, 1998, resolved to issue domestic unsecured nonconvertible corporate bonds with a principal amount of NT$3,150,000. The issuance was approved by the ROC SFC on September 9, 1999, and the issuance took place on September 28, 1999. The terms of the bonds issued are as follows:

(i)	Total issued principal amount	A bonds:	NT$100,000
		B bonds:	NT$100,000
		C bonds:	NT$200,000
		D bonds:	NT$200,000
		E bonds:	NT$200,000
		F bonds:	NT$200,000
		G bonds:	NT$250,000
		H bonds:	NT$300,000
		I bonds:	NT$500,000
		J bonds:	NT$500,000
		K bonds:	NT$600,000
(ii)	Issuance date	September 28, 1999	
(iii)	Maturity	Five years (1999.9.28 ~ 2004.9.28)	
(iv)	Bearing annual rate	6.05%	
(v)	Principal repayment	All bonds are repaid at maturity	

As of December 31, 2003, the maturity of all bonds referred to above amounting to NT$3,150,000 was within one year; therefore, the amount was transferred to the current portion of long-term debt.

(g) Issuances of domestic unsecured nonconvertible corporate bonds in March 2002

In order to improve FPC's financial structure, repay short-term loans, and take advantage of prevailing low interest rates, the board of directors' meeting held on December 28, 2001, resolved to issue domestic unsecured nonconvertible corporate bonds with a principal amount of NT$5,000,000. The ROC SFC approved the issuance on January 10, 2002, and the issuance took place on March 4, 2002. The terms of the bonds issued are as follows:

(i)	Total issued principal amount	A-A ~ A-M bonds:	NT$2,600,000
		B-A ~ B-L bonds:	NT$2,400,000
(ii)	Issuance date	March 4, 2002, at par	

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(iii)	Maturity	A-A ~ A-M bonds:	five years (March 2002 ~ March 2007)
		B-A ~ B-L bonds:	five years (March 2002 ~ March 2007)
(iv)	Bearing annual rate	A series bonds:	3.07%, compounded annually, pay annually
		B series bonds:	3.0468%, compounded semiannually, pay annually
(v)	Principal repayment	All bonds are repaid 33%, 33%, and 34% of the principal at the end of 3rd, 4th, and 5th year, respectively	

(h) Issuance of domestic unsecured nonconvertible corporate bonds in December 2002

In order to improve FPC's financial structure, repay short-term loans, and take advantage of prevailing low interest rates, the board of directors' meeting held on November 11, 2002, resolved to issue domestic unsecured nonconvertible corporate bonds with a principal amount of NT$4,800,000. The ROC SFC approved the issuance on November 27, 2002, and the bond was issued on December 16, 2002. The terms of the bonds issued are as follows:

(i)	Total issued principal amount	A-A ~ A-I bonds:	NT$3,000,000
		B-A ~ B-D bonds:	NT$1,100,000
		C-A ~ C-B bonds:	NT$700,000
(ii)	Issuance date	December 16, 2002, at par	
(iii)	Maturity	A-A ~ A-I bonds:	five years (2002.12 ~ 2007.12)
		B-A ~ B-D bonds:	five years (2002.12 ~ 2007.12)
		C-A ~ C-B bonds:	five years (2002.12 ~ 2009.12)
(iv)	Bearing annual rate	A bonds:	5.5% — USD 6-Month LIBOR
		B bonds:	5.5% — USD 6-Month LIBOR
		C bonds:	5.9% — USD 6-Month LIBOR
(v)	Principal repayment	A-A ~ A-I bonds:	repay at maturity
		B-A ~ B-D bonds:	repay at maturity
		C-A ~ C-B bonds:	repay at maturity (redeemable after 5 years)

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(i) Issuance of domestic unsecured nonconvertible corporate bonds in May 2003

In order to improve FPC's financial structure, repay short-term loans, and take advantage of prevailing low interest rates, the board of directors' meeting held on April 21, 2003, resolved to issue domestic unsecured nonconvertible corporate bonds with a principal amount of NT$6,200,000. The issuance was approved by the ROC SFC on May 9, 2003, and the bond was issued on May 22, 2003. The terms of the bonds issued are as follows:

(i)	Total issued principal amount	A: A-X bonds:	NT$5,600,000
		B: A-B bonds:	NT$600,000
(ii)	Issuance date	May 22, 2003, at par	
(iii)	Maturity	A: A-X bonds:	five years (May, June, 2003 ~ May, June 2008)
		B: A-B bonds:	five years (May, June, 2003 ~ May, June 2008)
(iv)	Bearing annual rate	A: A-X bonds:	4.1% — USD 6-Month LIBOR
		B: A-B bonds:	TWD 3-month swap offer rate + 0.3%
(v)	Principal repayment	All bonds are repaid at maturity	

(j) Mortgage loan from Taiwan Cooperative Bank

In order to improve its financial structure and increase working capital, FPC contracted with Taiwan Cooperation Bank for a mortgage loan. The lists of the loan as follows:

Mortgaged assets	Period	Loan balance as of Dec. 31, 2001	Loan balance as of Dec. 31, 2002	Loan balance as of Dec. 31, 2003	Interest rate	Principal repayment
		NT$	NT$	NT$		
Formosa Petrochemical Corp. stock	1999.12.16 ~ 2002.12.16	4,000,000	4,000,000	2,500,000	1 yr Post Office CD flexible rate + 1.1%, interest paid monthly	Repay at maturity

The contract was renewed on December 26, 2001 and the maturity date was extended to December 16, 2005; therefore, there was no current portion of long-term loan as of December 31, 2001, 2002, and 2003.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(k) Mortgage loan from Hua Nan Commercial Bank

In order to improve its financial structure and increase working capital, FPC contracted a loan agreement with Hua Nan Commercial Bank. The lists of the loan were as follows:

Mortgaged assets	Period	Loan balance as of Dec. 31, 2001	Loan balance as of Dec. 31, 2002	Loan balance as of Dec. 31, 2003	Interest rate	Principal repayment
		NT$	NT$	NT$		
Land and factories in Jen-Wu	1999.12.23 ~ 2002.12.23	1,400,000	1,400,000	—	1-yr Post Office CD flexible rate + 1.1%, interest paid monthly	Repay at maturity
Land and factories in Jen-Wu	1999.12.24 ~ 2002.12.24	3,000,000	3,000,000	3,000,000	1-yr Post Office CD flexible rate + 1.1%, interest paid monthly	Repay at maturity
Land and factories in Jen-Wu	1999.12.27 ~ 2002.12.27	2,000,000	2,000,000	2,000,000	yr CD Post Office flexible rate + 1.1%, interest paid monthly	Repay at maturity
Land and factories in Jen-Wu	1999.12.29 ~ 2002.12.29	1,000,000	1,000,000	900,000	1-yr CD Post Office flexible rate + 1.1%, interest paid monthly	Repay at maturity
		7,400,000	7,400,000	5,900,000		

The contract was modified on December 24, 2001, and the maturity date was renewed to December 23, 34, 27, and 29, 2005, respectively; therefore, there was no current portion of the long term loan as of December 31, 2001, 2002, and 2003.

(l) Mortgage loan from Tai-Shin Bank

In order to improve its financial structure and increase working capital, FPC contracted with Tai-Shin Bank for a long-term loan. The terms of the loan were as follows:

Mortgaged Assets	Period	Amount	Interest Rate	Principal Repayment
		NT$		
Formosa Petrochemical Corp. stock	2000.12.17 ~ 2003.10.25	970,000	1.79%~5.95%, interest paid monthly	Repay at maturity

FPC has modified the contract with Tai-Shin Bank to renew the loan to October 31, 2004; therefore, there was no current portion of long-term loan as of December 31, 2002.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(m) As of December 31, 2003, long-term debt will be repaid in the following periods:

Periods	Total long-term debt Currency denominated debts
	NT$
January 1 to December 31, 2004	12,433,342
January 1 to December 31, 2005	14,929,342
January 1 to December 31, 2006	5,029,342
January 1 to December 31, 2007	9,179,342
January 1 to December 31, 2008	9,568,342
After January 1, 2009	9,228,959
	60,368,658

(n) FPCA signed a syndicated mortgage loan agreement with Taiwan Bank, New York Branch and 6 other banks with a principal amount of US$210,000 in June 2000, and the contract expires in June 2008. FPCA repaid the principal amounting to US$12,250 semiannually starting from December 2000. The interest was paid quarterly based on 6-month LIBOR plus a markup rate. The original contracted due date was in June 2002. However, the contract was extended to June 2004. FPCA signed another contract with a principal amount of US$150,500 in June 2003 to replace the abovementioned contract. According to the contract, FPCA pays interest rate based on 6-month LIBOR plus a markup rate semiannually. FPCA will repay the principal amounting to US$10,500 semiannually from June 2004 until June 2008.

(12) ACCRUED PENSION LIABILITY

(a) FPC adopted SFAS No. 18; “Accounting for Pensions” for the recognition of net pension cost and minimum pension liability based on actuarial reports, which used the balance sheet date as the measurement date. FPC recognized deferred pension liability based on actuarial reports amounting to NT$287,274, NT$173,552, and NT$580,816, and accrued pension cost amounting to NT$3,367,212, NT$3,719,151, and NT$4,610,891 in 2001, 2002, and 2003, respectively.

(b) The net pension cost consisted as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Service cost	248,282	258,343	271,178	7,978
Interest cost	354,129	306,599	268,057	7,886
Actual return on pension assets	(6,030)	(7,242)	(5,546)	(163)
Gain (loss) on pension assets	(4,875)	(8,685)	(10,922)	(321)
Amortization on obligation/assets	168,027	168,027	174,752	5,141
Amortization on gain or loss on pension	23,929	15,142	14,035	413
Pension cost, net	**783,462**	**732,184**	**711,554**	**20,934**

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(c) The reconciliation of pension plan funded status to accrued pension liability of the Company is as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Benefit obligation:				
Vested benefit obligation	(2,501,656)	(2,782,442)	(2,815,337)	(82,828)
Unvested benefit obligation	(1,156,626)	(1,287,916)	(2,244,486)	(66,034)
Accumulated benefit obligation	(3,658,282)	(4,070,358)	(5,059,823)	(148,862)
Projected compensation increases	(2,473,693)	(2,432,738)	(1,950,649)	(57,389)
Projected benefit obligation	(6,131,975)	(6,503,096)	(7,010,472)	(206,251)
Fair value of plan assets	288,403	351,218	448,932	13,208
Funded status	(5,843,572)	(6,151,878)	(6,561,540)	(193,043)
Unrecognized transitional net obligation	915,352	926,024	999,065	29,393
Unrecognized gain (loss)	1,848,282	1,680,255	1,532,400	45,084
Accrual of insufficiency	(287,274)	(173,552)	(580,816)	(17,088)
Accrued pension liability	**(3,367,212)**	**(3,719,151)**	**(4,610,891)**	**(135,654)**

(d) As of December 31, 2001, 2002, and 2003, the actuarial present value of the vested benefits in accordance with the related retirement benefits plans was approximately NT$3,427,289, NT$3,571,003, and NT$3,525,646, respectively.

(e) Major assumptions used to determine the pension plan funded status as of December 31, 2001, 2002, and 2003, were as follows:

	2001	2002	2003
Discount rate	5.00%	4.00%	3.00%
Rate of increase in compensation	4.50%	3.80%	3.00%
Expected long-term rate of return on plan assets	5.00%	5.00%	3.00%

(f) Formosa Plastics Corp. America (FPCA) adopted a defined contribution pension plan for its regular employees. The total amount contributed to the plan was US$281, US$283 and US$87 in 2001, 2002, and 2003, respectively, recorded in operating cost.

(13) STOCKHOLDERS' EQUITY

(a) Capital stock

(i) On May 17, 2001, the stockholders' meeting resolved to increase capital stock to NT$42,380,687 and to transfer unappropriated retained earnings and capital surplus amounting to NT$2,696,953 and NT$1,155,837, respectively, to capital stock. The capital increase referred to above was registered with the authorities and approved by the ROC SFC on June 11, 2001, and executed on July 11, 2001. As of December 31, 2001, FPC's total authorized and issued stock amounted to NT$42,380,687 and 4,238,068,700 shares at NT$10 par value per share.

(ii) On May 24, 2002, the stockholders' meeting resolved to increase capital stock to NT$45,347,335 and to transfer unappropriated retained earnings of NT$2,966,648 to capital stock. The capital increase referred to above was registered with the authorities, approved by the ROC SFC on June 17, 2002, and executed on July 13, 2002. As of December 31, 2002, FPC's total authorized and issued stock amounted to NT$45,347,335 and 4,534,733,509 shares at NT$10 par value per share.

(expressed in thousands of New Taiwan dollars and US dollars
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(iii) On May 23, 2003, the stockholders' meeting resolved to increase the capital stock to NT$48,083,675 and to transfer unappropriated retained earnings and capital surplus amounting to NT$1,360,420 and NT$1,360,420, respectively, to capital stock. The total amounted to NT$2,720,840. The capital increase referred to above was approved by the ROC SFC on June 9, 2003, and executed on July 7, 2003, and was registered with the authorities. As of December 31, 2003, FPC's total authorized and issued stock amounted to NT$48,068,175 and 4,806,817,519 shares at NT$10 par value per share.

Due to the merger with Yung-Chia Chemical Industries Corp., FPC resolved to increase capital stock by NT$510. The capital increase was approved by the ROC SFC on July 11, 2003, and the issuance took place on August 1, 2003. As of December 31, 2003, FPC's total authorized and issued stock amounted to NT$48,068,685 and 4,806,868,539 shares with NT$10 par value per share.

(b) Capital surplus

(i) *Capital surplus*

As of December 31, 2001, 2002, and 2003, the details of capital surplus were as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Paid-in capital in excess of par value	8,129,174	8,129,174	8,130,081	239,190
Gains on disposal of property, plant and equipment, net of income tax	2,846,115	—	—	—
Revaluation increments	180,379	180,379	180,379	5,307
Equity in capital surplus of investee companies	645,814	669,823	428,900	12,618
Overdue unpaid directors' remuneration and dividends	83,637	88,707	88,060	2,591
Paid-in capital in excess of the par value derived from overseas corporate bond conversion	5,799,983	5,799,983	4,439,563	130,614
Treasury stock transactions	—	611	16,263	479
	17,685,102	**14,868,677**	**13,283,246**	**390,799**

(ii) The ROC Company Law stipulates that capital surplus can only be used to offset a deficit and only realized capital surplus can be used to increase share capital. The realized capital surplus is limited to capital surplus generated from paid-in capital in excess of par value and donated assets. Capital surplus derived from conversion of foreign corporate convertible bonds were converted into capital in accordance with applicable accounting standard and principle.

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(iii) As of December 31, 2001, 2002, and 2003, the details of assets revaluation increments converted into capital, were as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Assets revalued in 1974	676,163	676,163	676,163	19,893
Assets revalued in 1982	826,072	826,072	826,072	24,303
Amount transferred to capital from 1976 to 1988	(1,321,856)	(1,321,856)	(1,321,856)	(38,889)
	180,379	**180,379**	**180,379**	**5,307**

(iv) The corporate overseas convertible bonds, which issued in September 1995, were all converted in September 1998 and generated capital surplus amounting to NT$8,056,793. As of December 31, 2002, the balance of capital surplus was NT$5,799,983. The stockholders' meeting held on May 23, 2003, resolved to transfer the capital surplus to capital stock amounting to NT$1,360,420; as a result, the balance of capital surplus referred to above was NT$4,439,563 as of December 31, 2003.

(v) Effective from 2001, the gain from disposal of fixed assets is recognized as nonoperating income in accordance with ROC Statement of Financial Accounting Standards. The stockholders' meeting held on May 24, 2002, resolved to convert accumulated gain form disposal of fixed assets prior to 2001 amounting to NT$2,846,114 into retained earnings.

(c) Distribution of earnings

FPC's articles of incorporation stipulate that the investment income recognized based on the equity method and the deferred income tax benefit recognized from the increase in unexpired income tax credit are deemed unrealized and should be appropriated as special reserve before the distribution of interest on capital. Such special reserve is to be reversed to unappropriated retained earnings only when it is realized, that is, when investee companies declare dividends or income tax credits are used.

According to the ROC Company Law and FPC's articles of incorporation, FPC's earnings are to be appropriated in the following order:

a. Pay income tax;

b. Offset prior year's deficit, if any;

c. Of the remaining balance, if any, 10% is to be set aside as legal reserve;

d. After setting aside the legal reserve, NT$0.01 per share is to be distributed to shareholders as interest on capital;

e. Of the remaining balance 1% or more should be distributed as employee bonus, and 1% should be distributed as directors' and supervisors' remuneration, if the stockholders' meeting resolves to make an earnings distribution;

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f. Of the remaining balance, if any, set aside as special reserve;

g. The rest of balance, if any, is reserved as retained earnings or distributed as stock dividend.

The information distribution on employee bonus and directors' and supervisors' remuneration since 2002 is as follows:

	2003	
	NT$	US$
Employee bonus — stock (at par)	—	—
Employee bonus — cash	13,632	401
Directors' and supervisors' remuneration	13,632	401
	27,264	**802**

If the distribution of employee bonus and directors' and supervisors' remuneration were treated as expenses in the accrued year, the basic earnings per share (net of tax) would be NT$2.05.

FPC's appropriation of 2003 earnings to employee bonus and directors' and supervisors' remuneration is subject to FPC's directors' and shareholders' resolutions. After the resolutions, the related information can be obtained from the public information Website.

(d) As of December 31, 2003, the balance of unappropriated retained earnings prior to 1998 amounted to NT$1,243,508, and from 1998 amounted to NT$15,942,438.

(e) Treasury stock

As of December 31, 2002, Yung-Chia Chemical Industries Corp. had acquired 948,016 shares of FPC's issued shares with an average book value of NT$27.29 per share, and the market price was NT$45.49 per share. There were no purchases or sales of FPC's stock in 2002.

Effective on January 1, 2002, pursuant to ROC SFC regulations, FPC's issued common stock held by a subsidiary is to be recognized by FPC as treasury stock. FPC is required to appropriate a special reserve on the balance sheet date equal to the amount of that treasury stock's book value in excess of market value multiplied by FPC's holding percentage in said subsidiary. Said special reserve is to be reversed upon the recovery of market price.

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(14) EARNINGS PER SHARE

The Company had no outstanding stock warrants or preferred stock, and the domestic unsecured corporate bonds issued by the Company were nonconvertible; therefore, no potential dilutive effects exists. For the years ended December 31, 2001, 2002 and 2003, the weighted-average number of outstanding shares of common stock for calculating the basic EPS consisted of the following:

Basic earnings per share adjusted retroactively

Unit: thousands of NT$ and shares of common stock

	2001				
	Amount			Earnings per share	
	Income before income tax	Income after income tax	Total shares outstanding	Before income tax	After income tax
Basic earnings per share — retroactively adjusted	5,551,008	6,705,898	4,806,818	1.15	1.40

	2002				
	Amount			Earnings per share	
	Income before income tax	Income after income tax	Total shares outstanding	Before income tax	After income tax
Basic earnings per share — retroactively adjusted	11,714,537	9,898,473	4,806,818	2.44	2.06

	2003				
	Amount			Earnings per share	
	Income before income tax	Income after income tax	Total shares outstanding	Before income tax	After income tax
Basic earnings per share — retroactively adjusted	16,679,302	16,606,149	4,806,839	3.47	3.45

Unit: thousands of NT$ and shares of common stock

	2003				
	Amount			Earnings per share	
	Income before income tax	Income after income tax	Total shares outstanding	Before income tax	After income tax
Basic earnings per share — retroactively adjusted	490,712	488,560	4,806,839	0.10	0.10

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(15) INCOME TAX

(a) FPC has adopted SFAS No. 22, "Accounting for Income Taxes". The components of FPC's income tax expense for 2001, 2002, and 2003 were as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Current income tax expense	—	—	8,413	247
Deferred income tax (benefit) expense	(1,154,889)	1,816,064	64,740	1,905
Estimated income tax (benefit) expense	**(1,154,889)**	**1,816,064**	**73,153**	**2,152**

(b) The reconciliation of the income tax calculated based on financial pretax income and the reported income tax expense (benefit) for 2001, 2002, and 2003 was as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Income tax expense calculated based on financial pretax income	1,387,742	2,928,624	4,169,816	122,678
Unrealized investment income recognized based on equity method, net	(464,040)	(1,205,533)	(1,692,651)	(49,798)
Gain on disposal of land	(481,605)	(129,460)	(4,514)	(133)
Gain on disposal of equity securities	(2,298)	(175,974)	(413,509)	(12,166)
Non-taxable cash dividend income	(106,075)	(101,241)	(172,888)	(5,086)
Unrealized devaluation (reversal) of inventory	34,711	(15,548)	(30,358)	(893)
Bad debt expense not recognizable for tax purposes	2,048	1,095	5,518	162
Others	1,001	689	4,696	138
Other adjustments for income tax filing purposes	(4,492,497)	(1,233,189)	(972,237)	(28,604)
10% income surtax on undistributed earnings	27,091	175,508	250,781	7,378
Change in valuation allowance	2,939,033	1,571,093	(1,071,501)	(31,524)
Income tax expense (benefit)	**(1,154,889)**	**1,816,064**	**73,153**	**2,152**

(c) Deferred income tax expense as of December 31, 2001, 2002, and 2003, was as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Foreign investment gain under equity method	(219,805)	240,260	(25,045)	(737)
Difference from using accelerated depreciation methods under Statute for Upgrading Industries	(19,401)	(18,264)	(7,389)	(217)
Difference in depreciation expense for tax purposes	(43)	191	58,782	1,729
Unrealized exchange benefit	(108,915)	35,951	54,242	1,596
Unrealized sales gross profit	—	—	(12,242)	(360)
Unrealized pension cost, net	(105,227)	(116,474)	(121,119)	(3,563)
Unused investment deduction	(3,640,530)	103,307	1,224,712	36,031
Others	—	—	(35,700)	(1,050)
Change in valuation allowance	2,939,032	1,571,093	(1,071,501)	(31,524)
	(1,154,889)	**1,816,064**	**64,740**	**1,905**

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(d) Deferred income tax assets and liabilities as of December 31, 2001, 2002, and 2003, were as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Current:				
Deferred income tax assets	1,249,117	1,164,424	3,698,727	108,818
Valuation allowance for deferred income tax assets	—	—	—	—
	1,249,117	1,164,424	3,698,727	108,818
Deferred income tax liabilities	—	—	—	—
Current deferred income tax assets, net	**1,249,117**	**1,164,424**	**3,698,727**	**108,818**
Non-current:				
Deferred income tax assets	10,420,508	10,482,417	6,802,522	200,133
Valuation allowance for deferred income tax assets	(2,939,032)	(4,510,126)	(3,438,625)	(101,166)
	7,481,476	5,972,291	3,363,897	98,967
Deferred income tax liabilities	(255,782)	(477,969)	(504,317)	(14,837)
Non-current deferred income tax assets, net	**7,225,694**	**5,494,322**	**2,859,580**	**84,130**
Total deferred income tax assets	**11,669,625**	**11,646,841**	**10,501,249**	**308,951**
Total valuation allowance for deferred income tax assets	**2,939,032**	**4,510,126**	**3,438,625**	**101,166**
Total deferred income tax liabilities	**255,782**	**477,969**	**504,317**	**14,837**

(e) The temporary difference of deferred tax assets and liabilities and the income tax credit effects for 2001, 2002, and 2003 were as follows:

	2001		2002		2003		
		Income tax effect		Income tax effect		Income tax effect	
	NT$	NT$	NT$	NT$	NT$	NT$	US$
Deferred income tax assets:							
Unrealized net periodic pension cost	3,079,702	769,925	3,545,599	886,400	4,303,075	1,007,519	29,642
Unrealized foreign currency exchange loss (gain) and others	561,055	140,264	417,253	104,313	200,286	50,071	1,473
Unrealized sales gross profit	—	—	—	—	48,967	12,242	360
Investment tax credit investment in major industries	4,436,183	4,436,183	3,524,102	3,524,102	4,118,303	4,118,303	121,162
Investment tax credit — investment in resource-poor or lesser-developed rural areas	6,323,253	6,323,253	7,132,027	7,132,026	5,178,280	5,178,280	152,347
Investment tax credit — others	—	—	—	—	134,834	134,834	3,967
		11,669,625		11,646,841		10,501,249	308,951
Deferred in income tax liabilities:							
Difference from using accelerated depreciation methods under Statute for Upgrading Industries	152,275	38,069	79,220	19,805	49,662	12,416	365
Depreciation difference for tax purposes	225,664	56,416	226,429	56,607	461,557	115,389	3,395
Foreign investment income recognized by equity method	645,189	161,297	1,606,229	401,557	1,506,047	376,512	11,077
		255,782		477,969		504,317	14,837

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(f) The deduction for investing in major business, resource-poor or less-developed rural areas, and others, and the expiry year as of the end of 2003 were as follows:

	Investment tax credit — investment in major business		Investment tax credit — investment in resource-poor or less-developed rural areas		Investment tax credit — others		Deduction expiry year
	NT$	US$	NT$	US$	NT$	US$	
2000	1,045,825	30,769	659,438	19,401	—	—	2004
2001	3,072,478	90,393	2,791,416	82,125	—	—	2005
2002	—	—	733,823	21,589	—	—	2006
2003	—	—	993,603	29,232	134,834	3,967	2007
	4,118,303	**121,162**	**5,178,280**	**152,347**	**134,834**	**3,967**	

The investment tax credits were recognized as deferred tax assets upon the receipt of automation machinery, and completion of investment projects in resource-poor or less-developed rural areas, and those approved by receiving a proof of investment deduction from ROC tax authority.

(g) FPC's income tax returns have been assessed and approved through 2000 by the ROC tax authorities.

(h) Imputation credit account (ICA) and creditable ratio

As of December 31, 2001, 2002, and 2003, the ending balance of the ICA amounted to NT$5,423, NT$11,861, and NT$28,394, respectively. The estimated creditable ratio for earnings distribution for 2001 was 0.68% at the time of filing the 2001 tax return, and the actual creditable ratio for the 2001 earnings distribution was 1.01% at the time the stock dividend was distributed. The estimated creditable ratio for earnings distribution for the 2002 was 1.19% at the time of filing the 2002 tax return, and the actual creditable ratio for the 2002 earnings distribution was 1.79% at the time the stock dividend was distributed. FPC estimates the creditable ratio for the 2003 earnings distribution will be 0.17% at the time of filing the 2003 tax return.

(i) Formosa Plastics Corporation, America adopted U.S.A. Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", for intraperiod income tax allocation. The reconciliation between current income tax expense and estimated income tax expense for 2001, 2002, and 2003 is presented as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Current income tax expense	(27,642)	(58,790)	—	—
Increase (decrease) in deferred income tax liability	(416,049)	577,464	(105,581)	(3,106)
	(443,691)	**518,674**	**(105,581)**	**(3,106)**

The deferred tax liabilities of Formosa Plastics Corporation, America were US$5,713, US$49,631 and US$44,354 in 2001, 2002, and 2003, respectively, due to different depreciation methods for the financial reporting and tax purposes.

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The deferred tax asset of Formosa Plastics Corporation, America was US$26,699 and US$24,490 in 2002 and 2003, respectively, due to the net losses.

(16) FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Derivatives

(i) *Interest rate swaps*

FPC engaged in interest rate swap contracts to hedge the risk of fluctuations in interest rates of long-term debt. A summary of the swaps is as follows:

Financial instrument	Notional principal amount 2001	2002	2003 NT$	2003 US$
Interest rate swap contract — 1998	US$ 50,000	US$ 50,000	—	—
Interest rate swap contract — January, February, June, and July 2002	—	NT$ 7,507,692	7,123,077	209,564
Interest rate swap contract — December 2002	—	NT$ 4,800,000	4,800,000	141,218
Interest rate swap contract — May 2003	—	—	6,200,000	182,407
Interest rate swap contract — July, August and September 2003	—	—	12,600,000	370,697

1. The purpose of the following interest rate swap contracts was to hedge the risk of fluctuations in variable interest rates of a US dollar-denominated syndicated loan which FPC had arranged with from Chiao Tung Bank and 29 other banks. The appropriation began in 1995, and FPC pays interest semiannually at the floating interest rate.

   FPC signed five interest rate swap contracts with Bank of America and ABN-AMRO Bank in September and October 1998, with a nominal principal amount of US$50,000. The contracts expired in September 2003. According to the contracts, FPC paid interest at a contracted fixed rate ranging from 4.895% to 5.38% to the contracted banks and collects interest based on a London Inter-Bank Offered Rate (LIBOR) on March 22 and September 22. The differences between these interest rate swaps were recognized in interest income or interest expense in the current period. As of December 31, 2001, 2002, and 2003, the interest expense derived from the interest rate swaps amounted to NT$9,043, NT$48,512 and NT$63,193, respectively.

2. The purpose of the following interest rate swap contracts was to hedge the risk of fluctuations in variable interest rates of an NT dollar-denominated syndicated loan which FPC had arranged with Chiao Tung Bank and 29 other banks. The appropriation began in 1995, and FPC pays interest monthly based on the floating interest rate.

   FPC signed an interest rate swap contract with ABN-AMRO Bank in January 2002, four interest rate swap contracts with Bank of America and Deutsche Bank in May 2002, three interest rate swap contracts with Bank of America in

June 2002, and four interest rate swap contracts with Bank of America in July 2002, with a notional principal amount of NT$7,700,000. As of December 31, 2002 and 2003, the balance amounted to NT$7,507,692 and NT$7,123,077, respectively. According to the contracts, FPC pays interest at a contracted fixed rate ranging from 2.940% to 3.70% to the contracted banks and collects interest at the CP rate offered in the secondary market quarterly. The differences between these interest rate swaps were recognized in interest income or interest expense in the current period. The interest expense derived from the interest rate swaps amounted to NT$67,933 and NT$166,029 in 2002 and 2003, respectively.

3. The purpose of the following interest rate swap contracts was to hedge the risk of fluctuations in interest rates of the domestic corporate bond issued in November 2002. According to the bond terms, FPC pays interest semiannually based on the fixed annual interest rate of 5.5% or 5.9% minus 6-month LIBOR.

   FPC signed seven interest rate swap contracts with Bank of America and Deutsche Bank in December 2002, with a notional principal amount of NT$4,800,000. According to the contracts, FPC pays interest at a contracted fixed rate of 2.575% to the contracted banks and collects interest of the 5.5%~5.9% minus 6-Month LIBOR semiannually. The differences between these interest rate swaps were recognized in interest income or interest expense in the current period. The interest expense derived from the interest swaps amounted to NT$83,802 in 2003.

4. The purpose of the following interest rate swap contracts was to hedge the risk of fluctuations in interest rates of the domestic corporate bond issued in May and June 2002. According to the bond terms, FPC pays interest semiannually based on the fixed annual interest rate of 4.10% minus 6-month LIBOR or TWD-3-Month swap offer rate plus 0.3%.

   FPC signed five interest rate swap contracts with Bank of Paris and Deutsche Bank in December 2002, with a notional principal amount of NT$6,200,000. According to the contracts, FPC pays interest at a contracted fixed rate of 1.68% or 1.66% to the contracted banks and collects interest at the 4.1% minus 6-Month LIBOR or TWD-3-Month swap offer rate semiannually. The differences between these interest rate swaps were recognized in interest income or interest expense in the current period. The interest expense derived from the interest swaps amounted to NT$32,018 in 2003.

5. The purpose of the following interest rate swap contracts was to hedge the risk of fluctuations in variable interest rates of an NT dollar-denominated syndicated loan which FPC had arranged with Chiao Tung Bank and 29 other banks. The appropriation began in 1995, and FPC pays interest semiannually at the floating interest rate.

   FPC signed ten interest rate swap contracts with Bank of America, Deutsche Bank, and Taipei Bank in July, August, and September 2003 with a notional principal amount of NT$12,600,000. According to the contracts, the Company pays interest based on a contracted. According to the contracts, the Company pays 3-Month LIBOR to the contracted banks and collects interest at the CP rate offered in the secondary market. The differences between these interest rate swaps were recognized in interest income or interest expense in the current period. The interest expense derived from the interest swaps amounted to NT$7,162 in 2003.

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6. FPC believes that the possibility of loss incurred by contract breaches is minimal because the counter-parties are all internationally well-known banks with good reputations.

(ii) ***Forward exchange contracts***

FPC signed two forward exchange contracts with Citibank on June 29 and July 3, 2001, to hedge the risk of fluctuations in foreign exchange rates on a long-term US dollar-denominated syndicated loan with Chiao Tung Bank. According to the contracts, FPC is to pay the total amount of NT$32,471 and NT$16,186 in 13 installments semiannually to the counterparty, and collect principal amounting to US$1,000 and US$500 in 13 installments semiannually from March 2002 to March 2008. In addition, the difference between the spot and forward rate is amortized using the straight-line method over the contract period and recognized as interest income or expense. The recognized interest income amounted to NT$2,905, NT$11,870, and NT$7,933 in 2001, 2002, and 2003, respectively.

As of December 31, 2001, 2002, and 2003, details of receivables and payables resulting from forward exchange contract transactions were as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Current:				
Forward exchange contract receivables — foreign currencies	104,997	104,259	101,934	2,999
Forward exchange contract payables	(97,313)	(97,313)	(97,313)	(2,863)
Unamortized premium on forward exchange contract	(5,743)	(7,933)	(6,354)	(187)
	1,941	**(987)**	**(1,733)**	**(51)**
Non-current:				
Forward exchange contract receivables — foreign currencies	577,484	101,934	356,769	10,496
Forward exchange contract payables	(535,222)	(97,313)	(340,595)	(10,020)
Unamortized premium on forwards exchange contract	(30,034)	(6,354)	(9,619)	(283)
	12,228	**(1,733)**	**6,555**	**193**

The net amount due to the transactions referred to above is recognized as other financial assets — current (other payables) if it is due within one year, or other financial assets — non-current (other miscellaneous liabilities) if it is due beyond one year.

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(iii) ***Cross currency swaps (CCSs)***

	Notional principal		
Financial Instruments	**2001**	**2002**	**2003**
	US$	**US$**	**US$**
CCS contracts entered into in 2001	91,000	77,000	63,000

The purpose of the following CCSs was to hedge the risk of fluctuations in foreign exchange rates on a long-term US dollar-denominated syndicated loan which FPC had arranged with Chiao Tung Bank and 29 other banks. FPC signed five US$/NT$CCSs with Citibank, Bank of Paris and Chinatrust Commercial Bank, with notional principal amounting to US$91,000, US$77,000 and US$63,000 as of December 31, 2001, 2002 and 2003 respectively. According to the contracts, FPC pays a fixed interest rate of 5% to the bank and collects interest based on SIBOR semiannually. The differences between these interest rate swaps were recognized in interest income or interest expense in the current period. The interest expenses derived from the CCSs amounted to NT$6,693, NT$67,219, and NT$79,366 in 2001, 2002, and 2003, respectively.

In addition, FPC is to pay a total amount of NT$228,045 in 13 installments to the bank and collect principal amounting to US$7,000 in 13 installments semiannually. The difference between the spot and forward rate is amortized using the straight-line method over the contract period and recognized as interest income or expense. The interest income derived from the CCSs amounted to NT$7,801, NT$27,442, and NT$17,750 in 2001, 2002, and 2003, respectively.

(b) The fair value of financial instruments

In accordance with SFAS No. 27, “Disclosure of Financial Instruments”, the fair value of FPC’s non-derivative financial instruments is as follows.

(i) The methods and assumptions used to estimate the fair value of each class of financial instruments were as follows:

a) Because the maturity dates of short-term financial instruments are within one year, their book value is the best estimate of their fair value. This principle is applied in estimating the fair value of short-term financial instruments.

b) The market price is the fair value of marketable securities if an open market exists, whereas other financial methodologies are used in estimating the fair value of securities without an existing trading market.

c) The discounted present value of anticipated cash flows is the fair value of long-term debt and bonds payable. The applied discounting rates are based on the proposed interest rates of the assumed long-term loans with terms similar to those of FPC’s existing long-term liabilities.

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(ii) As of December 31, 2001, 2002, and 2003, the fair values of non-derivative financial instruments approximated the book values as of the balance sheet date, except for the short-term investments in listed stocks which had an aggregate book value of NT$6,642,968, NT$7,429,127 and NT$12,063,030, respectively, and an aggregate fair value of NT$13,625,903, NT$18,075,432 and NT$32,128,601, respectively, and the long-term investments in Ours Commercial Banking Corporation, which had an aggregate book value of NT$333,340, an aggregate fair value of NT$189,988, NT$208,987, and NT$372,947, respectively, and allowance for devaluation of NT$143,352 and NT$124,353, in 2001 and 2002, respectively.

(17) RELATED-PARTY TRANSACTIONS

(a) Name and relationship

Name	Relationship
Nan Ya Plastics Corporation	Same president as the Company
Formosa Chemicals & Fibre Corporation	Same president as the Company
Formosa Plastics Corp. U.S.A. (FPC U.S.A.)	Same president as the Company
Formosa Plastic Marine Corporation (Liberia)	Same president as the Company
Formosa Group Ocean Marine Investment Corporation.	Same president as the Company
Pei Jen Company Ltd.	Same president as the Company
Mai Liao Harbor Administration Corp.	Same president as the Company
Chang Gung Medical Supplies and Equipment Corp.	Same president as the Company
Asia Pacific Development Company	Same president as the Company
Nanya Technology Corporation	Same president as the Company
Chang Gung Biotechnology Co., Ltd.	The president is a relative of the Company's president
Jen Yuan Material Technology Corp.	The president is a relative of the Company's president
Yungchia Chemical Industries	A subsidiary of the Company
Formosa Teletek Corporation	A subsidiary of the Company
Formosa Plasma Display Corporation	A subsidiary of the Company
Formosa Petrochemical Corporation	Investee accounted for by the equity method
Taishih Textile Corporation	Investee accounted for by the equity method
Formosa Daikin Advanced ChemicalCo., Ltd.	Investee accounted for by the equity method
Formosa Heavy Industries Corp.	Investee accounted for by the equity method
Ya Tai Development Corporation	Investee accounted for by the equity method
Mai Liao Power Corporation	Investee accounted for by the equity method
Formosa Asahi Spandex Co., Ltd.	Investee accounted for by the equity method
Formosa Komatsu Silicon Wafer	Investee accounted for by the equity method
Formosa Transportation Corporation	Investee accounted for by the equity method
Hangzhou Tai Shih Textile Corp.	A subsidiary of an investee accounted for by the equity method
Hwa Ya Power Corporation	A subsidiary of an investee accounted for by the equity method
Formosa Industries Ltd. (Ningbo) Co., Ltd.	A grandson subsidiary
Nan Ya Plastics (Guangzhou) Co., Ltd.	A subsidiary of Nan Ya Plastics Corp.
Nantong Plastics Co., Ltd.	A subsidiary of Nan Ya Plastics Corp.
Hwa Ya Plastics Fittings (Xiamen) Co., Ltd.	A subsidiary of Nan Ya Plastics Corp.
Hwa Ya Plastics (Xiamen) Co., Ltd.	A subsidiary of Nan Ya Plastics Corp.
Nan Ya Plastics Construction Materials (Guangzhou) Co., Ltd.	A subsidiary of Nan Ya Plastics Corp.

Name	Relationship
Nan Ya Plastics (Huizhou) Co., Ltd.	A subsidiary of Nan Ya Plastics Corp.
Nantong Huafu Co., Ltd.	A subsidiary of Nan Ya Plastics Corp.
Nan Ya Plastics Construction Materials (Nantong) Co., Ltd.	A subsidiary of Nan Ya Plastics Corp.
Nan Ya Rigid Film (Guangzhou) Co., Ltd.	A subsidiary of Nan Ya Plastics Corp.
FPC-Louisiana	Same president as the Company
FPC-Texas	Same president as the Company
Formosa Utility Venture	An investee of FPC America Corp. and accounted for by the equity method
Nan Ya Plastics Corp., U.S.A.	A subsidiary of Nan Ya Plastics Corp.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(b) Significant related-party transactions

(i) *Operating revenue, notes receivable, and accounts receivable*

Significant sales to related parties for the years ended December 31, 2001, 2002 and 2003, are summarized as follows:

	2001		2002		2003		
	Amount	% of net operating income	Amount	% of net operating income	Amount	Amount	% of net operating income
	NT$		NT$		NT$	US$	
Nan Ya Plastics Corporation	8,524,778	12.44	9,663,109	12.66	11,864,207	349,050	12.47
Formosa Chemicals & Fibre Corporation	2,153,476	3.14	2,529,157	3.31	3,546,295	104,333	3.73
Formosa Asahi Spandex Co., Ltd.	8,139	0.01	22,232	0.03	1,562	46	—
Yungchia Chemical Industries	405,404	0.59	388,179	0.51	228,243	6,715	0.24
Formosa Heavy Industries Corp.	161,425	0.24	111,030	0.15	212,127	6,241	0.22
Formosa Petrochemical Corporation	2,250,364	3.29	2,192,185	2.87	2,800,702	82,398	2.94
Formosa Plastics Marine Corporation (Liberia)	7,688	0.01	9,378	0.01	—	—	—
Pei Jen Company Ltd.	39	—	36	—	—	—	—
Ya Tai Development Corporation	8,414	0.01	4,792	0.01	—	—	—
Mai Liao Power Corporation	78,459	0.11	47,879	0.06	59,446	1,749	0.06
Formosa Daikin Advanced Chemical Co., Ltd.	16,678	0.02	29,364	0.04	48,859	1,437	0.05
Formosa Plasma Display Corporation	—	—	7,406	0.01	32,195	947	0.04
Formosa Teletek Corporation	—	—	10,806	0.01	1,430	42	—
Nan Ya Plastics (Guangzhou) Co., Ltd.	—	—	671,420	0.88	803,585	23,642	0.85
Nantong Plastics Co., Ltd.	—	—	355,056	0.46	421,041	12,387	0.44
Nan Ya Plastics Construction Materials (Nantong) Co., Ltd.	—	—	325,373	0.43	447,310	13,160	0.47
Nan Ya Rigid Film (Guangzhou) Co., Ltd.	—	—	528,226	0.69	1,012,631	29,792	1.07
Hwa Ya Plastics Fittings (Xiamen) Co., Ltd.	—	—	37,338	0.05	57,645	1,696	0.06
Hwa Ya Plastics (Xiamen) Co., Ltd.	—	—	84,345	0.11	67,391	1,983	0.07
Nantong Huafu Co., Ltd.	—	—	2,772	—	30,372	894	0.03
Nan Ya Plastics Construction Materials (Guangzhou) Co., Ltd.	—	—	38,731	0.05	87,751	2,582	0.09
Nan Ya Plastics (Huizhou) Co., Ltd.	—	—	—	—	12,080	355	0.01
FPC-Louisiana	1,456,157	2.13	2,554,438	3.35	2,367,707	69,659	2.49
FPC-Texas	1,503,039	2.20	3,173,802	4.16	3,470,641	102,108	3.65
Others	16,465	0.02	9,383	0.01	985	29	—
	16,590,525	**24.21**	**22,796,437**	**29.86**	**27,574,205**	**811,245**	**28.98**

(expressed in thousands of New Taiwan dollars and US dollars
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As of December 31, 2001, 2002 and 2003, the ending balances of notes and accounts receivable from sales transactions referred to above were as follows:

	2001		2002		2003		
	Amount	%	Amount	%	Amount	Amount	%
	NT$		NT$		NT$	US$	
Accounts receivable:							
Nan Ya Plastics Corporation	666,506	15.18	927,715	15.37	1,221,346	35,933	19.72
Yungchia Chemical Industries	41,523	0.95	32,204	0.53	—	—	—
Formosa Chemicals & Fiber Corporation	196,501	4.48	264,969	4.39	376,059	11,064	6.07
Formosa Asahi Spandex Co., Ltd	—	—	204		7	—	—
Formosa Heavy Industries Corp	3,905	0.09	45,339	0.75	44,471	1,308	0.72
Formosa Petrochemical Corporation	141,094	3.21	243,841	4.04	374,542	11,019	6.05
Formosa Plastics Marine Corporation (Liberia)	1,908	0.04	471	0.01	—	—	—
Pei Jen Company Ltd.	1	—	—	—	—	—	—
Ya Tai Development Corporation	644	0.01	292	—	—	—	—
Mai Liao Power Corporation.	6,475	0.15	3,456	—	6,465	190	0.10
Formosa Teletek Corporation.	—	—	10,363	0.17	—	—	—
Formosa Daikin Advanced Chemical Co, Ltd	493	0.01	4,878	0.08	5,510	162	0.09
Formosa Plasma Display Corporation	—	—	2,879	0.05	222	7	—
Nan Ya Plastics (Guangzhou) Co, Ltd	—	—	92,270	1.53	148,343	4,365	2.40
Nantong Plastics Co. Ltd.	—	—	122,040	2.02	108,870	3,203	1.76
Nan Ya Plastics Construction Materials (Nantong) Co., Ltd	—	—	68,724	1.14	93,791	2,759	1.51
Han Ya Rigid Film (Guangzhou) Co., Ltd.	—	—	100,395	1.66	189,728	5,582	3.06
Hwa Ya Plastics Fittings (Xiamen) Co., Ltd	—	—	—	—	11,166	329	0.18
Hwa Ya Plastics (Xiamen) Co., Ltd	—	—	—	—	11,161	328	0.18
Nantong Huafu Co., Ltd.	—	—	620	0.01	6,066	178	0.10
Nan Ya Plastics Construction Materials (Guangzhou) Co., Ltd	—	—	3,818	0.06	24,738	728	0.40
Nan Ya Plastics (Huizhou) Co., Ltd.	—	—	—	—	4,498	132	0.07
FPC-Louisiana	89,940	2.05	188,361	3.12	316,994	9,326	5.12
FPC-Texas	88,080	2.01	212,654	3.52	270,907	7,970	4.38
Others	11,479	0.26	522	0.01	1,481	44	0.02
	1,248,549	**28.44**	**2,326,015**	**38.46**	**3,216,365**	**94,627**	**51.93**

Receivable are collected within 15 days after the end of the month.

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(ii) *Purchases and accounts payable*

Significant purchase from related parties for the years ended December 31, 2001, 2002 and 2003, are summarized as follows:

	2001		2002		2003		
	Amount	% of net purchase	Amount	% of net purchase	Amount	Amount	% of net purchase
	NT$		NT$		NT$	US$	
Nan Ya Plastics Corporation	432,803	0.97	464,830	0.88	663,796	19,530	1.10
Formosa Chemicals & Fibre Corporation	330,959	0.74	682,652	1.30	1,157,931	34,067	1.92
Yungchia Chemical Industries	25,113	0.06	41,051	0.08	27,566	811	0.05
Formosa Petrochemical Corporation	22,550,737	50.43	23,963,864	45.52	32,095,156	944,253	53.29
Formosa Heavy Industries Corp.	498,366	1.11	633,967	1.20	670,453	19,725	1.11
Formosa Plastics Marine Corporation (Liberia)	193,972	0.43	—	—	465,521	13,696	0.77
Ya Tai Development Corporation	1,524		1,866	—	—	—	—
FPC-Texas	4,760,044	10.65	4,483,430	8.52	5,492,866	161,602	9.12
Formosa Utility Venture	3,781,463	8.46	3,318,199	6.30	4,422,387	130,108	7.34
	32,574,981	**72.85**	**33,589,859**	**63.80**	**44,995,676**	**1,323,792**	**74.70**

As of December 31, 2001, 2002 and 2003, the ending balances of accounts payable from purchasing transactions referred to above were as follows:

	2001		2002		2003		
	Amount	%	Amount	%	Amount	Amount	%
	NT$		NT$		NT$	US$	
Nan Ya Plastics Corporation	29,936	1.00	43,580	1.00	68,444	2,014	1.01
Formosa Chemicals & Fibre Corporation	36,934	1.23	87,012	2.00	134,129	3,946	1.98
Yungchia Chemical Industries	—	—	3,158	0.07	—	—	—
Formosa Petrochemical Corporation	1,681,947	55.97	2,864,756	65.76	3,606,398	106,101	53.19
Formosa Heavy Industries Corp	43,725	1.46	157,213	3.61	57,264	1,685	0.84
Formosa Plastics Marine Corporation (Liberia)	22,843	0.76	348	0.01	6,052	178	0.09
Ya Tai Development Corporation	172	0.01	—	—	—	—	—
FPC-Texas	156	—	—	—	—	—	—
	1,815,713	**60.43**	**3,156,067**	**72.45**	**3,872,287**	**113,924**	**57.11**

Payment for a purchase is made after goods are inspected and accepted.

(iii) ***Construction contract***

FPC contracted with Formosa Heavy Industries Corp. to undertake the construction of its factory expansion projects. The contract amounts were NT$498,366, NT$633,967, and NT$670,453 in 2001, 2002, and 2003, respectively. As of December 31, 2001, 2002, and 2003, the unpaid amounts were NT$43,725, NT$157,213, and NT$57,264, respectively.

(iv) ***Acquisition of property, plant and equipment***

(a) In 2001, 2002, and 2003, FPC purchased machinery and accessories from Nan Ya Plastics Corporation amounting to NT$50,810, NT$121,806, and NT$209,050, respectively. As of December 31, 2001, 2002, and 2003, the unpaid amounts were NT$24,559, NT$51,237, and NT$6,459, respectively.

(b) In April 2002, FPC sold a parcel of land located in Hsin Kang Hsiang, Chiayi-Hsien, to Nan Ya Plastics Corp. for NT$553,302. The gain on sale of the assets amounting to NT$447,509 was recorded in nonoperating revenue — gains on sale of fixed assets after deducting cost of land of NT$41,040 and related taxes of NT$64,753.

(c) FPC contracted with Nan Ya Plastics Corp. to purchase a parcel of land and a building located in Jenwu Syang, Kahsiung-Hsien, for NT$157,957. The titles were transferred on August 14, 2003.

(d) FPC signed a purchase agreement with Taishih Textile Corp to purchase a parcel of land and a building located in YiLan and Kaohsiung for NT$230,050. As of December 31, 2003, the title had not been transferred yet. Prepayment amounting to NT$80,517 has been made and recorded in the advance payments for project and equipment account.

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(v) *Financing transactions*

The details of the Company's financing transactions with related parties in 2001, 2002 and 2003 were as follows:

	2001				
	Maximum balance	Date of maximum balance	Ending balance	Interest rate	Amount of interest
	NT$		NT$		NT$
Due from related parties:					
Formosa Petrochemical Corporation	10,000,000	1/1	—	5.344%~6.885%	335,091
Formosa Group Ocean Marine Investment Corporation	496,470	6/29	474,970	4.656%~6.609%	15,544
Ya Tai Development Corporation	586,200	3/14	400,000	4.656%~6.609%	26,346
Pei Jen Company Ltd.	340,000	1/1	—	6.575%~6.609%	5,221
Taishih Textile Corporation	164,900	2/26	133,800	4.656%~6.609%	8,615
Nan Ya Plastics Corporation	4,576,900	6/8	1,489,300	4.656%~6.609%	57,919
Wen Fung Industrial Co., Ltd.	65,700	1/10	—	6.575%~6.609%	902
Formosa Heavy Industries Corp	129,800	12/31	129,800	4.656%	—
Mai Liao Power Corporation.	57,400	7/11	—	5.935%	9
Yungchia Chemical Industries	3,200	1/10	—	5.344%	—
FPC U.S.A.	3,584,676	Jan.	2,261,517	2.690%~7.270%	185,071
			4,889,387		**634,718**
Due to related parties:					
Formosa Heavy Industries Corp	1,585,000	1/29	1,500,000	4.656%~6.609%	(86,979)
Formosa Petrochemical Corporation	10,734,700	6/15	—	4.656%~6.609%	(217,670)
Formosa Transportation Corporation	1,700	9/19	—	5.219%~5.344%	(5)
Nan Ya Plastics Corp., U.S.A.	146,495	DEC.	146,495	2.690%~7.270%	(7,415)
			1,646,495		**(312,069)**

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	2002				
	Maximum balance	Date of maximum balance	Ending balance	Interest rate	Amount of interest
	NT$		NT$		NT$
Due from related parties:					
Formosa Petrochemical Corporation	2,642,600	5/7	—	3.891%~4.588%	18,081
Hwa Ya Power Corporation	53,900	12/25	—	3.902%	7
Formosa Plasma Display Corporation	599,200	12/27	583,400	3.891%~4.133%	4,328
Formosa Group Ocean Marine Investment Corporation	518,848	12/31	518,848	3.891%~4.588%	19,945
Ya Tai Development Corporation	400,000	1/1	400,000	3.891%~4.588%	16,791
Formosa Asahi Spandex Co., Ltd.	93,200	9/12	—	4.056%	13
Taishih Textile Corporation	293,026	8/1	254,959	3.891%~4.588%	8,558
Nan Ya Plastics Corporation	3,488,600	4/15	—	3.891%~4.588%	75,931
Formosa Heavy Industries Corp.	270,900	12/25	—	3.902%~4.656%	—
Mai Liao Power Corporation	2,666,900	5/29	2,000,000	3.891%~4.381%	32,476
Formosa Teletek Corporation	162,500	12/31	162,500	3.891%~4.298%	671
Formosa Chemicals & Fibre Corporation	901,500	2/8	—	3.902%~4.344%	1,564
FPC U.S.A.	3,482,443	NOV.	2,977,394	2.730%~4.180%	85,243
			6,897,101		**263,608**
Due to related parties:					
Formosa Heavy Industries Corp	1,500,000	1/9	—	3.891%~4.588%	(60,671)
Formosa Petrochemical Corporation	852,500	7/24	—	3.891%~4.298%	(503)
Formosa Chemicals & Fibre Corporation	255,200	11/27		3.891%~4.298%	(51)
Nan Ya Plastics Corp., U.S.A.	150,932	DEC.	150,932	3.891%~4.298%	(4,780)
			150,932		**(66,005)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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	2003							
	Maximum balance		Date of maximum balance	Ending balance		Interest rate	Amount of interest	
	NT$	US$		NT$	US$		NT$	US$
Due from related parties:								
Account receivable:								
Nan Ya Plastics Corporation	1,298,400	38,199	4/30	734,200	21,600	3.046%~3.657%	5,200	153
Formosa Chemicals & Fibre Corporation	1,182,400	34,786	7/1	—	—	3.100%~3.434%	204	6
Formosa Petrochemical Corporation	8,398,500	247,087	6/27	—	—	3.046%~3.657%	46,594	1,371
Formosa Teletek Corporation	404,700	11,906	12/31	404,700	11,906	3.046%~3.657%	8,503	250
Formosa Group Ocean Marine Investment Corporation	820,948	24,153	12/31	820,948	24,153	3.046%~3.657%	20,870	614
Ya Tai Development Corporation	447,600	13,169	12/25	367,100	10,800	3.046%~3.657%	13,258	390
Mai Liao Power Corporation	2,500,000	73,551	8/20	857,700	25,234	3.046%~3.657%	17,753	522
Formosa Heavy Industries Corp.	2,000,000	58,841	8/7	1,269,600	37,352	3.046%~3.657%	16,315	480
Jen Yuan Material Technology Corp.	6,700	197	9/30	—	—	3.098%~3.375%	79	2
Taishih Textile Corporation	255,350	7,513	1/30	—	—	3.098%~3.657%	6,150	181
Hwa Ya Power Corporation	500,000	14,710	9/18	—	—	3.098%~3.440%	1,854	54
Formosa Daikin Advanced Chemical Co., Ltd.	116,800	3,436	3/10	78,400	2,307	1.430%~3.440%	796	23
Formosa Plasma Display Corporation	1,500,000	44,131	10/24	1,499,800	44,125	1.430%~3.657%	20,170	594
Nan Ya Technology Corporation.	72,300	2,127	8/8	—	—	3.100%	123	4
Chang Gung Biotechnology Co., Ltd.	86,800	2,554	12/26	82,600	2,430	3.046%~3.375%	1,014	30
Chang Gung Medical Supplies and Equipment Corp.	7,100	209	10/2	600	18	3.046%~3.375%	13	—
Asia Pacific Development Company	1,867,000	54,928	6/16	602,100	17,714	3.046%~3.375%	18,807	554
Formosa Komatsu Silicon Wafer	500,000	14,710	9/23	458,100	13,477	1.430%~3.316%	2,457	72
FPC U.S.A.	1,780,978	52,397	FEB.	614,560	18,081	2.971%~3.463%	70,368	2,070
FPC-Texas	1,049,480	30,876	SEP.	713,538	20,992	2.971%~3.463%	44,172	1,300
FPC-Louisiana	1,909,710	56,184	SEP.	237,846	6,998	2.971%~3.463%	23,172	682
				8,741,792	257,187		317,872	9,352
Due to related parties:								
Nan Ya Plastics Corporation	299,700	8,817	6/19	—	—	3.266%	—	—
Formosa Petrochemical Corporation	914,600	26,908	11/18	—	—	3.098%~3.375%	—	—
Formosa Heavy Industries Corp.	851,100	25,040	10/15	—	—	3.301%	—	—
Formosa Plasma Display Corporation	23,000	677	5/22	—	—	3.266%~3.316%	—	—
Chang Gung Medical Supplies and Equipment Corp.	1,800	53	7/28	—	—	3.098%~3.142%	—	—
Nan Ya Plastics Corp., U.S.A.	151,702	4,463	DEC.	151,702	4,463	2.971%~3.463%	(5,295)	(155)
Formosa Utility Venture	132	4	DEC.	133	4	2.971%~3.463%	(173)	(6)
				151,835	4,467		(5,468)	161

(a) As of December 31, 2001, 2002, and 2003, the interest revenue from the abovementioned transactions amounted to NT$6,196, NT$16,053, and NT$15,047, respectively, and was recognized as other financial assets — current.

(expressed in thousands of New Taiwan dollars and US dollars
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(b) As of December 31, 2001, 2002, and 2003, the interest expense from the abovementioned transactions amounted to NT$8,120, NT$2,815, and NT$0, respectively, recognized as accrued expenses.

(c) As of December 31, 2001, 2002, and 2003, the due date of FPCA's receivables derived from the financing activities with FPC U.S.A., FPC-Texas, and FPC-Louisiana were more than a year; therefore, FPCA recorded the amount in long-term receivable — due from related parties. Moreover, the due date of the accounts payable to Nan Ya Plastics Corp., U.S.A. and Formosa Utility Venture was also due more than a year; therefore, FPCA recognized them as long-term payable — due to related parties. The amount due to Formosa Heavy Industries Corp. amounting to NT$900,000 was due more than a year; therefore, FPCA recognized it in long-term payable due to related parties.

(vi) *Endorsements and guarantees*

Obligations of related parties guaranteed by the Company as of December 31, 2001, 2002, and 2003, were as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
FPC U.S.A.	10,499,700	10,425,900	—	—
Formosa Petrochemical Corporation	3,000,000	3,000,000	3,000,000	88,261
Mai Liao Harbor Administration Corp.	2,098,426	2,098,426	2,098,426	61,737
Mai Liao Power Corporation	11,172,500	6,099,500	5,486,000	161,400
Formosa Plastics Marine Corporation (Liberia)	1,259,964	1,251,108	1,223,208	35,987
Formosa Daikin Advanced Chemical Co., Ltd.	505,000	475,000	475,000	13,975
Formosa Plasma Display Corporation	—	—	2,000,000	58,841
Formosa Komatsu Silicon Wafer	—	300,000	—	—
Formosa Utility Venture	—	—	8,154,720	239,915
Hangzhou Tai Shin Textile Corp.	168,870	—	—	—
Total	**28,704,460**	**23,649,934**	**22,437,354**	**660,116**

FPC provided a comfort letter for Formosa Industries (Ningbo) Co. Ltd. to obtain a loan from Citibank amounting to US$85,000. FPC guaranteed the completion of construction, providing management support, and repaying the loan if necessary.

(vii) *Pledged properties*

As of December 31, 2001, 2002, and 2003, the Nan Ya Plastics Corp. common stock held by FPC amounting to 98,000,000 shares, 98,000,000 shares, and 140,000,000 shares, respectively, was provided as pledges for Formosa Petrochemical Corporation to obtain loans from banks.

(expressed in thousands of New Taiwan dollars and US dollars
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(viii) ***Rental***

(as rental revenue or other current liabilities)

Related party	2001	2002	2003	
	NT$	NT$	NT$	US$
Nan Ya Plastics Corporation	51,236	39,467	33,071	972
Formosa Petrochemical Corporation	14,686	15,620	15,790	465
Mai Liao Power Corporation	1,091	1,091	992	29
Formosa Daikin Advanced Chemical Co., Ltd.	3,750	3,000	3,000	88
Formosa Daikin Advanced Chemical Co., Ltd.	1,773	1,659	1,716	51
Formosa Plasma Display Corporation	—	418	2,351	69
Formosa Teletek Corporation	—	2,417	3,153	93
Formosa Heavy Industries Corp.	18,551	16,866	15,824	465
Yungchia Chemical Industries	15,345	8,684	307	9
Pei Jen Company Ltd.	19	19	—	—
Ya Tai Development Corporation	296	296	272	8
Formosa Asahi Spandex Co., Ltd.	655	655	595	18
	107,402	**90,192**	**77,071**	**2,267**

Rental (as rental expenses)

Related parties	2001	2002	2003	
	NT$	NT$	NT$	US$
Formosa Chemicals & Fibre Corporation	**11,504**	—	—	—

(18) PLEDGED PROPERTIES

As of December 31, 2001, 2002 and 2003, the pledges provided to financial institutions were as follows:

Pledged assets	Description	2001	2002	2003	
		NT$	NT$	NT$	US$
Property, plant and equipment	Land, building and equipment	30,815,486	30,815,486	51,235,285	1,507,363
Guarantee deposits paid	Certificate of deposit	941,890	802,000	1,154,285	33,960
		Thousands of shares	**Thousands of shares**	**Thousands of shares**	**Thousands of shares**
Short-term investment	Common stock of Nan Ya Plastics Corp.	146,490	146,490	188,490	188,490
Short-term investment	Shares of Formosa Chemicals & Fibre Corp.	17,000	17,000	17,000	17,000
Long-term investment	Shares of Formosa Petrochemical Corp.	1,070,500	770,500	1,070,500	1,070,500

As of December 31, 2001, 2002, and 2003, the Nan Ya Plastics Corp. common stock held by FPC amounting to 98,000,000 shares 98,000,000 shares, and 140,000,000 shares, respectively, was provided as pledges for Formosa Petrochemical Corporation to obtain loans from banks.

(19) COMMITMENTS AND CONTINGENCIES

As of December 31, 2001, 2002 and 2003, commitments and contingencies of the Company and its subsidiaries were as follows:

(a) Endorsements for affiliates and related parties amounted to NT$28,704,460, NT$23,649,934, and NT$22,437,365 as of December 31, 2001, 2002, and 2003, respectively. The Company also provided commitment letters for affiliates to obtain loans from banks amounting to US$85,000, as of December 31, 2003. Please see note 17 for details.

(b) The purpose of guarantee deposits and guarantee notes receivable provided by customers was to ensure the collection of sales and performance of construction contracts. As of December 31, 2001, 2002, and 2003, the total amount received was NT$961,925, NT$883,160, and NT$864,532, respectively.

(c) FPC had outstanding letters of credit of approximately NT$376,303, NT$463,576, NT$1,232,640 as of December 31, 2001, 2002, and 2003, respectively.

(d) In February 2000, the Ping Tung County government requested FPC to remove and clean the hydrargyrum-polluted waste which was found in a rural area in the county. FPC claimed that the cleaning process would be performed upon a verdict from court. Ping Tung County government continued to pursue the case and requested NT$51,700 from FPC in order to clean the waste in November 2000. FPC filed a legal action to against the Ping Tung County government. As a result, FPC and the Ping Tung County government reached agreement in a court session; FPC would retrieve the waste and the Ping Tung County government would pay NT$90,000 as part of the processing fee. The ROC Environmental Protection Administration was still reviewing the agreement as of December 31, 2003.

(e) In December 1998, FPC America's manufacturing facility was shut down due to the an explosion. In January 1999, FPC America restarted portions of the facility and reached full capacity by the end of February 1999. Substantially all claims associated with the damage (approximately US$30,000) to its property and third-party claims arising from the explosion were covered by the property insurance and extra-expense insurance policies. The consolidated subsidiary recorded a gain of approximately US$6,000 in 2001 in connection with expenses that were charged to earnings in prior periods related to this incident, which is included in other income, net, in the accompanying statements of income and retained earnings.

FPC America's future plant expansion project and operation are under extensive environmental protection regulations, labor safety laws, and related regulations. According to the present situation, FPC America believes its facilities and articles of incorporation are in compliance in all material respects with the applicable regulations.

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(20) SUBSEQUENT EVENTS

In order to improve its financial structure and repay short-term loans, FPC applied for the issuance of domestic unsecured unconvertible corporate bonds with a principal amount of NT$5,200,000. The issuance was approved in the meeting of the board of directors held on December 17, 2003, and was approved by the ROC SFC on January 9, 2004. The bonds were issued on January 27, 2004, at par.

(21) OTHERS

(a) The personnel, depreciation, and amortization expenses of FPC by function were as follows:

	2002				2003				2003			
	Operating cost	Operating exp.	Non-operating	Total	Operating cost	Operating exp.	Non-operating	Total	Operating cost	Operating exp.	Non-operating	Total
	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$	US$	US$	US$	US$
Personnel exp.												
Salaries	2,640,390	1,578,80	—	4,129,280	2,893,473	1,737,5983	—	4,631,071	85,127	51,121	—	136,248
Insurance exp.	148,879	87,825	—	236,704	155,371	92,161	—	247,532	4,571	2,711	—	7,282
Retirement exp.	148,879	301,116	—	676,611	376,591	264,381	—	640,972	11,080	7,778	—	18,858
Other exp.	78,215	38,110	—	116,325	78,059	37,433	—	115,492	2,297	1,101	—	3,398
Depreciation	4,193,701	190,746	1,025	4,385,472	4,219,511	283,808	971	4,504,290	124,140	8,350	28	132,518
Amortization	191,254	28,900	—	220,154	158,889	59,449	30,868	249,206	4,675	1,749	908	7,332

(b) Reclassification

FPC reclassified certain accounts in the 2003 consolidated report compared to the 2001 and 2002 consolidated reports. These reclassifications have minor effects on the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
DECEMBER 31, 2001, 2002, AND 2003
(expressed in thousands of New Taiwan dollars and US dollars except earnings per share information or unless otherwise stated)

(22) Segment Information

(a) Information about operations in different industry segments in 2001, 2002 and 2003 is summarized as follows:

	2001							
	Plastic Division	Polyolefin Division	Tairylan Division	Engineering and Construction Division	Chemical Division	Other Divisions	Adjustments and Eliminations	Consolidated
	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$
Revenue from parties outside consolidated entities	38,572,406	13,769,812	9,010,514	1,754,963	3,528,325	5,518,222	—	72,154,242
Inter-consolidated entities' revenue.	2,281,472	990,394	41,697	2,711,791	1,887,718	136,945	(8,110,017)	—
Total revenue	40,853,878	14,760,206	9,052,211	4,526,754	5,416,043	5,655,167	(8,110,017)	72,154,242
Operating income	2,612,779	584,387	1,006,858	1,082,430	(1,024,973)	3,282,685	(1,009,213)	6,534,953
Investment income, net								2,551,920
General corporate expense								(983,451)
Interest expense								(2,996,104)
Income from continuing operations before income tax								5,107,318
Identifiable assets at end of year	41,337,967	14,352,981	8,124,130	3,227,511	14,353,327	14,954,747	(2,410,737)	93,939,926
Long-term equity investment								57,506,744
Other assets								19,821,139
Total assets at end of the year								171,267,809
Depreciation and amortization	2,824,876	675,556	392,837	154,897	632,951	396,888		5,078,005
Capital expenditure (addition to fixed assets)	2,895,051	390,879	192,603	89,673	731,743	454,355		4,754,304

	2002							
	Plastic Division	Polyolefin Division	Tairylan Division	Engineering and Construction Division	Chemical Division	Other Divisions	Adjustments and Eliminations	Consolidated
	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$
Revenue from parties outside consolidated entities	42,392,852	14,310,780	10,108,689	1,588,125	6,191,871	3,289,236	—	77,881,553
Inter-consolidated entities' revenue.	2,983,588	1,013,225	53,600	2,950,340	2,250,786	157,911	(9,409,450)	—
Total revenue	45,376,440	15,324,005	10,162,289	4,538,465	8,442,657	3,447,147	(9,409,450)	77,881,553
Operating income	4,434,081	928,004	1,277,218	1,051,554	5,919	2,783,590	(1,529,184)	8,951,182
Investment income, net								6,007,213
General corporate expense								(271,642)
Interest expense								(2,453,542)
Income from continuing operations before income tax								12,233,211
Identifiable assets at end of year	36,931,899	13,450,751	7,724,630	1,511,990	14,540,282	16,466,826	(256,663)	90,369,715
Long-term equity investment								66,249,793
Other assets								22,863,634
Total assets at end of year								179,483,142
Depreciation and amortization	2,896,568	828,164	465,084	168,475	822,208	438,869		5,619,368
Capital expenditure (addition to fixed assets)	2,784,407	37,368	65,283	85,589	396,384	643,588		4,012,619

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
DECEMBER 31, 2001, 2002, AND 2003
(expressed in thousands of New Taiwan dollars and US dollars except earnings per share information or unless otherwise stated)

	2003							
	Plastic Division	Polyolefin Division	Tairylan Division	Engineering and Construction Division	Chemical Division	Other Divisions	Adjustments and Eliminations	Consolidated
	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$
Revenue from parties outside consolidated entities	48,150,762	18,027,439	12,936,036	1,185,682	9,696,280	6,444,811	—	96,441,010
Inter-consolidated entities' revenue.	3,198,056	1,220,087	68,064	3,002,726	3,004,143	141,073	(10,634,149)	—
Total revenue	51,348,818	19,247,526	13,004,100	4,188,408	12,700,423	6,585,884	(10,634,149)	96,441,010
Operating income	4,316,914	1,384,218	1,914,115	1,006,898	768,286	2,802,994	(1,962,136)	10,231,289
Investment income, net								9,086,841
General corporate expense								(502,512)
Interest expense								(2,241,897)
Income from continuing operations before income tax								16,573,721
Identifiable assets at end of the year	36,476,238	12,794,721	6,718,338	1,872,434	14,664,628	16,654,871	(273,754)	88,907,476
Long-term equity investment								69,686,105
Other assets								32,461,070
Total assets at end of year								191,054,651
Depreciation and amortization	3,054,821	484,668	151,694	819,956	818,411	554,012		5,883,562
Capital expenditure (addition to fixed assets)	2,383,926	104,524	14,789	159,079	574,542	416,452		3,653,312

	2003							
	Plastic Division	Polyolefin Division	Tairylan Division	Engineering and Construction Division	Chemical Division	Other Divisions	Adjustments and Eliminations	Consolidated
	US$	US$	US$	US$	US$	US$	US$	US$
Revenue from parties outside consolidated entities	1,416,616	530,375	380,583	34,883	285,269	189,609	—	2,837,335
Inter-consolidated entities' revenue.	94,088	35,896	2,003	88,341	88,383	4,150	(312,861)	—
Total revenue	1,510,704	566,271	382,586	123,224	373,652	193,759	(312,861)	2,837,335
Operating income	127,006	40,724	56,314	29,624	22,603	82,465	(57,727)	301,009
Investment income, net								267,339
General corporate expense								(14,784)
Interest expense								(65,958)
Income from continuing operations before income tax								487,606
Identifiable assets at end of the year	1,073,146	376,426	197,656	55,088	431,440	489,993	(8,054)	2,615,695
Long-term equity investment								2,050,195
Other assets								955,018
Total assets at end of year								5,620,908
Depreciation and amortization	89,874	14,259	4,463	24,,124	24,078	16,299		173,097
Capital expenditure (addition to fixed assets)	70,135	3,075	434	4,680	16,903	12,252		107,479

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
DECEMBER 31, 2001, 2002, AND 2003
(expressed in thousands of New Taiwan dollars and US dollars except earnings per share information or unless otherwise stated)

(b) *Geographic area information*

Information regarding operations in different geographic areas in 2001, 2002 and 2003 is summarized as follows:

	2001			
	North America	Republic of China	Adjustments and Eliminations	Consolidated
	NT$	NT$	NT$	NT$
Revenue from parties outside consolidated entities	9,488,541	62,665,701	—	72,154,242
Inter-consolidated entities' revenue	1,068,899	787,048	(1,855,947)	—
Total revenue	**10,557,440**	**63,452,749**	**(1,855,947)**	**72,154,242**
Operating income	**(640,069)**	**7,186,012**	**(10,990)**	6,534,953
Investment income				2,551,920
General corporate revenue				(983,451)
Interest expense				(2,996,104)
Income from continuing operations before income tax				**5,107,318**
Identifiable assets at end of year	**13,233,173**	**81,094,591**	**(387,838)**	93,939,926
Long-term equity investment				57,506,744
Other assets				19,821,139
Total assets at end of year				**171,267,809**

	2002			
	North America	Republic of China	Adjustments and Eliminations	Consolidated
	NT$	NT$	NT$	NT$
Revenue from parties outside consolidated entities	11,109127	66,772,426	—	77,881,553
Inter-consolidated entities' revenue	1,986,799	363,576	(2,350,375)	—
Total revenue	**13,095,926**	**67,136,002**	**(2,350,375)**	**77,881,553**
Operating income	**1,041,217**	**7,912,225**	**(2,260)**	8,951,182
Investment income				6,007,213
General corporate revenue				(271,642)
Interest expense				(2,453,542)
Income from continuing operations before income tax				**12,233,211**
Identifiable assets at end of year	**8,293,837**	**82,332,541**	**(256,663)**	90,369,715
Long-term equity investment				66,249,793
Other assets				22,863,634
Total assets at end of year				**179,483,142**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
DECEMBER 31, 2001, 2002, AND 2003
(expressed in thousands of New Taiwan dollars and US dollars except earnings per share information or unless otherwise stated)

	2003			
	North America	Republic of China	Adjustments and Eliminations	Consolidated
	NT$	NT$	NT$	NT$
Revenue from parties outside consolidated entities	11,444,084	84,996,926	—	96,441,010
Inter-consolidated entities' revenue	1,662,781	590,889	(2,253,670)	—
Total revenue	**13,106,865**	**85,587,815**	**(2,253,670)**	**96,441,010**
Operating income	**(42,365)**	**10,243,279**	**30,375**	10,231,289
Investment income				9,086,841
General corporate revenue				(502,512)
Interest expense				(2,241,897)
Income from continuing operations before income tax				**16,573,721**
Identifiable assets at end of year	**9,246,044**	**79,935,186**	**(273,754)**	88,907,476
Long-term equity investment				69,686,105
Other assets				32,461,070
Total assets at end of year				**191,054,651**

	2003			
	North America	Republic of China	Adjustments and Eliminations	Consolidated
	US$	US$	US$	US$
Revenue from parties outside consolidated entities	336,690	2,500,645	—	2,837,335
Inter-consolidated entities' revenue	48,920	17,384	(66,304)	—
Total revenue	**385,610**	**2,518,029**	**(66,304)**	**2,837,335**
Operating income	**(1,247)**	**301,362**	**894**	301,009
Investment income				267,339
General corporate revenue				(14,784)
Interest expense				(65,958)
Income from continuing operations before income tax				**487,606**
Identifiable assets at end of year	**272,022**	**2,351,727**	**(8,054)**	2,615,695
Long-term equity investment				2,050,195
Other assets				955,018
Total assets at end of year				**5,620,908**

(expressed in thousands of New Taiwan dollars and US dollars
except earnings per share information or unless otherwise stated)

(c) *Export sales*

Export sales in 2001, 2002 and 2003 are summarized as follows:

Geographic area	2001	2002	2003	
	NT$	NT$	NT$	US$
Asia	23,862,501	28,746,989	38,475,798	1,131,974

(d) *Major customers*

Year	Construction status	Sales Amount		Percentage	
		NT$	US$		
2001	Nan Ya Plastics Corp.	8,524,778	—	14.25%	Plastic and Engineering & Construction Divisions
2002	Nan Ya Plastics Corp.	9,663,109	—	14.71%	"
2003	Nan Ya Plastics Corp.	11,864,207	349,050	14.05%	"

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors
Nan Ya Plastics Corporation:

We have reviewed the accompanying nonconsolidated balance sheets of Nan Ya Plastics Corporation (the Company) as of March 31, 2003 and 2004, and the related nonconsolidated statements of income and cash flows for the three months then ended. All information included in these financial statements is the representation of the management of the Company. Our responsibility is to express an opinion on these financial statements based on our review. We did not review the financial statements of certain long-term investments carried on the equity method of accounting, which amounted to NT$10,730,705 thousand and NT$53,911,700 thousand as of March 31, 2003 and 2004, respectively, and the equity in net earnings of these investee companies amounted to NT$760,341 thousand and NT$3,235,404 thousand for the periods ended March 31, 2003 and 2004, respectively. The financial statements of the above-mentioned investee companies were audited or reviewed by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these companies, is based solely on the reports of the other auditors.

Except as mentioned in the third paragraph, we conducted our review in accordance with Republic of China Statement on Auditing Standards No. 36, "The Review of Financial Statements". A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As discussed in note 6, other than those stated in the first paragraph, we did not review the financial statements of certain long-term investments carried on the equity method, which amounted to NT$84,093,509 thousand and NT$21,962,554 thousand as of March 31, 2003 and 2004, respectively, and the equity in net earnings of these investee companies amounted to NT$1,302,870 thousand and NT$335,667 thousand for the periods ended March 31, 2003 and 2004, respectively. Nor were we able to satisfy ourselves as to the carrying value of the investments in these investee companies and the equity in their earnings by other review procedures.

Based on our reviews and the reports of other auditors, we are not aware of any material modifications that should be made to the nonconsolidated financial statements referred to in the first paragraph in order for them to be in conformity with accounting principles generally accepted in the Republic of China, except for the effects of such adjustments, if any, as might have been determined to be necessary had the investee companies' financial statements been reviewed as stated in the third paragraph.

The accompanying nonconsolidated financial statements as of and for the three months ended March 31, 2004, have been translated into United States dollars solely for the convenience of the readers. We have reviewed the translation, and in our opinion, the nonconsolidated financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(b) of the notes to the nonconsolidated financial statements.

Taipei, Taiwan (the Republic of China)
April 28, 2004

The accompanying unconsolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such unconsolidated financial statements are those generally accepted and applied in the Republic of China.

NAN YA PLASTICS CORPORATION

NONCONSOLIDATED BALANCE SHEETS
MARCH 31, 2003 AND 2004
(expressed in thousands of New Taiwan dollars and US dollars)
(Unaudited)

Assets	2003	2004	
	NTD	NTD	USD
Current assets:			
Cash and cash equivalents	$ 1,193,686	4,159,167	126,035
Short-term investments (notes 3, 18 and 21)	1,680,406	4,765,566	144,411
Notes receivable (less allowances for doubtful accounts of $47,877 and $15,586 on March 31, 2003 and 2004, respectively) (note 4)	4,508,397	4,158,006	126,000
Accounts receivable (less allowances for doubtful accounts of $106,377 and $100,957 on March 31, 2003 and 2004, respectively) (note 4)	13,207,883	14,653,559	444,047
Accounts receivable from related parties (notes 17 and 21)	2,731,523	3,198,673	96,930
Other receivables	609,687	551,957	16,726
Due from related parties (notes 17 and 21)	3,451,343	4,584,243	138,917
Inventories, net (note 5)	18,025,474	19,288,087	584,488
Prepayments	2,497,079	1,534,394	46,497
Deferred income tax assets (note 13)	1,663,525	3,106,666	94,141
Total current assets	49,569,003	60,000,318	1,818,192
Long-term equity investments (notes 6, 18 and 21)			
Accounted for by equity method	115,641,267	123,865,753	3,753,508
Accounted for by cost method	2,989,145	2,994,147	90,732
Total long-term equity investments	118,630,412	126,859,900	3,844,240
Property, plant and equipment (notes 7 and 18):			
Cost:			
Land	6,687,121	6,640,076	201,214
Buildings and building improvements	20,357,679	20,749,875	628,784
Machinery and equipment	80,248,924	83,673,995	2,535,576
Transportation equipment	1,432,415	1,428,173	43,278
Miscellaneous equipment	36,498,002	41,146,203	1,246,855
Revaluation increments	259,595	253,055	7,668
	145,483,736	153,891,377	4,663,375
Less: accumulated depreciation	(78,886,862)	(85,052,416)	(2,577,346)
Construction in progress	12,883,913	10,816,676	327,778
Advance payments for project and equipment	877,883	830,740	25,174
Net property, plant and equipment	80,358,670	80,486,377	2,438,981
Intangible assets:			
Deferred pension cost	701,578	2,222,533	67,349
Technical assistance costs	955,189	1,141,068	34,578
Total intangible assets	1,656,767	3,363,601	101,927
Other assets:			
Refundable deposits	61,199	69,893	2,118
Deferred expenses	1,370,288	1,512,973	45,848
Overdue accounts (note 4)	—	—	—
Deferred income tax assets (note 13)	6,640,977	4,194,946	127,119
Other miscellaneous assets (notes 7 and 18)	1,701,319	1,861,037	56,395
Total other assets	9,773,783	7,638,849	231,480
Total assets	$ 259,988,635	278,349,045	8,434,820

NAN YA PLASTICS CORPORATION

NONCONSOLIDATED BALANCE SHEETS — (Continued)
MARCH 31, 2003 AND 2004
(expressed in thousands of New Taiwan dollars and US dollars)
(Unaudited)

Liabilities and Stockholders' Equity	2003	2004	
	NTD	NTD	USD
Current liabilities:			
Short-term borrowings (note 8)	$ 2,514,839	224,594	6,806
Employees' savings (note 8)	212,066	169,696	5,142
Commercial paper payable (note 9)	839,610	—	—
Accounts payable	3,844,004	2,971,336	90,040
Accounts payable to related parties (notes 17 and 21)	5,008,068	6,091,792	184,600
Accrued expenses	5,713,290	5,988,013	181,455
Due to related parties (note 17)	2,689,300	1,048,000	31,758
Other payables (note 16)	145,790	225,281	6,827
Revenues received in advance	92,044	141,812	4,297
Current portion of long-term debt (notes 10 and 11)	12,248,970	8,741,365	264,890
Total current liabilities	33,307,981	25,601,889	775,815
Long-term liabilities			
Long-term debt (note 10)	47,683,822	41,914,058	1,270,123
Bonds payable (note 11)	24,270,000	40,674,800	1,232,570
Long-term due to related parties (note 17)	1,500,000	—	—
Total long-term liabilities	73,453,822	82,588,858	2,502,693
Other liabilities:			
Accrued pension liability	9,144,483	11,710,128	354,852
Guarantee deposit	1,384,696	1,157,078	35,063
Deferred inter-company profits	85,359	77,700	2,354
Other miscellaneous liabilities	343,029	547,068	16,578
Total other liabilities	10,957,567	13,491,974	408,847
Total liabilities	117,719,370	121,682,721	3,687,355
Stockholders' equity (note 14):			
Capital stock	62,144,795	65,873,483	1,996,166
Capital surplus	23,084,895	22,192,781	672,509
Legal reserve	12,202,435	13,582,086	411,578
Special reserve	16,464,462	18,362,171	556,429
Unappropriated retained earnings	23,199,364	33,474,325	1,014,374
Unrealized loss on long-term equity investment devaluation	(57,140)	(26,217)	(794)
Cumulative translation adjustments	5,255,687	3,233,448	97,983
Treasury stock (note 6)	(25,233)	(25,753)	(780)
Total stockholders' equity	142,269,265	156,666,324	4,747,465
Commitments and contingencies (note 19)			
Total liabilities and stockholders' equity	**$ 259,988,635**	**278,349,045**	**8,434,820**

See accompanying notes to non-consolidated financial statements.

NAN YA PLASTICS CORPORATION

NONCONSOLIDATED STATEMENTS OF INCOME
THREE-MONTH PERIODS ENDED MARCH 31, 2003 AND 2004
(expressed in thousands of New Taiwan dollars and US dollars, except earnings per share)
(Unaudited)

	2003	2004	
	NTD	NTD	USD
Operating revenues:			
Net sales (notes 17 and 21)	$ 28,084,341	36,042,097	1,092,185
Service revenues	143,647	120,739	3,659
Other	355,142	412,992	12,515
Total operating revenues	28,583,130	36,575,828	1,108,359
Operating costs (notes 17 and 21)	(23,467,097)	(29,091,103)	(881,549)
Gross profit	5,116,033	7,484,725	226,810
Unrealized inter-affiliate profit	(12,861)	(32,241)	(977)
Realized gross profit	5,103,172	7,452,484	225,833
Selling expenses	(1,009,099)	(1,175,954)	(35,635)
Administrative expenses	(1,473,522)	(1,456,471)	(44,135)
Total operating expenses	(2,482,621)	(2,632,425)	(79,770)
Operating income	2,620,551	4,820,059	146,063
Non-operating income:			
Interest income	32,335	39,948	1,211
Investment income under equity method	2,303,406	4,425,358	134,102
Dividend income	30	—	—
Gain on disposal of property, plant and equipment	840	36,431	1,104
Gain on disposal of investment	—	102,976	3,120
Foreign currency exchange gain	222,033	494,021	14,970
Other (note 16)	189,144	250,448	7,589
Total non-operating income	2,747,788	5,349,182	162,096
Non-operating expenses:			
Interest expenses	(771,980)	(577,712)	(17,506)
Investment loss under equity method	(700,938)	(73,727)	(2,234)
Other investment loss	—	(15,180)	(460)
Foreign currency exchange loss	(217,717)	(550,336)	(16,677)
Loss on disposal of property, plant and equipment	(812)	(4,587)	(139)
Other (note 16)	(91,028)	(102,782)	(3,115)
Total non-operating expenses	(1,782,475)	(1,324,324)	(40,131)
Net non-operating income	965,313	4,024,858	121,965
Income before income tax	3,585,864	8,844,917	268,028
Income tax benefit (expense) (note 13)	(34,970)	(167,513)	(5,076)
Net income	**$ 3,550,894**	**8,677,404**	**262,952**
Primary earnings per share (note 15)	**$ 0.54**	**1.32**	**0.04**

See accompanying notes to non-consolidated financial statements.

NAN YA PLASTICS CORPORATION

NONCONSOLIDATED STATEMENTS OF CASH FLOWS
THREE-MONTH PERIODS ENDED MARCH 31, 2003 AND 2004
(expressed in thousands of New Taiwan dollars and US dollars)
(Unaudited)

	2003	2004	
	NTD	NTD	USD
Cash flows from operating activities:			
Net income	$ 3,550,894	8,677,404	262,952
Adjustments:			
Depreciation	2,010,877	1,989,534	60,289
Amortization of technical assistance costs	54,400	62,385	1,890
Amortizations of deferred expenses	78,487	116,052	3,517
Unrealized profit from inter-affiliate transactions	12,861	32,241	977
Realized (unrealized) foreign currency exchange gain, net	(101,596)	72,645	2,201
Equity in net earnings of investee companies	(1,602,468)	(4,351,631)	(131,867)
Gain on sale of property, plant and equipment, net	(29)	(119,640)	(3,626)
Decrease in notes receivable	206,912	523,459	15,862
Decrease (increase) in accounts receivable and overdue accounts	(2,569,659)	377,639	11,444
Decrease (increase) in other receivables	(156,098)	33,262	1,008
Increase in inventories	(1,668,996)	(627,574)	(19,017)
Increase in prepayments	(1,131,864)	(3,206)	(97)
Increase in accounts payable	1,576,154	355,723	10,779
Decrease in accrued expenses	(344,815)	(338,617)	(10,261)
Increase (decrease) in other payables	(9,561)	66,445	2,013
Increase (decrease) in collections in advance	10,397	(43,260)	(1,311)
Increase in accrued pension liability	300,477	254,953	7,726
Decrease in deferred income tax assets	34,970	167,513	5,076
Subtotal	(3,299,551)	(1,432,077)	(43,397)
Net cash provided by operating activities	251,343	7,245,327	219,555
Cash flows from investing activities:			
Increase in long-term investments	(2,028,050)	(1,433,793)	(43,448)
Capital investment refund	1	—	—
Increase in short-term investments	(693)	(200,755)	(6,083)
Proceeds from sales of short-term investments	—	1,553,396	47,073
Proceeds from sales of long-term investments	—	195,211	5,915
Proceeds from sales of property, plant and equipment	2,210	296,357	8,981
Purchases of property, plant and equipment	(1,514,158)	(2,912,473)	(88,257)
Decrease (increase) in due from related parties	1,264,100	(1,824,400)	(55,285)
Increase (decrease) in refundable deposits	(5,055)	280	8
Increase in technical assistance costs	—	(382,110)	(1,181)
Increase in deferred expenses	(43,231)	(38,968)	(11,579)
Decrease (increase) in other miscellaneous assets	128,640	(181,920)	(5,513)
Net cash used in investing activities	(2,196,236)	(4,929,175)	(149,369)
Cash flows from financing activities:			
Increase (decrease) in due to related parties	1,868,400	(94,100)	(2,852)
Increase (decrease) in short-term borrowings	2,514,006	(541,401)	(16,406)
Increase (decrease) in commercial paper payable	839,610	(739,873)	(22,420)
Decrease in long-term debt	(2,950,653)	(3,176,832)	(96,268)
(Increase) decrease in bonds payable	(1,000,000)	4,106,080	124,427
Payment of cash dividends	(1,798)	(272)	(8)
Increase in guarantee deposits	673,603	530,869	16,087
Increase (decrease) in temporary collections	(165,230)	274,789	8,327
Net cash provided by financing activities	1,777,938	359,260	10,887
Effect of foreign currency exchange translation	3,370	(54,533)	(1,653)
Increase (decrease) in cash and cash equivalents	(163,585)	2,620,879	79,420
Cash and cash equivalents at beginning of period	1,357,271	1,538,288	46,615
Cash and cash equivalents at end of period	**$ 1,193,686**	**4,159,167**	**126,035**
Supplemental cash flow information:			
Interest paid (excluding interest capitalized)	**$ 663,764**	**540,006**	**16,364**
Income tax paid	**$ 22,215**	**17,645**	**535**

See accompanying notes to non-consolidated financial statements.

NAN YA PLASTICS CORPORATION

NOTES TO NONCONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2003 AND 2004
(All amount expressed in thousands of New Taiwan dollars and U.S. dollars except earnings per share information or unless otherwise stated)
(Unaudited)

(1) DESCRIPTION OF BUSINESS

Nan Ya Plastics Corp. (the Company) was incorporated on August 22, 1958, and established its factories in Kaohsiung City. The Company is engaged in the manufacture and sale of plastic products, chemical fibers, chemical products, dyeing products, printed circuit boards and their raw materials. The Company has gone through several capital increases and established many divisions. Currently, the Company has the following divisions: plastics, fiber, dyeing, plasticizer, printed circuit board, electronics and engineering. The Company has 13 plants across Taiwan and branch offices in Mai-Liao and Sen-Kong. It is the biggest plastics processing company in the world.

As of March 31, 2004 the Company had 15,398 employees in Taiwan.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency transactions and translations of foreign currency financial statements

The Company's functional and reporting currency is the New Taiwan dollar. Foreign currency transactions during the year are translated at the rates on the transaction dates. Foreign currency receivable and payable are translated into New Taiwan dollars at the market rate on the balance sheet date, and the resulting realized and unrealized gains or losses are recognized as non-operating income or expenses.

Exchange differences derived from the translation of the Company's foreign long-term investments are included in the stockholders' equity as cumulative translation adjustments. Foreign currency financial statements of foreign subsidiaries are translated into New Taiwan dollars at the exchange rates on the balance sheet dates, except for stockholders' equity accounts, which are translated at historical exchange rates, and revenue and expense accounts, which are translated at the weighted-average exchange rates during the reporting period.

(b) Convenience translation into U.S. dollars

The nonconsolidated financial statements are stated in New Taiwan dollars. Translation of the March 31, 2004 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of the readers, using the noon buying rate of the Federal Reserve Bank in New York on March 31, 2004, of NT$33.00 to US$1 uniformly for all the financial statements' accounts. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

(c) Short-term investments

Short-term investments are stated at the lower of aggregate cost or market value. Aggregate cost is determined by the weighted-average method. Market value is determined by averaging the closing prices of the last month of the accounting period. Losses resulting from decline in market value are recognized in the income statement of the current period. Stock dividends received are not recognized as investment income but are accounted for as an increase in the number of shares held. The cost per share after stock dividends is recalculated using the weighted-average method. For open-end mutual funds, the market value is the per unit net price at the balance sheet date.

(d) Allowance for doubtful accounts

Allowance for doubtful accounts and sales allowances are shown at their net realizable value and calculated based upon the Company's evaluation of the collectibility of notes and accounts receivable.

(e) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by using the monthly weighted-average method. Market value represents replacement cost or net realizable value.

(f) Long-term equity investments

Long-term investments in listed equity securities that represent less than 20% of the investee's common stock ownership, and where the Company does not have significant influence on the investees, are stated at the lower of cost or market value. Unrealized loss resulting from decline in market value thereon is recorded as a reduction in stockholders' equity.

Long-term investments in non-listed equity securities are stated at cost. When there is evidence showing that a decline in the market value of such an investment is other than temporary and the probability of recovery is considered remote, the carrying value of the investment is reduced to reflect the market value and the resulting loss is recognized in the period of such a reduction. Stock dividends are not recognized as investment income but are booked as an increase in the number of shares held. The cost of long-term equity investment sold is calculated based on the weighted-average method.

Investments where the percentage of ownership exceeds 20%, or where the Company has significant influence on the operating and financial policies of the investee companies, are accounted for by the equity method. The audited financial statements should be based on applying the equity method if the balance of the investee's issued share capital exceeds or equals NT$30,000 or if the balance of the investee's operating revenue exceeds or equals NT$50,000 or 10% of the Company's corresponding account' balance. The difference between the cost of an investment and the amount of underlying equity in net assets of an investee is amortized by using the straight-line method over five years.

The Company recognizes concurrently its equity in the earnings and losses of a more than 20%-owned equity-method investee company if such an investee is more than 50% owned, or is less than 50% owned but meets all the criteria set out below:

(i) The beginning owners' equity of such an investee is in excess of NT$50,000, and is in excess of 5% of the Company's beginning issued share capital.

(ii) The Company is among the top three shareholders in terms of the holding percentage of such an investee, or the president or general manager of such an investee is nominated by the Company.

(iii) The Company owns more than 30% of such investee, or the combined holding percentage of such investee as held by the Company, the Company's directors, supervisors, executive officers, and other entities controlled directly or indirectly by the Company is in excess of 50%.

The Company defers the recognition of its equity in the net earnings or losses of those nonsubsidiary investee companies who do not meet all the criteria referred to above, based on the Company's average holding percentage in such investee companies during the preceding period, and based on the audited financial statements of such investee companies during the preceding period.

When the Company owns more than 50% of an investee's common stock, the investee is treated as a subsidiary and included in the consolidated financial statements. Never the less if both the subsidiary's total assets and operating revenue are below 10% of the Company's respective account balances, consolidated financial statements are not required. However, if the total assets and operating revenue of all unconsolidated subsidiaries are over 30% of the Company's respective account balances, consolidation is still required for any subsidiaries whose total assets and operating revenue are more than 3% of the Company's respective account balances.

Gain or loss on disposal of long-term equity is recognized as an investment income or loss. Unrealized profit or losses from transactions between the Company and investees or subsidiaries are eliminated. Unrealized gains or losses resulting from depreciable or amortizable assets are recognized yearly over the respective useful lives of the related assets. However, the gains or losses will be recognized in the year of realization if the unrealized gains or losses result from non-depreciable assets.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost except for the Company's equipment that was revalued on December 31, 1974 and 1982. The cost plus revaluation increments less accumulated depreciation is the net book value.

Gains on disposal of property, plant and equipment are recorded as non-operating income. Losses on the disposal of property, plant and equipment are recorded as non-operating expenses. Interest on borrowings obtained to finance the acquisition or construction of property, plant and equipment is capitalized. Maintenance and repairs are expensed when incurred, while major additions, improvements and replacement expenditures are capitalized.

Depreciation of the Company's copper-clad laminates equipment located in the Shu-Lin plant acquired before December 31, 1988, and equipment located in the Sixth Naphtha Cracker complex is provided over the estimated useful lives of the equipment by using the straight-line method. Depreciation of property, plant and equipment of the Company's other divisions and plants is calculated on the fixed-percentage-on-declining-balance method. Assets that are still in service after reaching the end of their estimated useful lives are depreciated over their re-estimated useful lives.

(h) Technical assistance costs

Technical assistance costs principally represent payments made to technology institutions that provide technical assistance. The costs are deferred and amortized over their estimated economic lives by using the straight-line method.

(i) Deferred expenses

Deferred expenses are stated at cost and primarily consist of bond issuance costs, electrical expenses, catalyst and patents. These costs are amortized over their estimated useful lives.

(j) Commercial paper payable

Commercial paper payable is recorded at maturity value less discount.

(k) Retirement benefits

In compliance with the ROC Labor Standards Law, the Company has established employee benefit pension plans for its regular employees. The Company previously funded the retirement fund monthly based on 4% of the paid salaries and wages. The funds are deposited with the Central Trust of China. After either working for a certain number of years, reaching a certain age, or becoming disabled, an employee may apply for retirement. The Company will then pay retirement benefits according to the average salary for the six months before retirement and based on the points accumulated according to years of service. Each employee gets 2 points for each service year from year 1 to year 15, and 1 point thereafter. A lump-sum retirement benefit will be paid through the retirement fund.

The Company adopted ROC Statement of Financial Accounting Standards (“SFAS”) No. 18, “Accounting for Pensions”, for the plan. SFAS No. 18 requires that the Company calculate actuarial pension liability using the balance sheet date as the measurement date. The amount of accumulated benefit obligation in excess of fair value of pension plan assets is deemed the minimum pension liability and is to be recognized as accrued pension liability.

(l) Income tax

The Company applies Republic of China Statement of Financial Accounting Standards No. 22, “Accounting for Income Taxes” (ROC SFAS No. 22). Income taxes are accounted for using the asset and liability method. Deferred income taxes are determined based on differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, loss carryforwards and investment tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly.

Classification of the deferred income tax assets or liabilities as current or non-current is based on the classification of the related asset or liability. If a deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the expected realization date of such deferred income tax asset or liability.

According to the ROC Income Tax Law, the Company's undistributed income, if any, is subject to an additional 10% retained earnings tax. The surtax is charged to income tax expense after the appropriation of earnings is approved by the stockholders in the following year.

The Company applied SFAS No. 23, "Interim Financial Reporting and Disclosures", for its accounting treatment of income tax in preparing interim financial statements. According to SFAS No. 23, deferred income tax assets and liabilities are required to be recognized, and interperiod income tax allocations are also required for interim financial statements.

(m) Treasury stock

Effective on January 1, 2002, the Company's issued common stock held by its subsidiaries is considered as the Company's treasury stock in accordance with ROC SFAS No. 30, "Accounting for Treasury Stock". SFAS No. 30 also prescribes that previous years' financial statements are not required to be restated and no prior period retroactive adjustment is required.

(n) Earnings per share

The computation of primary earnings per share is based on the weighted-average number of outstanding common shares.

The computation of fully diluted earnings per share is based on the abovementioned weighted-average number of outstanding common shares, plus the projected weighted-average number of common shares which might have been issued on the conversion of all the outstanding non-common stock equivalent securities that have diluting effect.

Stock dividends through recapitalization of unappropriated earnings and capital surplus are included in the computation of number of outstanding shares. Earnings per share are retroactively adjusted for stock dividend issuance.

(o) Derivatives

(i) *Foreign exchange forward contracts*

Foreign exchange forward contracts entered into for the purpose of hedging the risks of exchange rate fluctuation on foreign currency receivables and payables are translated into New Taiwan dollars using year-end exchange rates. The resulting translation difference is recorded as an exchange gain or loss in the accompanying nonconsolidated statements of income. The difference between the forward rate and spot rate at the contract date is amortized over the contract period.

(ii) ***Interest rate swap contracts***

Interest rate swap contracts entered into for hedging purposes were only recorded in a memo account on contract signing date, since no principal is transferred. Any interest income or expense resulting from rate differences is measured on the balance sheet date and settlement dates, and is reflected in the accompanying nonconsolidated statements of income. Moreover, the related interest receivable or payable resulting from the contract interest rate and market interest rate on the balance sheet date and settlement dates, is treated as an adjustment for the hedging assets' or liabilities' interest income or expense.

(iii) ***Cross currency swaps (CCSs)***

The Company enters into cross currency swaps in order to meet the need for different currencies. The current portion of foreign assets and liabilities is recognized at the contract date spot rate. The long-term portion is recognized at the contract forward exchange rate. The spread between the spot and forward rate is amortized over the contract period as income or expenses.

(iv) ***Foreign currency options contracts***

Foreign currency option contracts entered into for non-trading purposes are not recognized as assets or liabilities on the contract signing date. The difference derived from the exercising the option is recognized as foreign exchange gain or loss in the accompanying nonconsolidated statement of income. The fee paid (received) from acquisition (sales) of an option should be amortized over the contract period, and recognized as current period income or expense.

(p) Revenue is recognized when products are delivered to customers and the significant risks and rewards of ownership are transferred.

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars
except earnings per share information or unless otherwise stated)

(3) SHORT-TERM INVESTMENTS

As of March 31, 2003 and 2004, short-term investments consisted of the following:

	2003		2004			
	Book value	Market value	Book value		Market value	
	NT$	NT$	NT$	US$	NT$	US$
Stock	1,680,406	11,135,775	1,681,161	50,944	15,169,037	459,668
Overseas funds	—	—	3,084,405	93,467	3,009,799	91,206
	1,680,406	**11,135,775**	**4,765,566**	**144,411**	**18,178,836**	**550,874**

Short-term investments pledged to banks as collateral for loans as of March 31, 2003 and 2004, are described in note 18.

(4) NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

As of March 31, 2003 and 2004, the amounts of notes receivable and accounts receivable that were overdue or under legal proceedings totaled NT$226,747 and NT$228,271, respectively. Such receivables were reclassified as overdue accounts and provided with full valuation allowance.

(5) INVENTORIES

As of March 31, 2003 and 2004, inventories consisted of the following:

	2003	2004	
	NT$	NT$	US$
Finished goods	4,486,404	4,950,924	150,028
Work in process	3,166,391	3,744,570	113,472
Machinery and accessories in process	2,055,279	3,091,165	93,672
Raw materials	5,290,537	5,382,717	163,113
Supplies	1,987,363	1,658,199	50,248
Consigned-out raw materials	133,973	99,291	3,009
Consigned-out finished goods	18,368	9,120	276
Goods in transit	887,159	352,101	10,670
Less: allowance for inventory devaluation	—	—	—
	18,025,474	**19,288,087**	**584,488**

Inventories have been insured against fire loss. Total insurance coverage amounted to NT$16,105,798 and NT$16,105,798 as of March 31, 2003 and 2004, respectively.

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars
except earnings per share information or unless otherwise stated)

(6) LONG-TERM EQUITY INVESTMENTS

As of March 31, 2003 and 2004, long-term equity investments consisted of the following:

	2003		2004		
Investee	NT$	% of ownership	NT$	US$	% of ownership
Equity method:					
Nan Ya Plastics Corp., U.S.A.	2,788,659	100.00	2,876,694	87,173	100.00
Nan Ya Plastics Corp., America	14,272,966	100.00	14,743,780	446,781	100.00
Nan Ya Plastics (H.K.) Co., Ltd.	11,591,687	99.99	14,089,688	426,960	99.99
Superior World Wide Trading Company	363,653	99.99	394,561	11,956	99.99
PFG Fiber Glass (H.K.) Co., Ltd.	716,153	50.00	647,482	19,621	50.00
Formosa Industries Corp.	1,381,182	42.50	2,231,935	67,635	42.50
Nan Ya Printed Circuit Board Corp.	7,409,750	89.11	7,889,894	239,088	89.11
Formosa Plastics Group Investment Corp.	162,390	100.00	139,483	4,227	100.00
Nan Ya Technology Corp.	20,805,975	50.13	22,603,122	684,943	44.90
Nan Ya Photonics Inc.	—	—	98,906	2,997	50.00
Formosa Environmental Protection Technology Corp.	26,512	50.43	237,649	7,201	24.34
Flexus Specialty Ltd.	18,573	99.00	13,499	409	100.00
Formosa Petrochemical Corp.	35,718,186	26.90	38,967,323	1,180,828	26.23
PFG Fiber Glass Corp.	1,842,797	49.99	1,916,052	58,062	50.00
Yue-Chi Industry Co., Ltd.	3,375	49.99	—	—	—
Nan Chung Petrochemical Corp.	896,988	50.00	932,101	28,246	50.00
Wen Fung Industrial Co., Ltd.	60,091	49.99	56,460	1,711	49.99
Formosa Automobile Corp.	465,806	45.00	426,991	12,939	45.00
Ya Tai Development Co.	15,662	34.97	20,562	623	34.97
Formosa Heavy Industries Corp.	3,041,077	32.91	3,099,633	93,928	32.91
Formosa Fairway Corp.	97,179	33.32	89,411	2,710	33.34
Formosa Plastics Group Management Consultants Corp.	568	33.30	572	17	33.30
Formosa Plastics Transportation Corp.	347,513	33.33	402,758	12,205	33.33
Hwa Ya Science Park Management Consulting Co., Ltd.	690	34.00	707	22	34.00
Yi-Jih Construction Co.,	109,237	29.22	105,368	3,193	29.22
Mai Liao Power Corporation.	8,199,782	24.94	8,596,116	260,488	24.94
Su-Hua Transport Corp.	49,285	25.00	51,558	1,562	25.00
Subtotal	110,385,736		120,632,305	3,655,525	
Lower-of-cost-or-market-value method:					
Ta-Chong Bank	333,330	3.17	241,245	7,311	2.28
First Insurance Corp.	215	0.01	—	—	—
Subtotal	333,545		241,245	7,311	

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars except earnings per share information or unless otherwise stated)

	2003		2004		
Investee	NT$	% of ownership	NT$	US$	% of ownership
Cost method:					
Formosa Plastics Marine Corp.	856,948	19.00	856,948	25,968	19.00
Ampere Industrial Co., Ltd.	33,127	18.00	33,127	1,004	18.00
Blue Photonics Inc.	—	—	66,586	2,018	14.28
Sequoia Bancshares, Inc.	51	3.58	—	—	—
Formosa Plastics Corp., U.S.A.	141,379	0.61	141,379	4,284	0.61
Formosa Plastics Maritime Corp.	1,620	18.00	1,620	49	18.00
Formosa Plastics Development Corp.	90,010	18.00	90,010	2,728	18.00
Mai Liao Harbor Administration Corp.	539,245	17.98	539,245	16,341	17.98
Formosa Plastics Marine Corp.	15,000	15.00	15,000	454	15.00
Asia Pacific Investment Co., Ltd.	727,407	14.99	727,407	22,043	14.99
Formosa Network Technology Corp.	13,331	12.50	13,331	404	12.50
WK Technology Fund Corp.	57,753	1.63	57,753	1,750	1.63
WK Technology Fund IV Corp.	26,800	1.08	26,800	812	1.08
Central Leasing International Corp.	14,425	1.07	14,425	437	1.07
China Television Service	28,609	0.89	28,609	867	0.89
China-Canada Investment & Development Co., Ltd.	8,250	0.80	8,250	250	0.80
Taiwan Aerospace Corp.	41,250	0.78	41,250	1,250	0.78
Gala Television Corp.	91,162	6.25	91,162	2,762	6.25
Subtotal	2,686,367		2,752,902	83,421	
Cumulative translation adjustments:					
Nan Ya Plastics Corp., U.S.A.	475,062		310,836	9,419	
Nan Ya Plastics Corp., America	3,648,168		2,746,070	83,214	
Nan Ya Plastics (H.K.) Co. Ltd.	1,084,474		372,999	11,303	
Superior World Wide Trading Company	(48,821)		(44,002)	(1,333)	
PFG Fiber Glass (H.K.) Co., Ltd.	65,198		(23,394)	(709)	
Formosa Industries Corp.	335		(138,582)	(4,199)	
Nan Ya Technology Corp.	11,079		12,914	391	
Formosa Heavy Industries Corp.	2,819		889	27	
Nan Ya Printed Circuit Board Corp.	17,373		(4,282)	(130)	
Subtotal	5,255,687		3,233,448	97,983	
Unrealized LCM loss on long-term equity investment					
Ta-Chong Bank	(30,767)		—	—	
Flexus Specialty, Ltd.	(156)		—	—	
Subtotal	(30,923)		—	—	
Total long-term equity investments, net	**118,630,412**		**126,859,900**	**3,844,240**	

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars
except earnings per share information or unless otherwise stated)

(a) The original investment cost of equity-method long-term investments as of March 31, 2003 and 2004, is summarized as follows:

Investee	2003	2004	
	NT$	NT$	US$
Nan Ya Plastics Corp., U.S.A.	313,920	313,920	9,513
Nan Ya Plastics Corp., America	7,853,605	7,853,605	237,988
Nan Ya Plastics (H.K.) Co. Ltd.	11,128,632	13,542,761	410,387
Superior World Wide Trading Company	33,677	33,677	1,021
PFG Fiber Glass (H.K.) Co., Ltd.	721,227	721,227	21,855
Formosa Industries Corp.	1,384,659	2,262,255	68,553
Nan Ya Printed Circuit Board Corp.	5,139,818	5,139,818	155,752
Formosa Plastics Group Investment Corp.	76,859	76,859	2,329
Nan Ya Technology Corp.	25,939,254	25,939,254	786,038
Formosa Environmental Protection Technology Corp.	60,500	245,515	7,440
Flexus Specialty, Ltd.	134,006	134,639	4,080
Formosa Petrochemical Corp.	28,146,674	27,445,947	831,695
PFG Fiber Glass Corp.	500,000	500,000	15,152
Yue-Chi Industry Co., Ltd.	45,234	—	—
Nan Chung Petrochemical Corp.	1,000,002	1,000,002	30,303
Wen Fung Industrial Co., Ltd.	15,964	15,964	484
Formosa Automobile Corp.	675,020	675,020	20,455
Ya Tai Development Co.	10,147	10,147	307
Formosa Heavy Industries Corp.	2,497,721	2,497,721	75,688
Formosa Fairway Corp.	33,320	33,340	1,010
Formosa Plastics Group Management Consultants Corp.	333	333	10
Formosa Plastics Transportation Corp.	17,254	17,254	523
Hwa Ya Science Park Management Consulting Co., Ltd.	359	359	11
Yi-Jih Construction Co.	58,000	58,000	1,758
Mai Liao Power Corporation.	5,985,465	5,985,465	181,378
Su-Hua Transport Corp.	50,000	50,000	1,515
Nan Ya Photonics Inc.	—	99,990	3,030
Total	91,821,650	94,653,072	2,868,275

(b) Pursuant to the ROC "Regulations Governing the Preparation of Financial Statements of Issuers of Securities," the accounting treatment for long-term equity investments where the percentage of ownership exceeds 20% is as follows:

(i) Percentage of ownership exceeds 50%

The investment income or losses for the three-month periods ended March 31, 2003 and 2004, have been recognized by using the equity method.

(ii) Percentage of ownership ranging between 20% and 50%

The Company recognized its equity in net earnings or losses of Nan Ya Technology Corp., PFG Fiber Glass (H.K.) Co., Ltd, Formosa Environmental Protection Technology Corp., Nan Ya Photonics Inc., Formosa Petrochemical Industries Corp., PFG Fiber Glass Corp., Nan Chung Petrochemical Corp and Formosa Heavy Industries Corp. based on the concurrent financial statements, and deferred the recognition of its equity in net earnings or losses of the other investee companies to the following year because of the unavailability of their concurrent financial statements. The equity in net earnings or losses of the investee companies recognized on a one-year lag basis is calculated using the Company's average holding percentage in the period that corresponds to the period of the investee company's financial statements.

(c) The translation differences of subsidiaries denominated in foreign currencies were accounted for as cumulative translation adjustment.

(d) The unrealized gain resulting from the Company's depreciable assets sold to equity-method investee companies, such as Nan Ya Plastics Corporation, U.S.A., Nan Ya Plastics Corp., America, Nan Ya Printed Circuit Board Corp., Nan Ya Technology Corp., Formosa Petrochemical Corp., PFG Fiber Glass Corp., Formosa Heavy Industries Corp., Mai Liao Power Corp., Nan Chung Petrochemical Corp., Formosa Plastics Transportation Corp., and Formosa Automobile Corp., was recognized over the remaining useful lives of the respective assets. The same accounting treatment is applied to the situation in which depreciable assets of equity method investees are sold to the Company.

(e) The Company's board of directors in a meeting held in April 1994 resolved to increase the capital of Nan Ya Plastics (H.K.) Co., Ltd. The increase in capital will be used to invest in Mainland China. For the three-month periods ended March 31, 2003 and 2004, the Company had already remitted US$22,800 and US$28,300, respectively, equivalent to NT$789,756 and NT$941,724, respectively, to the subsidiary. The investment has been approved by the ROC Ministry of Economic Affairs.

(f) As of March 31, 2003 and 2004, the market values of the Company's long-term equity investments accounted for by the lower of cost or market value, Ta Chong Bank and First Insurance Corp., amounted to NT$302,778 and NT$367,298, respectively; and the total unrealized loss on devaluation of the said two investees amounted to NT$30,767 and NT$0, respectively. The Company's equity-method investee Flexus Specialty Ltd. held issued shares of listed companies and recognized unrealized devaluation loss on March 31, 2003 and 2004; and the corresponding recognition made by the Company based on the Company's holding percentage in Flexus Specialty, Ltd. amounted to NT$156 and NT$0 on March 31, 2003 and 2004, respectively, recorded as unrealized devaluation loss under stockholders' equity.

(g) As of March 31, 2003 and 2004, the Company owned 99% and 100%, respectively, of the shares of investee Flexus Specialty, Ltd., which owned 1,068,930 shares and 1,133,065 shares, respectively, of the Company's issued common stock. The average book values were NT$48.62 dollars and NT$45.87 dollars per share, respectively. In compliance with ROC SFAS No. 30, the Company recognized the shares held by the subsidiary as treasury stock, which amounted to NT$25,753.

(h) As of March 31, 2003 and 2004, the fifteen investees under the equity method were Nan Ya Plastics Corp. U.S.A., Nan Ya Plastics Corp., America, Nan Ya Plastics (H.K.) Co., Ltd., PFG Fiber Glass (H.K.) Co., Ltd., Superior World Wide Trading Company, Formosa Plastics Group Investment Corp., Nan Ya Printed Circuit Board Corp., Nan Ya Technology Corp., Formosa Environmental Protection Technology Corp., Flexus Specialty Ltd., Formosa Petrochemical Corp., PFG Fiber Glass Corp., Formosa Heavy Industries Corp., Nan Chung Petrochemical Corp. and Nan Ya Photonics Inc..

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The ending balance of long-term investments in Nan Ya Technology Corp., Nan Ya Printed Circuit Board Corp., Formosa Petrochemical Corporation, Nan Ya Plastics Corp. America, and Formosa Heavy Industries Corporation amounted to NT$90,059,343 as of March 31, 2004, and the Company recognized investment gain amounting to NT$3,115,292 for the three-month period ended March 31, 2004, based on the CPA-reviewed financial statements.

The ending balance of long-term investment in Formosa Petrochemical Corporation and Formosa Heavy Industries Corporation amounted to NT$42,067,844 as of March 31, 2004, and the Company recognized investment gain amounting to NT$2,334,732 for the three-month period ended March 31, 2004, according to the financial statements reviewed by CPAs other than KPMG.

The long-term investment in other investees under the equity method amounted to NT$84,093,509 and NT$21,962,554 as of March 31, 2003 and 2004, respectively, and the Company recognized investment gain amounting to NT$1,302,870 and NT$335,667 for the three-months periods ended March 31, 2003 and 2004, respectively. The financial statements of these investees were not audited or reviewed by CPAs.

(i) The Company recognized its previous year equity in the earnings and losses of 20%–50% owned equity method investees if the Company could not retrieve the financial statements in time. The ending balance amounted to NT$10,730,705 and NT$11,843,855 as of March 31, 2003 and 2004, respectively. The Company recognized investment revenue, according to the previous years' financial statements reviewed by other CPAs, amounting to NT$760,341 and NT$900,671 for the three-month periods ended March 31, 2003 and 2004, respectively.

(j) Long-term investments pledged to banks or courts as collateral for loans and lawsuits as of March 31, 2003 and 2004, are described in note 18.

(7) PROPERTY, PLANT AND EQUIPMENT

(a) Except for land, the property, plant and equipment of the Company were revalued on December 31, 1974, and December 31, 1982. The balance of the revaluation increments as of March 31, 2003 and 2004, was as follows:

	2003	2004	
	NT$	NT$	US$
Machinery and equipment	187,604	181,691	5,506
Miscellaneous equipment	71,991	71,364	2,162
	259,595	253,055	7,668

(b) The property, plant and equipment pledged to secure bank loans as of March 31, 2003 and 2004, are described in note 18.

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars
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(c) Insurance coverage as of March 31, 2003 and 2004, amounted to $83,522,154 and $94,751,594, respectively. In addition, all the construction in progress of the Company is insured, and the insurance coverage as of March 31, 2003 and 2004, amounted to $5,660,533 and $4,739,185, respectively.

(d) The advance payment for equipment included relocation and compensation payments to fishermen in the Mai-Liao area, where the Company plans to construct its Sixth Naphtha Cracker project. The compensation payments amounted to NT$640,516 and NT$648,209 as of March 31, 2003 and 2004, respectively, and will be reclassified as cost of the land after the Company acquires the industrial land from the government.

(e) For the three-month periods ended March 31, 2003 and 2004, the capitalized interest on the borrowings for the purchase of the property, plant and equipment of the Company amounted to NT$70,997 and NT$54,817, respectively.

(f) The components of the Company's other miscellaneous assets, which were assets transferred from property, plant and equipment as of March 31, 2003 and 2004, were as follows:

	2003	2004	
	NT$	**NT$**	**US$**
Property held for leasing, net	1,071,290	1,109,153	33,611
Land located in Lin Kou industrial zone (including development cost)	501,153	462,309	14,009
Property held for future use, net	126,581	102,899	3,118
	1,699,024	**1,674,361**	**50,738**

The land located in the Lin Kou industrial zone, is owned by the Company and has a total area of 351,174 square meters and has been earmarked by the government to be used for specialized electronic and information industries. The Company engaged Ya Tai Development Corp. to develop and partition the land. The Company also engaged WK Technology Fund Corp. to sell the land. For the three-month periods ended March 31, 2003 and 2004, the gain derived from sale of land recognized by the Company amounted to NT$0 and NT$27,821, respectively. As of March 31, 2003 and 2004, the Company had already received NT$45,122, for the sale of the land, and the amounts were accounted for as revenues received in advance in the balance sheets.

Property held for leasing represents the Company's "Formosa Plastics Edifices" real estate, Lin Kou plant, and Jing Hsin plant that were leased to other parties. Property held for future use represents the Company's dormant plant facilities in Chien Chen and Lin Yuan.

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars
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(8) SHORT-TERM BORROWINGS AND EMPLOYEES' SAVINGS

As of March 31, 2003 and 2004, short-term borrowings and employees' savings consisted of the following:

	2003	2004	
	NT$	NT$	US$
Usance letters of credit	214,839	224,594	6,806
Credit loans	2,300,000	—	—
	2,514,839	224,594	6,806
Employees' savings	212,066	169,696	5,142

(a) For the three-month periods ended March 31, 2003 and 2004,the interest rates on short-term borrowings and employees' savings ranged from 1.32% to 1.875% and from 1.02% to 1.05%, respectively.

(b) The assets pledged for the above borrowings are described in note 18.

(9) COMMERCIAL PAPER PAYABLE

Commercial paper payable as of March 31, 2003 and 2004, was as follows:

	2003			2004	
	NT$	Interest rate	NT$	US$	Interest rate
Commercial paper payable	840,000	0.99%~1.10%	—	—	—
Less: discount	(390)		—	—	
	839,610		—	—	

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(10) LONG-TERM DEBT

Long-term debt as of March 31, 2003 and 2004, was as follows:

				2003	2004	
Bank	Repayment period	Nature	Interest rate	Loan balance	Loan balance	
				NT$	NT$	US$
Chiao Tung Bank	November 5, 1997~November 5, 2012. Five years after the first appropriation date, pay the first installment; the rest of the principal is to be repaid semiannually in 20 installments after the first repayment.	Machinery loan	2.525%	1,020,200	900,980	27,302
Chiao Tung Bank	December 5, 1997~December 5, 2012. Five years after the first appropriation date, pay the first installment; the rest of the principal is to be repaid semiannually in 20 installments after the first repayment.	Machinery loan	2.525%	1,604,000	1,424,000	43,152
Chiao Tung Bank	December 27, 1996~December 27, 2011. Five years after the first appropriation date, pay the first installment; the rest of the principal is to be repaid semiannually in 20 installments after the first repayment.	Machinery loan	2.525%	2,808,000	2,496,000	75,636
Chiao Tung Bank	September 22, 1997 ~September 22, 2012. Five years after the first appropriation date, pay the first installment; the rest of the principal is to be repaid semiannually in 20 installments after the first repayment.	Machinery loan	1.9375%	5,266,710	4,448,454	134,802
Chiao Tung Bank	March 24, 1999 ~March 24, 2014. Five years after the first appropriation date, pay the first installment; the rest of the principal is to be repaid semiannually in 20 installments after the first repayment.	Machinery loan	2.525%	2,623,000	2,498,000	75,697
Chiao Tung Bank	December 22, 2000 ~December 22, 2010. Principal is to be repaid every January, April, July and October in 40 installments starting in 2001.	Machinery loan	3.00%	227,850	198,450	6,014

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars
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Bank	Repayment period	Nature	Interest rate	2003 Loan balance	2004 Loan balance	
				NT$	NT$	US$
Asia Trust and Investment Corporation	December 29, 2000~January 29, 2004. Principal due on maturity.	Unsecured loan	2.10%	295,000	140,000	4,242
Nan Shan Insurance Company	November 16, 1997~November 27, 2004. Principal due on maturity.	Secured loan	5.00%	5,000,000	—	—
Taishin International Bank	October 15, 2001~October 15, 2003. Principal due on maturity.	Secured loan	1.79%	930,000	930,000	28,182
ShinKong Life Insurance Company	December 27, 2001~December 27, 2004. Principal due on maturity.	Secured loan	2.95%	3,700,000	3,700,000	112,121
Taiwan Cooperative Bank	December 08, 1999~December 08, 2005. Principal due on maturity.	Secured loan	2.625%	4,000,000	4,000,000	121,212
First Commercial Bank	December 15, 1999~December 15, 2005. Principal due on maturity.	Secured loan	2.625%	5,000,000	5,000,000	151,515
Taipei Bank	December 29, 1999~December 29, 2005. Principal due on maturity.	Secured loan	2.75%	3,850,000	3,850,000	116,667
Farmers Bank	August 29, 2001~August 29, 2006. Principal is to be repaid in 6 semi-annual installments starting on August 29, 2003.	Secured loan	2.60%	3,000,000	2,500,000	75,758
Bank of Taiwan	September 10, 2001~September 10, 2006. Principal is to be repaid in 6 semi-annual installments starting on September 10, 2003.	Secured loan	2.80%	8,000,000	6,616,667	200,505
China Development Industrial Bank	September 10, 2001~September 10, 2004. Principal is to be repaid in 3 semi-annual installments, NT$500,000, NT$500,000, NT$1,000,000 for each installment, starting on September 10,2003.	Secured loan	2.55%	2,000,000	1,000,000	30,303

NOTES TO NONCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
MARCH 31, 2003 AND 2004
(All amount expressed in thousands of New Taiwan dollars and U.S. dollars except earnings per share information or unless otherwise stated)
(Unaudited)

Bank	Repayment period	Nature	Interest rate	2003 Loan balance	2004 Loan balance	
				NT$	NT$	US$
Industry Bureau of the Ministry of Economic Affairs. .	September 4, 2001~October 1, 2004. Principal is to be repaid in 8 quarterly installments starting on December 31, 2002.	Development of new products	—	9,032	3,872	117
Taiwan Cooperative Bank	August 23, 2004~May 23, 2009. Principal is to be repaid in 20 quarterly Starton May 23, 2004.	Secured loan	2.55%	829,000	829,000	25,121
International Bank of Taipei	December 24, 2002~December 24, 2004. Principal due on maturity.	Secured loan	1.80%	750,000	900,000	27,273
Taiwan Bank	December 29, 2003~December 29, 2008 Principal is to be repaid every year in 2 installments, starting on December 29, 2007	Secured loan	2.1842%	—	3,200,000	96,970
Bank of Overseas Chinese	June 26, 2003~June 26, 2008 Principal due on maturity	Secured loan	2.3158%	—	500,000	15,151
Industrial Bank of Taiwan	June 26, 2003~June 26, 2008 Principal due on maturity	Secured loan	2.3158%	—	2,000,000	60,606
Taiwan Cooperative Bank	June 27, 2003~May 23, 2009 Principal is to be repaid quarterly starting on June 27, 2005	Secured loan	2.55%	—	1,000,000	30,303
				50,912,792	48,135,423	1,458,649
Less: current portion				(3,228,970)	(6,221,365)	(188,526)
Long-term debt, excluding current portion.				**47,683,822**	**41,914,058**	**1,270,123**

(a) The assets pledged for long-term debt are described in note 18.

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars
except earnings per share information or unless otherwise stated)

(b) Long-term debt as of March 31, 2004, will be repaid in the following periods:

Periods	Total long-term debt amounts (including US currency loans)	US currency-denominated debts
	NT$	US$
April 1~March 31, 2005	6,221,366	16,840
April 1~March 31, 2006	19,196,443	16,840
April 1~March 31, 2007	8,455,610	16,840
April 1~March 31, 2008	3,462,277	16,840
After April 1, 2008	10,799,727	67,360
	48,135,423	**134,720**

(c) In order to raise capital for the Sixth Naphtha Cracker project and the construction of related factories, the Company signed a syndicated long-term mortgage loan agreement with the Chiao Tung Bank, the managing bank of the syndicated loan, and other banks on April 28, 1994. The details of the loan are as follows:

(i) Credit line: NT$15,300,000 (including NT$9,400,000 and US$227,000).

(ii) Interest rate: as settled with each participating bank.

(iii) Period: 10 to 15 years.

(iv) Collateral: the acquired land, buildings and machinery financed by the loan.

As of March 31, 2004, NT$8,992,000 and US$177,000 of the credit line had been drawn.

(11) BONDS PAYABLE

Bonds payable as of March 31, 2003 and 2004, were as follows:

	2003	2004	
	NT$	NT$	US$
Domestic unsecured nonconvertible corporate bonds	30,750,000	33,750,000	1,022,727
Domestic secured nonconvertible corporate bonds	2,540,000	1,520,000	46,061
Overseas exchangeable bonds	—	7,924,800	240,146
Subtotal	33,290,000	43,194,800	1,308,934
Less: current portion	(9,020,000)	(2,520,000)	(76,364)
Bonds payable, excluding current portion	**24,270,000**	**40,674,800**	**1,232,570**

NOTES TO NONCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
MARCH 31, 2003 AND 2004
(All amount expressed in thousands of New Taiwan dollars and U.S. dollars except earnings per share information or unless otherwise stated)
(Unaudited)

(a) The terms of corporate bonds are as follows:

	The third domestic unsecured nonconvertible corporate bond	The fourth domestic unsecured nonconvertible corporate bond
Issued principal amount	NT$3,000,000	NT$3,000,000
Issuance date	March 6, 1997	August 5, 1997
Maturity	I: 5 years II: 6 years III: 7 years	I: 5 years II: 6 years III: 7 years
Bearing annual interest rate	I: 6.59% II: 6.65% III: 6.70%	I: 6.53% II: 6.64% III: 6.75%
Interest payment date	March 6	August 5
Pledges	—	—

	The second domestic secured nonconvertible corporate bond	The sixth domestic unsecured nonconvertible corporate bond	The seventh domestic unsecured nonconvertible corporate bond	The eighth domestic unsecured nonconvertible corporate bond	The third domestic unsecured nonconvertible corporate bond in 2002	The first domestic unsecured nonconvertible corporate bond in 2003	The second domestic unsecured nonconvertible corporate bond in 2003
Issued principal amount	NT$1,520,000	NT$6,600,000	NT$5,000,000	NT$4,150,000	NT$6,000,000	NT$6,000,000	NT$5,000,000
Issuance date	September 28, 1999	December 10, ~ December 21, 2001	April 12, ~April 30, 2002	July 22, ~July 26, 2002	November 18, ~December 6, 2002	May 2~13, 2003	January 7~9, 2004
Maturity	5 years	5, 6, 7 years	3, 4, 5 years	3, 4, 5 years	4, 5 years	4, 5, 6, 7 years	5 years
Bearing annual interest rate	A to D: 6.05%	IA~IJ: 2.85% IIA~IIJ: 2.83% IIIA~IIIB: 2.82%	IA~IM: 3.35% IIA~IIL: 3.3224%	Floating rate	I: 2.90% II: 2.8793%	I: 1.7% II: 1.6928% III: 1.9% VI: 1.8911%	Floating rate
Interest payment date	September 28	December 10 ~December 21	April 12~April 30	July 22~July 26	November 18~ December 6	May 2~13	January 7~9
Pledges	Guarantee provided by Chiao Tung Bank	—	—	—	—	—	—

(b) The terms of the overseas exchangeable bonds are as follows:

Issued principal amount	US$240,000
Issuance date	July 17, 2003
Maturity	5 years
Bearing annual interest rate	0.00%
Exchange period	Aug 17, 2003~July 2, 2008
Exchange price	NT$32.551
Redemption period at the option of the Company	July 17, 2006 ~ July 17, 2008
Redemption period at the option of the holder of the bonds	July 17, 2005 ~ July 17, 2008, at their redemption value in US dollars

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars
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(i) The Bonds will be convertible into common shares of Nan Ya Plastics Corp. ("NTC") or GDRs at any time on or after August 17, 2003, and prior to the close of business on July 2, 2008, except during any closed period.

(ii) The Company may redeem all or some of the overseas exchangeable bonds on or after July 17, 2006, and prior to July 17, 2008, at its principal amount minus 0.75% per annum through to the redemption date, only when the following conditions are satisfied:

a. The market price per share of the common stock of NTC exceeds 130% of the exchange price then in effect, translated into US dollars at a fixed exchange rate of NT$34.38=US$1.00, for 30 consecutive trading days before the publication date.

b. At least 90% of the principal amount of the bonds has already been redeemed, repurchased and cancelled, or exchanged.

c. Changes in ROC taxation would require the Company to gross up for payment of principal or interest, if any, at a rate greater than 20%.

(c) The assets pledged for the secured bonds are described in note 18.

(12) ACCRUED PENSION LIABILITY

As of March 31, 2003 and 2004, the balance of the retirement fund deposited with the Central Trust of China by the Company amounted to NT$127,943 and NT$205,705 respectively. The actual pension payments in the three-month periods ended March 31, 2003 and 2004, amounted to NT$116,213 and NT$192,294, respectively. The unfunded pension liability, accounted for as accrued expenses, amounted to NT$27,852 and NT$28,592, respectively.

(13) INCOME TAX

(a) The Company adopted ROC SFAS No. 22, "Accounting for Income Taxes", and No. 23, "Interim Financial Reporting and Disclosures" The components of the Company's income tax expense (benefit) for the three-month periods ended March 31, 2003 and 2004, were as follows:

	2003	2004	
	NT$	NT$	US$
Current income tax expense	—	—	—
Deferred income tax expense	34,970	167,513	5,076
Income tax expense	**34,970**	**167,513**	**5,076**

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars except earnings per share information or unless otherwise stated)

(b) The reconciliation between the income tax calculated based on financial pretax income and the reported income tax expense for 2003 and 2004 was as follows:

	2003	2004	
	NT$	NT$	US$
Income tax expense calculated based on financial pretax income	896,456	2,211,219	67,007
Nontaxable investment (income) loss	(322,332)	(955,443)	(28,953)
Investment tax credits	(542,426)	(165,053)	(5,002)
Gain on disposal of land	—	(7,201)	(218)
Gain on disposal of equity securities	—	(14,146)	(429)
Other adjustments for income tax filing purposes	3,272	13	—
Provision (reversal) of valuation allowance for deferred income tax assets	—	(901,876)	(27,329)
Income tax expense	**34,970**	**167,513**	**5,076**

(c) Deferred income tax assets and liabilities as of March 31, 2003 and 2004, were as follows:

	2003	2004	
	NT$	NT$	US$
Current:			
Deferred income tax assets	1,663,525	3,107,908	94,179
Valuation allowance for deferred income tax assets	—	—	—
	1,663,525	3,107,908	94,179
Deferred income tax liabilities	—	(1,242)	(38)
Current deferred income tax assets, net	**1,663,525**	**3,106,666**	**94,141**
Noncurrent:			
Deferred income tax assets	9,295,630	7,220,182	218,793
Valuation allowance for deferred income tax assets	—	—	—
	9,295,630	7,220,182	218,793
Deferred income tax liabilities	(2,654,653)	(3,025,236)	(91,674)
Noncurrent deferred income tax assets, net	**6,640,977**	**4,194,946**	**127,119**
Total deferred income tax assets	**10,959,155**	**10,328,090**	**312,972**
Total deferred income tax liabilities	**(2,654,653)**	**(3,026,478)**	**91,712**
Total valuation allowance for deferred income tax assets	**—**	**—**	**—**

(d) The Company's income tax returns through 2000 have been assessed and approved by the ROC Tax Authorities.

(14) STOCKHOLDERS' EQUITY

(a) Capital stock

(i) As of March 31, 2003, the Company had authorized capital stock amounting to NT$62,144,795, representing 6,214,480 thousand shares of $10 par value per share. All the authorized shares were issued.

(ii) The general stockholders' meeting held on June 6, 2003, resolved to increase the Company's authorized capital stock to NT$65,873,483 and to transfer unappropriated retained earnings and capital surplus, amounting to NT$1,242,896 and NT$2,485,792, respectively, to capital stock. The capital increase referred to above was approved by the Republic of China Securities and Futures Commission (ROC SFC) on July 11, 2003, and registered with the authorities. As of March 31, 2004, the Company's total authorized and issued stock amounted to 6,587,348 thousand shares.

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars
except earnings per share information or unless otherwise stated)

(b) Treasury stock

For the three-month periods ended March 31, 2003 and 2004, the changes in treasury stock were as follows:

Unit: Shares of common stock

Items	Number of shares on January 1, 2003	Addition	Disposal	Number of shares on March 31, 2003
Issued shares of the Company owned by subsidiaries	1,068,930	—	—	1,068,930

Unit: Shares of common stock

Items	Number of shares on January 1, 2003	Addition	Disposal	Number of shares on March 31, 2003
Issued shares of the Company owned by subsidiaries	1,133,065	—	—	1,133,065

As of March 31, 2003 and 2004, Flexus Specialty, Ltd. held 1,068,930 shares and 1,133,065 shares, respectively, of the Company's issued shares at average book value of NT$48.62 and NT$45.87 per share, respectively. As of March 31, 2004, the shares had not been sold, and the market price was NT$45.20 per share.

Effective on January 1, 2002, pursuant to ROC SFC regulations, the Company's issued common stock held by a subsidiary is to be recognized by the Company as treasury stock. The Company is required to appropriate a special reserve on the balance sheet date equal to the amount of that treasury stock's book valve in excess of market value multiplied by the Company's holding percentage in said subsidiary. Said special reserve is to be reversed upon the recovery of market price.

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars except earnings per share information or unless otherwise stated)

(c) Capital surplus and restrictions on appropriations of earnings

(i) *Capital surplus*

As of March 31, 2003 and 2004, the details of capital surplus were as follows:

	2003	2004	2004
	NT$	NT$	US$
Additional paid-in capital in excess of the common stock's par value	11,816,830	9,331,038	282,759
Paid-in capital in excess of the common stock's par value derived from corporate bond conversion	10,028,523	10,028,523	303,895
Gains on acquisition of Taiwan Plasticizer Corp.	74,474	74,474	2,257
Revaluation increments	358,504	358,504	10,864
Other	806,564	2,400,242	72,734
	23,084,895	22,192,781	672,509

The ROC Company Law stipulates that capital surplus can only be used to offset a deficit and only realized capital surplus can be used to increase share capital. The realized capital surplus is limited to capital surplus generated from paid-in capital in excess of par value and donated assets. No cash dividends can be declared out of capital surplus.

As of March 31, 2003 and 2004, the details of revaluation increments were as follows:

	2003	2004	
	NT$	NT$	US$
Amount transferred to capital stock	1,333,556	1,333,556	40,411
Accounted for as capital surplus	358,504	358,504	10,864
Accumulated revaluation increments	1,692,060	1,692,060	51,275

(ii) *Legal reserve*

The ROC Company Law stipulates that a company must retain 10% of its annual net earnings as legal reserve until such retention equals the amount of issued shares capital. The legal reserve may be used to offset an accumulated deficit, but cannot be distributed as cash dividends. However, up to 50% of the balance of legal reserve can be converted to capital stock upon approval at a stockholders' meeting when the balance of legal reserve reaches an amount equal to one-half of the issued capital stock.

(iii) *Special reserve and distribution of earnings*

According to the ROC Company Law and the Company's articles of incorporation, the Company's earnings are to be appropriated in the following order:

a. Pay income tax;

b. Offset prior year's deficit, if any;

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars
except earnings per share information or unless otherwise stated)

c. Of the remaining balance, if any, 10% is to be set aside as legal reserve;

d. After setting aside the legal reserve, NT$1 per share is to be distributed to shareholders as interest on capital.

e. The remaining balance is to be distributed to owners as dividends or retained. 1% or more should be distributed as employee bonus, and 1% should be distributed as directors' and supervisors' remuneration, if the general stockholders' meeting resolves to make an earnings distribution.

The Company's articles of incorporation stipulate that the investment income recognized based on the equity method and the deferred income tax benefit recognized from the increase in unexpired income tax credit are deemed unrealized and should be appropriated as special reserve before the distribution of interest on capital. Such special reserve is to be reversed to unappropriated retained earnings only when it is realized, that is, when investee companies declare dividends or income tax credits are used.

(iv) ***Imputation credit account (ICA) and creditable ratio***

As of March 31, 2003 and 2004, the information related to the integrated tax system was as follows:

	2003	2004	
	NT$	NT$	US$
Balance of imputation credit account	41,556	37,514	1,137
Creditable ratio for earnings distribution	0.25%	0.17%	

As of March 31, 2003 and 2004, the undistributed earnings were as follows:

	2003	2004	
	NT$	NT$	US$
Before January 1, 1998	6,843,212	6,754,449	204,680

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars
except earnings per share information or unless otherwise stated)

(15) EARNINGS PER SHARE

For the three-month periods ended March 31, 2003 and 2004, the weighted-average number of outstanding shares of common stock and the common stock equivalents for calculating the primary EPS consisted of the following:

Unit: thousands of NT$ and shares of common stock

	2003				
	Amount			Earnings per share	
	Income before income tax	Income after income tax	Total shares outstanding	Before income tax	After income tax
Primary earnings per share-retroactively adjusted	$3,585,864	3,550,894	6,586,215	0.54	0.54

	2004				
	Amount			Earnings per share	
	Income before income tax	Income after income tax	Total shares outstanding	Before income tax	After income tax
Primary earnings per share	$8,844,917	8,677,404	6,586,215	1.34	1.32

Unit: thousands of US$ and shares of common stock

	2004				
	Amount			Earnings per share	
	Income before income tax	Income after income tax	Total shares outstanding	Before income tax	After income tax
Primary earnings per share	$268,028	262,952	6,586,215	0.04	0.04

(16) FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Derivatives

(i) *Forward exchange contracts*

Starting in May 2001 and August 2003, the Company entered into forward exchange contracts with a notional amount of US$90,000 thousand to hedge the risk of fluctuations in foreign exchange rates on a long-term US dollar denominated syndicated loan arranged by Chiao Tung Bank. The balance of effective forward exchange contracts amounted to US$69,231 and US$83,620 as of March 31, 2003 and 2004, respectively. The above contracts call for the receipt of US$6,923 and US$1,765 every 6 months starting in March 2002 and August 2003, respectively. The last receipt is due on March 24, 2008.

Starting in March 2004, the Company entered into forward exchange contracts to hedge the risk of fluctuation in foreign exchange rates. The balance of the forward exchange contracts amounted to US$20,000 and US$12,000 as of March 31, 2004 and 2003, respectively.

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars
except earnings per share information or unless otherwise stated)

As of March 31, 2003 and 2004, receivables and payables resulting from forward exchange contract transactions were as follows:

	2003	2004	
	NT$	NT$	US$
Forward exchange receivables — foreign currencies	2,405,770	2,761,129	83,670
Forward exchange receivables	—	1,068,392	32,376
Forward exchange payables	(2,250,375)	(2,695,076)	(81,315)
Forward exchange payables — foreign currencies	—	(1,056,640)	(32,373)
Unamortized (premium) discount on forward exchange contract	(66,676)	(127,777)	(3,872)
Net balance	**88,719**	**(49,972)**	**(1,514)**

The net balance is recognized as other receivables. In addition, the spread between the spot and forward rate is amortized using the straight-line method over the contract period and recognized as interest income. For the three-month periods ended March 31, 2003 and 2004, the amortized interest income amounted to NT$3,390 and NT$5,727.

(ii) *Cross currency swaps (CCSs)*

Counter-parties	Notional principal 2003	Notional principal 2004
	US$ (thousand)	US$ (thousand)
ABN AMRO Bank interest rate swap contracts	**69,231**	**55,385**

The Company engaged in CCSs to hedge the risk of interest rate fluctuations of the Chiao Tung Bank syndicated loan. As of March 31, 2004, the Company had 7 unexpired US dollar CCSs contracts with ABN AMRO Bank, with the last settlement date on March 24, 2008. According to the contracts, the Company pays interest semi-annually to ABN AMRO Bank based on a fixed rate of 5% and the exchange rate on the contract effective date and collects interest based on LIBOR and the contracted fixed exchange rate. The differences in interest derived from these transactions are recognized as non-operating income or expense. For the three-month periods ended March 31, 2003 and 2004, the loss derived from the CCSs amounted to NT$37,371 and NT$38,176 respectively.

(iii) *Interest rate swaps*

(a) The Company engages in interest rate swap transactions to hedge the risk of fluctuations in the interest rate of long-term debt. A summary of the swaps is as follows:

Counter-parties	Notional principal 2003	Notional principal 2004
	US$ (thousand)	US$ (thousand)
Banque Paribas	20,000	—
Bank of America	20,000	—
	40,000	**—**

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars
except earnings per share information or unless otherwise stated)

As of March 31, 2003, the Company had 3 unexpired contracts with the above banks, with the last settlement date on September 22, 2003. According to the contracts, the Company pays interest based on a contracted fixed rate ranging from 5.15% to 5.38% to the counterparties, and collects interest based on London Inter-Bank Offer Rate (LIBOR). The differences between these swaps are recognized as non-operating income or expense. For the three-month periods ended March 31, 2003, the non-operating loss derived from the interest rate swaps amounted to US$692.

(b) The Company engages in interest rate swap transactions with Citibank, N. A. and ABN AMRO to hedge the risk of fluctuations in the interest rate of NT dollar long-term debt. The contracts with Citibank N. A. and ABM AMRO Bank both end on December 27, 2008. According to the contracts, the Company pay interest quarterly to Citibank N. A. and ABN AMRO Bank based on a fixed rate of 3.45% and 3.69% and collects interest based on the issuing rate of commercial paper (CP) offered in the secondary market. The differences in interest derived from these swaps are recognized as non-operating income or expense. For the three-month periods ended March 31, 2003 and 2004, the loss derived from the interest rate swaps amounted to NT$13,344 and NT$14,160, respectively. The details of the above-mentioned swaps are listed below:

	Notional principal		
	2003	2004	
	NT$	NT$	US$
Citibank, N. A.	1,320,000	1,100,000	33,333
ABN AMRO Bank	1,384,615	1,153,846	34,965
	2,704,615	2,253,846	68,298

(c) The Company entered into interest rate swaps contracts in July and August 2002 with Bank of America to hedge the risk of fluctuations in the interest rate of NT dollar long-term debt, and all the contracts end on July 30 and August 26, 2007. According to the contracts, the Company pays interest quarterly to Bank of America based on a fixed rate of 2.85%, 2.88% and 2.80%, and collects interest based on the issuing rate of CP offered in the secondary market. For the three-month periods ended March 31, 2003 and 2004, the loss derived from the interest rate swaps amounted to NT$2,537 and NT$5,098, respectively. The details of the above-mentioned swaps are listed below:

	Notional principal		
Counter-party	2003	2004	
	NT$	NT$	US$
Bank of America	500,000	500,000	15,151
Bank of America	300,000	300,000	9,091
Bank of America	270,000	270,000	8,182
	1,070,000	1,070,000	32,424

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars except earnings per share information or unless otherwise stated)

(d) The Company entered into interest rate swap contracts with Deutsche Bank to hedge the risk of fluctuations in the interest rate of the eighth domestic corporate bond issued in 2002. The contract started on June 11, 2002, and ends on July 26, 2007. According to the contract, the Company pays interest semi-annually to Deutsche Bank based on a fixed rate of 3.85%, and collects interest determined based on either a fixed rate minus the 90-day CP floating rate in the secondary market or a fixed rate multiplied by the interest accumulated. For the three-month periods ended March 31, 2003 and 2004, the gain derived from the interest rate swaps amounted to NT$6,660 and NT$17,627, respectively. The details of this interest rate swap are listed below:

	Notional principal		
Counter-parties	**2003**	**2004**	
	NT$	**NT$**	**US$**
Deutsche Bank	**4,150,000**	**4,150,000**	**125,758**

(e) The Company entered into interest rate swap contracts with Deutsche Bank and Bank of America to hedge the risk of fluctuations in interest rates of the Chiao Tung Bank syndicated loan. The contracts started in August~September 2003 and end on August 28 and September 2, 2008. According to the contracts, the Company pays interest semi-annually to Deutsche Bank and Bank of America based on LIBOR, and collects interest determined based on a fixed rate and the CP floating rate in the secondary market. For the three-month period ended March 31, 2004, the loss derived from the interest rate swaps amounted to NT$2,748. The details of the above-mentioned swaps are listed below:

	Notional principal		
Counter-party	**2003**	**2004**	
	NT$	**NT$**	**US$**
Deutsche Bank	—	4,000,000	121,212
Bank of America	—	1,400,000	42,424
	—	**5,400,000**	**163,636**

(f) The Company entered into interest rate swap contracts in January 2004 with Banque Paribas to hedge the risk of fluctuations in the interest rates of the second domestic corporate bond issued in 2003, and all the contracts end on January 7, 2009. According to the contracts, the Company pays interest semi-annually to Banque Paribas based on a fixed rate of 1.68%, and collects interest based on LIBOR. The loss derived from the interest rate swaps amounted to NT$0 in 2004. The details of the above-mentioned swaps are listed below:

	Notional principal		
Counter-party	**2003**	**2004**	
	NT$	**NT$**	**US$**
Banque Paribas	**—**	**5,000,000**	**151,515**

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars except earnings per share information or unless otherwise stated)

(iv) ***Foreign currency put option contract***

As of March 31, 2004, the Company has a foreign currency put option contract as follows:

Put: USD/Call: EUR	USD 2,400,000/EUR 2,000,000	2004.3.24~2004.4.26
Put: EUR/Call: USD	EUR 2,000,000/USD 2,400,000	2004.3.24~2004.4.26
Put: USD/Call: EUR	USD 2,400,000/EUR 2,000,000	2004.3.24~2004.6.28
Put: EUR/Call: USD	EUR 2,000,000/USD 2,400,000	2004.3.24~2004.6.28

As of March 31, 2004, no premium was paid for the put option contract. The unrealized loss on the contract was NT$405 as of March 31, 2004.

(v) The Company believes that the possibility of loss incurred by contract breaches is minimal because the counter-parties are all internationally well-known banks with good reputations.

(b) Non-derivative financial instruments

In accordance with R.O.C. Statements of Financial Accounting Standards No. 27, “Disclosure of Financial Instruments”, the fair value of Company’s nonderivative financial instruments is as follows

(i) ***The methods and assumptions used to estimate the fair value of each class of financial instruments***

(a) Because the maturity dates of short-term financial instruments, including cash and cash equivalents, pledged time deposits, notes and accounts receivable/payable, receivables from and payables to related parties, short-term borrowings, current installments of long-term debt, short-term notes and bills payable, accrued expenses, and other receivable and payable, are within one year, their book value is the best estimate of their fair value. This principle is applied in estimating the fair value of short-term financial instruments.

(b) The market price is the fair value of marketable securities if an open market exists, whereas other financial methodologies are used in estimating the fair value of securities without an existing trading market.

(c) The discounted present value of anticipated cash flows is the fair value of long-term debt and bonds payable. The applied discounting rates are based on the proposed interest rates of the assumed long-term loans with terms similar to those of the Company’s existing long-term liabilities.

(ii) As of March 31, 2003 and 2004, except for the book value of listed short-term investments amounting to NT$1,680,406 and NT$4,765,566, respectively, with their fair value amounting to NT$11,135,775 and NT$18,178,836, respectively, the fair values of other non-derivative financial instruments approximated the book values of the balance sheet.

(17) RELATED-PARTY TRANSACTIONS

(a) Name and relationship

Name	Relationship
Formosa Plastics Corp.	Same president as the Company
Formosa Chemicals & Fiber Corp.	Same president as the Company
Chang Gung Memorial Hospital	Same president as the Company
Formosa Asahi Spandex Co., Ltd.	Same president as the Company
Formosa Plastics Marine Corp.	Same president as the Company
Asia Pacific Development Corp.	Same president as the Company
Formosa Idemitsu Petrochemical Corp.	Same president as the Company
Mai-Liao Harbor Administration Corp.	Same president as the Company
Inotera Memories Inc.	The president is the company's general manager
Nan Ya Plastics Corp., America	A subsidiary of the Company
Nan Ya Plastics (Hong Kong) Co., Ltd.	A subsidiary of the Company
Flexus Specialty, Ltd.	A subsidiary of the Company
Nan Ya PCB Corp.	A subsidiary of the Company
Formosa Environmental Protection Technology Corp.	Investee accounted for by the equity method
Nan Ya Technology Corp.	Investee accounted for by the equity method
Nan Chung Petrochemical Corp.	Investee accounted for by the equity method
Formosa Heavy Industries Corp.	Investee accounted for by the equity method
Formosa Petrochemical Corp.	Investee accounted for by the equity method
Formosa Automobile Corp.	Investee accounted for by the equity method
Wen Fung Industrial Co., Ltd.	Investee accounted for by the equity method
FPG Fiber Glass Corp.	Investee accounted for by the equity method
Ya Tai Development Corp.	Investee accounted for by the equity method
Formosa Plastics Transportation Corp.	Investee accounted for by the equity method
Mai-Liao Power Corp.	Investee accounted for by the equity method
Formosa Industries Corp.	Investee accounted for by the equity method
Su-Hua Transport Corp.	Investee accounted for by the equity method
Formosa Plastics Group Investment Corp.	Investee accounted for by the equity method
Pei-Jeng Trading Co., Ltd.	A subsidiary of Nan Ya Technology Corp.
P. T. Indonesia Nan Ya Indah Plastics Co.,	A subsidiary of the Company's subsidiary
Yung Chia Chemical Industry Corp.	Same president as its parent company's (Formosa Plastics Corp.)
Formosa Network Technologies Corp.	The president is a relative of the Company's president
Nan Ya Rigid Film (Guang Zhou) Co., Ltd.	A subsidiary of the Company subsidiary
Nan Ya Plastics (Nan Tong) Co.,Ltd.	A subsidiary of the Company subsidiary
Nan Ya Plastics Film (Hui Zhou) Co., Ltd.	A subsidiary of the Company subsidiary
Nan Ya Electronic Materials (Kun Shan) Co., Ltd.	A subsidiary of the Company subsidiary
Nan Ya Copper Foil (Kun Shan) Co., Ltd.	A subsidiary of the Company subsidiary
Nan Ya Co-Generation Plant (Kun Shan) Co., Ltd.	A subsidiary of the Company subsidiary

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars except earnings per share information or unless otherwise stated)

(b) Significant related-party transactions

(i) *Purchases and sales*

Purchases from related parties for the three-month periods ended March 31, 2003 and 2004 were as follows:

	2003		2004		
	NT$	%	NT$	US$	%
Formosa Plastics Corp.	2,908,020	12.60	3,895,634	118,050	12.70
Formosa Chemicals & Fiber Corp.	5,479,262	23.80	6,153,906	186,482	20.20
Yung Chia Chemical Industries Co.	421,299	1.80	—	—	—
PFG Fiber Glass Corp.	404,063	1.80	694,820	21,055	2.30
Nan Ya Plastic Corp., America	155,174	0.70	—	—	—
Formosa Petrochemical Corp.	2,425,461	10.50	4,270,379	129,405	14.00
Nan Chung Petrochemical Corp.	561,793	2.40	855,310	25,919	2.80
Formosa Idemitsu Petrochemical Corp.	—	—	53,394	1,618	0.20
Total	**12,355,072**	**53.60**	**15,923,443**	**482,529**	**52.20**

The Company pays the related parties by drawing checks on the 15th of the month following the month of purchase, except for Nan Ya Plastics Corp., America, the payment term with which is O/A 30 days. The purchasing prices and payment terms of the purchases from other related parties are not materially different from other those for non-related general suppliers.

Sales to related parties for the three-month periods ended March 31, 2003 and 2004, were as follows:

	2003		2004		
	NT$	%	NT$	US$	%
Formosa Plastics Corp.	242,169	0.86	246,584	7,472	0.69
Formosa Chemicals & Fiber Corp.	238,243	0.85	618,118	18,731	1.72
Nan Ya Printed Circuit Board Corp.	565,152	2.01	506,012	15,334	1.40
Formosa Petrochemical Corp.	114,324	0.41	150,623	4,564	0.42
Formosa Asahi Spandex Co., Ltd.	53,315	0.19	162,209	4,916	0.45
Formosa Industries Corp.	79,929	0.29	965,547	29,259	2.68
Nan Ya Glass Fabrics (Kun Shan) Co., Ltd.	266,214	0.95	28,461	863	0.08
Nan Ya Copper Foil (Kun Shan) Co., Ltd.	281,808	1.00	2,192	66	—
Other	582,035	2.07	578,133	17,519	1.60
Total	**2,423,189**	**8.63**	**3,257,879**	**98,724**	**9.04**

The sales to Formosa Plastics Corporation, Nan Ya Plastics Corp., USA, and Nan Ya Plastics Corp., America mainly were sales of machinery and accessories. Receivables from Formosa Plastics Corp. are collected upon inspection completion. Receivables from Nan Ya Plastics Corp., USA and Nan Ya Plastics Corp., America are collected within 360 days of the D/A acceptance date after inspection and test-run completion. The selling prices are quoted based on a reasonable margin rate.

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars except earnings per share information or unless otherwise stated)

The selling prices and terms of the sales to Formosa Chemicals & Fiber Corporation and other related parties are not materially different from those offered to general customers. Collections are made on the 15th of the month following the month of the related sale.

(ii) ***Accounts receivable and payable (excluding financing)***

The balance of receivables from and payables to related parties (excluding financing transactions) as of March 31, 2003 and 2004, consisted of the following:

	2003		2004		
	NT$	%	NT$	US$	%
Accounts receivable:					
Formosa Plastics Corp.	236,963	1.48	96,264	2,917	0.54
Formosa Chemicals & Fiber Corp.	125,214	0.78	409,592	12,412	2.28
Nan Ya Printed Circuit Board Corp.	189,042	1.18	194,190	5,885	1.08
Formosa Petrochemical Corp.	45,727	0.28	127,047	3,850	0.71
Chang Gung Memorial Hospital	134,123	0.84	67,897	2,057	0.38
Formosa Heavy Industries	18,000	0.11	115,371	3,496	0.64
Nan Ya Rigid Film (Guang Zhou) Co., Ltd.	172,147	1.07	18,508	561	0.10
Nan Ya Plastics (Nan Tong) Co., Ltd.	125,896	0.78	41,081	1,245	0.23
Nan Ya Plastics Film (Hui Zhou) Co., Ltd.	424,922	2.65	56,587	1,715	0.32
Nan Ya Electronic Materials (Kun Shan) Co., Ltd.	143,148	0.89	59,190	1,794	0.33
Nan Ya Glass Fabrics (Kun Shan) Co., Ltd.	340,727	2.13	48,218	1,461	0.27
Nan Ya Co-Generation Plant (Kun Shan) Co., Ltd.	—	—	162,058	4,911	0.90
Formosa Industries Corp.	79,929	0.50	1,449,858	43,935	8.08
Nan Ya Copper Foil (Kun Shan) Co., Ltd.	314,675	1.96	11,520	349	0.06
Other	381,010	2.37	341,292	10,342	1.90
Total	**2,731,523**	**17.02**	**3,198,673**	**96,930**	**17.82**

	2003		2004		
	NT$	%	NT$	US$	%
Accounts payable:					
Formosa Plastics Corp.	1,156,046	13.06	1,598,602	48,442	17.64
Formosa Chemicals & Fiber Corp.	2,195,172	24.80	2,293,333	69,495	25.30
Yung Chia Chemical Industries Corp.	147,205	1.66	—	—	—
PFG Fiber Glass Corp.	165,093	1.87	261,084	7,911	2.88
Nan Chung Petrochemical Corp.	114,672	1.30	326,337	9,889	3.60
Formosa Petrochemical Corp.	1,048,756	11.85	1,576,065	47,760	17.39
Nan Ya Plastics Corp., America	153,109	1.73	—	—	—
Formosa Idemitsu Petrochemical Corp.	—	—	16,947	514	0.19
Total	**4,980,053**	**56.27**	**6,072,368**	**184,011**	**67.00**

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars except earnings per share information or unless otherwise stated)

(iii) *Financing transactions*

The details of the Company's borrowings from and loans to related parties for the three-month periods ended March 31, 2003 and 2004, were as follows:

	2003				
	Date of maximum balance	Maximum balance	Ending balance	Interest rate	Amount of interest
		NT$	NT$		NT$
Due from related parties — current:					
Formosa Petrochemical Corp.	February 17, 2003	909,900	—	3.434~3.44%	922
Formosa Plastics Transportation Corp.	January 16, 2003	362,700	208,900	3.434~3.657%	2,436
Pei-Jeng Trading Co., Ltd.	March 27, 2003	412,100	412,100	3.434~3.657%	3,527
PFG Fiber Glass Corp.	January 1, 2003	761,600	500	3.434~3.657%	1,431
Mai Liao Power Corp.	January 3, 2003	590,600	—	3.434~3.657%	656
Formosa Automobile Corp.	January 1, 2003	963,300	955,900	3.434~3.657%	7,107
Ya Tai Development Corp.	February 20, 2003	500,000	500,000	3.434~3.657%	4,072
Flexus Specialty Ltd.	January 16, 2003	15,500	14,400	3.434~3.657%	126
Nan Ya Technology Corp.	March 17, 2003	322,300	—	3.44%	101
Formosa Plastics Marine Corp.	January 1, 2003	205,443	205,443	3.434~3.657%	1,779
Formosa Environmental Protection Technology Corp.	March 10, 2003	1,154,100	1,154,100	3.434~3.657%	9,940
			3,451,343		**32,097**
Due to related parties — current:					
Formosa Plastics Corp.	February 21,2003	771,200	212,700	3.434~3.657%	1,102
Formosa Chemicals & Fiber Corp.	March 17, 2003	1,717,200	1,177,800	3.434~3.44%	2,240
Formosa Plastics Group Investment Corp.	January 1, 2003	25,900	25,900	3.434~3.657%	224
Nan Chung Petrochemical Corp.	March 31, 2003	767,400	767,400	3.434~3.657%	4,732
Nan Ya Printed Circuit Board Corp.	January 28, 2003	708,600	501,700	3.434~3.657%	2,782
Wen Fung Industrial Co., Ltd.	February 18, 2003	21,800	3,800	3.434~3.657%	72
Formosa Petrochemical Corp.	January 16, 2003	2,041,200	—	3,657%	209
			2,689,300		11,361
Due to related parties — noncurrent:					
Formosa Heavy Industries Corp.	January 20, 2003	1,699,000	1,500,000	3.434~3.657%	13,112
			1,500,000		13,112
			4,189,300		**24,473**

NOTES TO NONCONSOLIDATED FINANCIAL STATEMENTS — (Continued)
MARCH 31, 2003 AND 2004
(All amount expressed in thousands of New Taiwan dollars and U.S. dollars except earnings per share information or unless otherwise stated)
(Unaudited)

	2004							
	Date of maximum balance	Maximum balance		Ending balance		Interest rate	Amount of interest	
		NT$	US$	NT$	US$		NT$	US$
Due from related parties — current:								
Formosa Plastics Corp.	March 2, 2004	33,000	1,000	—	—	2.537%	2	—
Formosa Petrochemical Corp.	January14, 2004	2,767,200	83,855	—	—	2.537~2.849%	3,576	108
Formosa Plastics Transportation Corp..	January 16, 2004	15,000	455	—	—	2.66~2.849%	—	—
Pei-Jeng Trading Co., Ltd..	February 20, 2004	54,700	1,658	100	3	2,537~2.849%	263	8
Mai Liao Harbor Administration Corp.	March 29, 2004	100	3	—	—	2.537%	—	—
PFG Fiber Glass Corp.	January 14, 2004	227,100	6,882	—	—	2.537~2.849%	309	9
Mai Liao Power Corp.	March 11, 2004	1,755,100	53,185	1,745,200	52,885	2.537~2.849%	5,406	164
Formosa Automobile Corp.	March 19, 2004	866,700	26,264	799,200	24,218	2.537~2.849%	4,586	139
Ya Tai Development Corp.	January 1, 2004	500,000	15,152	500,000	15,152	2.537~2.849%	3,344	101
Flexus Specialty, Ltd.	February 9, 2004	10,300	312	10,200	309	2.537~2.849%	68	2
Nan Ya Technology Corp.	March 5, 2004	719,600	21,806	—	—	2.537~2.849%	405	12
Formosa Plastics Marine Corp.	January 1, 2004	205,443	6,226	205,443	6,226	2.537~2.849%	1,374	42
Formosa Environmental Protection Technology Corp.	March 24, 2004	341,000	10,333	311,000	9,424	2.537~2.849%	2,054	62
Formosa Chemicals & Fiber Corp.	February 4, 2004	773,300	23,433	—	—	2.66~2.849%	745	23
Su-Hua Transport Corp.	February 3, 2004	374,300	11,342	368,800	11,176	2.537~2.849%	2,390	73
Nan Ya Printed Circuit Board Corp.	February 9, 2004	300,100	9,094	—	—	2.66~2.849%	9	—
Asia Pacific Development Corp.	January 6, 2004	800	24	—	—	2.66~2.849%	2	—
Formosa Network Technologies Corp.	January 16, 2004	3,900	118	—	—	2.849%	1	—
Nan Chung Petrochemical Corp.	February 27, 2004	748,000	22,667	481,100	14,579	2.537~2.849%	3,831	116
Wen Fung Industrial Co., Ltd..	January 9, 2004	200,100	6,064	163,200	4,945	2.537~2.849%	1,190	36
Subtotal				4,584,243	138,917		29,555	895
Due to related parties — current:								
Formosa Plastics Corp.	January 1, 2004	734	22	—	—	2.66%~2.849%	107	3
Formosa Chemicals & Fiber Corp.	January 1, 2004	135,900	4,118	—	—	2.849%	—	—
Formosa Plastics Group Investment Corp.	January 1, 2004	4,000	121	4,000	121	2.537%~2.849%	27	1
Nan Ya Printed Circuit Bard Corp.	January 1, 2004	210,500	6,379	—	—	2.66%~2.849%	139	4
Mai Liao Harbor Administration Corp.	March 31 2004	303,600	9,200	303,600	9,200	2.537%~2.849%	848	26
Formosa Petrochemical Corp.	March 15, 2004	3,750,200	113,642	—	—	2.537%~2.849%	216	7
Mai Liao Power Corp	January 15, 2004	257,900	7,815	—	—	2.849%	—	—
Nan Ya Technology Corp..	March 22, 2004	587,900	17,815	587,400	17,800	2.537%~2.849%	165	5
PFG Fiber Glass Corp.	March 31, 2004	35,700	1,082	35,700	1,082	2.537%~2.849%	—	—
Formosa Plastics Transportation Corp..	March 25, 2004	127,100	3,852	117,300	3,555	2.537%~2.849%	209	6
Subtotal				1,048,000	31,758		1,711	52

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars
except earnings per share information or unless otherwise stated)

(iv) *Endorsements and guarantees*

Obligations of related parties guaranteed by the Company as of March 31, 2003 and 2004, were as follows:

	2003	2004	
	NT$	NT$	US$
Nan Ya Plastics (H.K.) Co., Ltd.	556,000	—	—
Formosa Industries Corp.	—	2,679,573	81,199
Indonesia P.T. Nan Ya Indah Plastics Co.	556,000	528,320	16,010
Mai Liao Power Corporation	5,485,000	4,660,000	141,212
Mai Liao Harbor Administration Corp.	2,098,426	2,098,426	63,589
Nan Ya Technology Corp.	21,000,000	28,900,000	875,757
Inotera Memories Inc.	—	7,726,680	234,142
	29,695,426	46,592,999	1,411,909

(v) *Acquisition of property, plant and equipment*

The Company contracted Formosa Heavy Industries Corp. to construct the Company's factory expansion. The contract price for the three-month periods ended March 31, 2003 and 2004, was NT$267,281 and NT$189,226, respectively. As of March 31, 2003 and 2004, the unpaid contract price amounted to NT$28,015 and NT$19,424, respectively.

(vi) *Utility expenses*

Part of the utilities of the Company's Lin-Yuan plant and all of the utilities of the Company's Ren-Wu plant, including power, water and steam, are supplied by or paid on the Company's behalf by the utility plants of Formosa Plastics Corp. Such utility expenses are calculated monthly and paid in the following month, and amounted to NT$40,285 and NT$40,242 for the three-month periods ended March 31, 2003 and 2004, respectively. The utilities of the Company's Mai Liao plant, including power, water and steam, are supplied by Formosa Petrochemical Corp. and Nan Chung Petrochemical Corp. The expenses for utilities supplied by Formosa Petrochemical Corp. amounted to NT$340,529 and NT$475,435 for the three-month periods ended March 31, 2003 and 2004, respectively. The expenses for utilities supplied by Nan Chung Petrochemical. Corp. amounted to NT$1,863 and NT$6,271 for the three-month periods ended March 31, 2003 and 2004, respectively.

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars except earnings per share information or unless otherwise stated)

(18) PLEDGED PROPERTIES

As of March 31, 2003 and 2004, the pledges provided to banks or courts were as follows:

	2003	2004	
	NT$	NT$	US$
Common stock of Formosa Plastics Corp. and Formosa Petrochemical Corp.	22,093,796	12,210,900	370,027
Land	5,342,956	5,342,956	161,908
Buildings and Machinery	26,742,191	33,612,476	1,018,560
	54,178,943	**51,166,332**	**1,550,495**

(19) COMMITMENTS AND CONTINGENCIES

As of March 31, 2003 and 2004, commitments and contingencies of the Company were as follows:

(a) The outstanding letters of credit for the importation of raw materials as of March 31, 2003 and 2004, amounted to NT$651,784 and NT$696,895, respectively.

(b) As of March 31, 2003 and 2004, endorsements made for other companies or affiliates amounted to NT$29,695,426 and NT$46,592,999, respectively.

(c) As of March 31, 2003 and 2004, the cost of other companies' inventories consigned to the Company for dyeing amounted to NT$308,551 and NT$192,816, respectively.

(20) OTHERS

(a) Provision for losses on foreign investment

Since 1992, under the "Statute for Upgrading Industries", the Company has recorded a provision for "losses on foreign investments" equal to 20% of the total investing cost in foreign nations as approved by the relevant industry and tax authority. Such a provision is deductible for income tax filing purposes. Since the provision and reversal were not in accordance with ROC generally accepted accounting principles and were for income tax purposes, they were not included in the financial statements. The unreversed provision amounted to NT$1,068,462 and 1,745,112, respectively, as of March 31, 2003 and 2004. According to the "Statute for Upgrading Industries", the provisions should be reversed as revenue for income tax purposes in the fifth year after the year of provision if no loss occurs during these five years.

(All amount expressed in thousands of New Taiwan dollars and U.S. dollars except earnings per share information or unless otherwise stated)

(b) The Company's human resource expenses, depreciation expense, depletion expense and amortization expense for the three-month periods ended on March 31, 2003 and 2004.

	2003		
	Operating Cost	Operating Expenses	Total
	NT$	NT$	NT$
Human resource expenses			
Salaries	2,314,217	1,046,841	3,361,058
Labor and health insurance	139,768	60,860	200,628
Pension cost	298,435	101,544	399,979
Other	64,918	17,591	82,509
Depreciation expense	1,859,040	151,837	2,010,877
Depletion expense	—	—	—
Amortization expense	86,936	45,951	132,887

	2004		
	Operating Cost	Operating Expenses	Total
	NT$	NT$	NT$
Human resource expenses			
Salaries	2,437,161	945,374	3,382,535
Labor and health insurance	145,336	56,376	201,712
Pension cost	307,170	119,151	426,321
Other	64,317	16,993	81,310
Depreciation expense	1,879,151	110,383	1,989,534
Depletion expense	—	—	—
Amortization expense	115,860	62,577	178,437

	2004		
	Operating Cost	Operating Expenses	Total
	US$	US$	US$
Human resource expenses			
Salaries	73,853	28,648	102,501
Labor and health insurance	4,404	1,708	6,112
Pension cost	9,308	3,611	12,919
Other	1,949	515	2,464
Depreciation expense	56,944	3,345	60,289
Depletion expense	—	—	—
Amortization expense	3,511	1,896	5,407

(c) Reclassification

The Company reclassified certain accounts in the 2003 first quarter financial report compared to the 2002 first quarter financial report. These reclassifications have no significant effects on the financial statements.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Nan Ya Plastics Corp.:

We have audited the accompany consolidated balance sheets of Nan Ya Plastics Corp. and subsidiaries as of December 31, 2001, 2002 and 2003, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. Except for Nan Ya Plastics Corp., U.S.A., Nan Chung Petrochemical Corp., Nan Ya Technology Corp., and Nan Ya Photonics Inc., we did not audit the financial statements of long-term equity investments as outlined in note 8. The Company's investments in these companies was NT$56,195,267 thousand, NT$61,951,940 thousand, and NT$68,096,727 thousand at December 31, 2001, 2002, and 2003, respectively, and its equity in net earnings of these companies was NT$3,214,635 thousand, NT$4,263,290 thousand, and NT$6,365,556 thousand in 2001, 2002, and 2003, respectively. The financial statements of the above-mentioned investee companies were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these 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 the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Nan Ya Plastics Corp. and subsidiaries as of December 31, 2001, 2002 and 2003, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

The accompanying consolidated financial statements as of and for the year ended December 31, 2003, have been translated into United States dollars solely for the convenience of the readers. We have audited the translation, and in our opinion, the consolidated financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(c) of the notes to the consolidated financial statements.

As outlined in note 3, the consolidated entities of the consolidated financial statements in 2003 have been changed, therefore, the consolidated financial statements in 2001 and 2002 have been restated for comparison.

Taipei, Taiwan (the Republic of China)
February 23, 2004

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the 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 corroborated financial statements are those generally accepted and applied in the Republic of China

NAN YA PLASTICS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2001, 2002 AND 2003
(expressed in thousands of New Taiwan dollars and US dollars)

Assets	2001	2002	2003	
	NTD	NTD	NTD	USD
Current assets:				
Cash and cash equivalents	$ 1,467,589	$ 2,225,573	9,602,998	282,524
Short-term investments (notes 5 and 21)	1,913,501	1,864,213	6,317,770	185,871
Notes receivable (less allowances for doubtful accounts of NT$50,622, NT$49,574 and NT$49,360 on December 31, 2001, 2002 and 2003, respectively) (note 6)	4,844,074	4,798,181	4,649,893	136,802
Accounts receivable (less allowances for doubtful accounts of NT$213,983, NT$169,200 and NT$130,595 on December 31, 2001, 2002 and 2003, respectively) (note 6)	15,846,710	17,354,007	22,148,046	651,605
Accounts receivable from related parties (notes 20 and 25)	667,823	2,177,846	3,825,269	112,541
Other receivables	1,023,710	567,491	680,599	20,024
Inventories, net (note 7)	20,784,530	22,153,636	24,456,865	719,531
Prepayments and other current assets	1,330,587	1,541,685	1,943,674	57,183
Due from related parties (notes 20)	2,580,100	4,715,443	2,759,843	81,196
Deferred income tax assets (note 16)	1,694,868	2,216,684	3,261,104	95,943
Total current assets	52,153,492	59,614,759	79,646,061	2,343,220
Long-term equity investments (notes 4, 8, and 21)	79,828,428	90,229,400	97,565,454	2,870,416
Property, plant and equipment (notes 9 and 21):				
Cost:				
Land	6,721,263	7,335,903	7,275,517	214,049
Buildings and building improvements	24,775,871	25,937,479	27,786,023	817,476
Machinery and equipment	112,489,275	121,971,385	129,719,320	3,816,397
Transportation equipment	1,576,832	1,581,780	1,561,785	45,948
Miscellaneous equipment	34,338,507	36,274,379	42,370,432	1,246,556
Revaluation increments	278,726	275,271	256,317	7,541
	180,180,474	193,376,197	208,969,394	6,147,967
Less: accumulated depreciation	(93,186,224)	(104,905,997)	(115,586,498)	(3,400,603)
Construction in progress	23,391,338	19,823,263	10,440,744	307,171
Advance payments for project and equipment	878,331	919,413	857,445	25,226
Net property, plant and equipment	111,263,919	109,212,876	104,681,085	3,079,761
Intangible assets:				
Deferred pension cost (note 14)	2,530,842	701,578	2,222,533	65,389
Technical assistance costs	1,184,611	1,058,046	885,752	26,059
Total intangible assets	3,715,453	1,759,624	3,108,285	91,448
Other assets:				
Refundable deposits	74,222	57,026	74,225	2,184
Long-term receivable due from related parties (notes 20)	11,775,691	8,698,890	2,840,868	83,580
Deferred income tax assets (note 16)	6,190,357	4,094,045	2,341,056	68,875
Other miscellaneous assets (notes 9 and 21)	2,559,438	3,333,010	3,481,442	102,425
Total other assets	20,599,708	16,182,971	8,737,591	257,064
Total assets	**$ 267,561,000**	**$ 276,999,630**	**$ 293,738,476**	**$ 8,641,909**

NAN YA PLASTICS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS — (Continued)
DECEMBER 31, 2001, 2002 AND 2003
(expressed in thousands of New Taiwan dollars and US dollars)

Liabilities and Stockholders' Equity	2001	2002	2003	
	NTD	NTD	NTD	USD
Current liabilities:				
Short-term borrowings (note 10)	$ 11,749,901	$ 1,351,731	$ 2,219,944	$ 65,312
Current portion of long-term debt (notes 12 and 13)	6,582,314	13,035,368	10,432,438	306,927
Commercial paper payable (note 11)	4,205,816	549,868	739,873	21,767
Notes payable	—	—	—	—
Accounts payable	3,718,097	4,094,327	5,295,658	155,800
Accounts payable to related parties (notes 20)	2,737,789	4,347,807	5,018,950	147,660
Accrued expenses	5,946,530	8,811,046	9,664,597	284,336
Others payables	1,953,954	157,149	158,836	4,673
Collections in advance	569,954	89,854	240,872	7,087
Due to related parties (note 20)	7,810,598	687,700	931,600	27,408
Total current liabilities	45,274,953	33,124,850	34,702,768	1,020,970
Long-term liabilities				
Long-term debt (notes 12 and 21)	60,187,685	61,148,858	57,051,656	1,678,484
Bonds payable (notes 13 and 21)	19,140,000	28,470,000	39,104,720	1,150,477
Long-term payable due to related parties (note 20)	2,771,592	4,424,229	—	—
Total long-term liabilities	82,099,277	94,043,087	96,156,376	2,828,961
Other liabilities:				
Guarantee deposit	735,188	717,112	641,779	18,881
Accrued pension liability (note 14)	9,390,794	9,011,091	11,766,468	346,175
Other miscellaneous liabilities	753,097	606,849	335,994	9,885
Total other liabilities	10,879,079	10,335,052	12,744,241	374,941
Total liabilities	138,253,309	137,502,989	143,603,385	4,224,872
Stockholders' equity (notes 4 and 17):				
Capital stock	58,079,248	62,144,795	65,873,483	1,938,025
Capital surplus	25,522,443	23,236,959	22,226,880	653,924
Legal reserve	11,416,087	12,202,434	13,582,086	399,590
Special reserve	16,145,261	16,355,417	18,362,171	540,223
Unappropriated retained earnings	12,581,955	19,605,453	24,796,920	729,536
Unrealized loss on long-term equity investment devaluation	(171,161)	(150,656)	(26,217)	(771)
Cumulative translation adjustments	5,353,282	5,196,886	4,389,569	129,143
Treasury stock	—	(25,233)	(25,233)	(742)
Total stockholders' equity	128,927,115	138,566,055	149,179,659	4,388,928
Minority interest	380,576	930,586	955,432	28,109
Total stockholders' equity and minority interest	129,307,691	139,496,641	150,135,091	4,417,037
Commitments and contingencies (notes 22)				
Total liabilities and stockholders' equity	**$ 267,561,000**	**$ 276,999,630**	**$ 293,738,476**	**$ 8,641,909**

See accompanying notes to consolidated financial statements.

NAN YA PLASTICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(expressed in thousands of New Taiwan dollars and US dollars, except earnings per share)

	2001	2002	2003	
	NTD	NTD	NTD	USD
Operating revenues (notes 20)				
Net sales	$ 129,185,031	$ 139,567,171	$ 169,261,306	$ 4,979,738
Service revenues	577,237	591,534	603,424	17,753
Other	1,399,164	1,522,032	1,779,045	52,340
Total operating revenues	131,161,432	141,680,737	171,643,775	5,049,831
Operating costs (notes 20)	(113,580,021)	(120,377,350)	(147,186,580)	(4,330,290)
Gross profit	17,581,411	21,303,387	24,457,195	719,541
Realized (unrealized) inter-affiliate profit	—	(60,421)	31,429	924
Realized gross profit	17,581,411	21,242,966	24,488,624	720,465
Selling expenses	(3,951,701)	(4,495,733)	(4,861,491)	(143,027)
Administrative expenses	(4,095,651)	(6,874,678)	(6,461,441)	(190,098)
Total operating expenses	(8,047,352)	(11,370,411)	(11,322,932)	(333,125)
Operating income	9,534,059	9,872,555	13,165,692	387,340
Non-operating income:				
Interest income	550,336	291,326	440,101	12,948
Foreign exchange gain	1,319,585	1,052,396	650,438	19,136
Gain on disposal of investment	—	1,518,013	1,322,764	38,916
Gain on disposal of property, plant and equipment	—	912,761	103,187	3,036
Dividend income	—	302,524	454,076	13,359
Investment income	3,878,353	5,936,197	6,658,835	195,906
Other (note 19)	1,248,729	1,026,235	919,965	27,066
Total non-operating income	6,997,003	11,039,452	10,549,366	310,367
Non-operating expenses:				
Interest expenses	(5,107,650)	(3,885,216)	(3,342,626)	(98,341)
Foreign exchange loss	(1,205,865)	(893,416)	(824,028)	(24,243)
Loss on disposal of investment	—	—	(9,742)	(287)
Loss on disposal of property, plant and equipment	—	(706)	(9,070)	(267)
Investment loss	(5,310,658)	(116,340)	(832,865)	(24,503)
Other (note 19)	(432,056)	(528,482)	(565,184)	(16,628)
Total non-operating expenses	(12,056,229)	(5,424,160)	(5,583,515)	(164,269)
Net non-operating expenses	(5,059,226)	5,615,292	4,965,851	146,098
Income before income tax	4,474,833	15,487,847	18,131,543	533,438
Income tax (expense) benefit (note 16)	3,418,192	(1,682,637)	(924,046)	(27,186)
	7,893,025	13,805,210	17,207,497	506,252
Minority interest in net income	(31,656)	(8,695)	(27,493)	(809)
Net income	**$ 7,861,369**	**$ 13,796,515**	**$ 17,180,004**	**$ 505,443**
Basic earnings per share-retroactively adjusted (note 18)	**$ 1.19**	**$ 2.09**	**$ 2.61**	**$ 0.077**

See accompanying notes to consolidated financial statements.

NAN YA PLASTICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(expressed in thousands of New Taiwan dollars)

			Retained earnings						
	Capital stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation adjustments	Unrealized loss on long-term equity investments	Treasury stock	Total
Balance as of January 1, 2001	NT$ 52,323,647	27,043,542	9,314,347	7,869,449	25,151,681	3,788,190	(167,622)	—	125,323,234
Appropriation and distribution of earnings:								—	
Legal reserve	—	—	2,101,740	—	(2,101,740)	—	—	—	—
Special reserve	—	—	—	9,688,413	(9,688,413)	—	—	—	—
Cash dividends	—	—	—	—	(5,755,602)	—	—	—	(5,755,602)
Stock dividends	5,755,601	(1,569,709)	—	—	(4,185,892)	—	—	—	—
Directors' and supervisors' remuneration	—	—	—	—	(46,550)	—	—	—	(46,550)
Employees' bonuses	—	—	—	—	(46,550)	—	—	—	(46,550)
Payment of unpaid cash dividend outstanding for over five years	—	(538)	—	—	—	—	—	—	(538)
Corresponding adjustments to comply with investees' transfer of gain on sales of fixed assets to capital surplus	—	16,286	—	(16,286)	—	—	—	—	—
Transfer of unpaid cash dividend and of directors' and supervisors' remuneration outstanding for over five years to capital surplus	—	17,028	—	—	—	—	—	—	17,028
Change in cumulative translation adjustments	—	—	—	—	—	1,565,092	—	—	1,565,092
Corresponding adjustments to comply with investees' prior — period adjustment	—	—	—	(529)	—	—	—	—	(529)
Directors' and supervisors' remuneration from investees	—	—	—	(2,123)	—	—	—	—	(2,123)
Corresponding adjustments of capital surplus resulting from long-term equity investments accounted for by equity method	—	18,126	—	—	—	—	—	—	18,126
Cash dividends from long-term investments accounted for by equity method	—	—	—	(1,393,743)	1,393,743	—	—	—	—
Unrealized loss on long-term equity investment	—	—	—	—	—	—	(3,539)	—	(3,539)
Rounding variances for distributing cash dividends	—	—	—	—	(11)	—	—	—	(11)
Corresponding adjustments to comply with investees' transfer of unpaid dividend and of directors' and supervisors' remuneration outstanding for over five years to capital surplus	—	61	—	61	(61)	—	—	—	61
Effects of not subscribing to investees' newly issued shares in accordance with holding percentage	—	(2,353)	—	—	—	—	—	—	(2,353)
Adjustments of special reserve resulting from disposal of long-term investments accounted for by equity method	—	—	—	19	(19)	—	—	—	—
Net income of 2001	—	—	—	—	7,861,369	—	—	—	7,861,369
Balance as of December 31, 2001	**NT$ 58,079,248**	**25,522,443**	**11,416,087**	**16,145,261**	**12,581,955**	**5,353,282**	**(171,161)**	**—**	**128,927,115**

NAN YA PLASTICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(expressed in thousands of New Taiwan dollars)

	Capital stock	Capital surplus	Retained earnings: Legal reserve	Retained earnings: Special reserve	Retained earnings: Unappropriated retained earnings	Cumulative translation adjustments	Unrealized loss on long-term equity investments	Treasury stock	Total
Balance as of January 1, 2002	NT$ 58,079,248	25,522,443	11,416,087	16,145,261	12,581,955	5,353,282	(171,161)	—	128,927,115
Appropriation and distribution of earnings:									
Legal reserve	—	—	786,137	—	(786,137)	—	—	—	—
Special reserve	—	—	—	3,329,018	(3,329,018)	—	—	—	—
Cash dividends	—	—	—	—	(4,065,548)	—	—	—	(4,065,548)
Stock dividends	4,065,547	(2,323,170)	—	—	(1,742,377)	—	—	—	—
Payment of unpaid cash dividend outstanding for over five years	—	(721)	—	—	—	—	—	—	(721)
Corresponding adjustments to comply with investees' transfer of gain on sales of fixed assets to capital surplus	—	43,191	—	—	(43,191)	—	—	—	—
Transfer of unpaid cash dividend and of directors' and supervisors' remuneration outstanding for over five years to capital surplus	—	5,430	—	—	—	—	—	—	5,430
Change in cumulative translation adjustments	—	—	—	—	—	(156,396)	—	—	(156,396)
Effects of not subscribing to investees' newly issued shares in accordance with holding percentage	—	394,516	—	—	—	—	—	—	394,516
Adjustments of capital surplus and special reserve resulting from disposal of long-term investments accounted for by equity method	—	(6,560)	—	(265,554)	265,556	—	—	—	(6,558)
Rounding variances for distributing cash dividends	—	—	—	—	(17)	—	—	—	(17)
Recognition of issued common stock held by subsidiaries as treasury stock	—	—	—	—	—	—	(10)	(25,233)	(25,243)
Corresponding adjustments of capital surplus to comply with investees' adjustments	—	194	—	—	—	—	—	—	194
Cash dividends from long-term investments accounted for by equity method	—	—	—	(493,604)	493,604	—	—	—	—
Recognition of capital surplus resulting from treasury stock	—	692	—	—	—	—	—	—	692
Corresponding adjustment of capital surplus to comply with investees' recognition of issued common stock held by subsidiaries as treasury stock	—	(324,439)	—	—	—	—	—	—	(324,439)
Corresponding adjustment to comply with investees' reclassification of capital surplus resulting from disposal of property and equipment to special reserve	—	(72,511)	—	72,511	—	—	—	—	—
Reversal of special reserve	—	—	—	(2,432,215)	2,432,215	—	—	—	—
Unrealized loss on long-term equity investment	—	—	—	—	—	—	20,515	—	20,515
Reclassification of capital surplus resulting from disposal of property and equipment to unappropriated retained earnings and legal reserve	—	(2,106)	210	—	1,896	—	—	—	—
Net income of 2002	—	—	—	—	13,796,515	—	—	—	13,796,515
Balance as of December 31, 2002	**NT$ 62,144,795**	**23,236,959**	**12,202,434**	**16,355,417**	**19,605,453**	**5,196,886**	**(150,656)**	**(25,233)**	**138,566,055**

See accompanying notes to consolidated financial statements.

NAN YA PLASTICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(expressed in thousands of New Taiwan dollars and US dollars)

			Retained earnings						
	Capital stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation adjustments	Unrealized loss on long-term equity investments	Treasury stock	Total
Balance as of January 1, 2003	NT$ 62,144,795	23,236,959	12,202,434	16,355,417	19,605,453	5,196,886	(150,656)	(25,233)	138,566,055
Appropriation and distribution of earnings:									
Legal reserve	—	—	1,379,652	—	(1,379,652)	—	—	—	—
Special reserve	—	—	—	6,274,754	(6,274,754)	—	—	—	—
Cash dividends	—	—	—	—	(7,457,371)	—	—	—	(7,457,371)
Stock dividends	3,728,688	(2,485,792)	—	—	(1,242,896)	—	—	—	—
Director's and supervisors' remuneration	—	—	—	—	(26,593)	—	—	—	(26,593)
Employees' bonuses	—	—	—	—	(26,593)	—	—	—	(26,593)
Payment of unpaid cash dividend outstanding for over five years	—	(405)	—	—	—	—	—	—	(405)
Transfer of unpaid cash dividend and of directors' and supervisors' remuneration outstanding for over five years to capital surplus	—	7,268	—	—	—	—	—	—	7,268
Change in cumulative translation adjustments	—	—	—	—	—	(807,317)	—	—	(807,317)
Effects of not subscribing to investees' newly issued shares in accordance with holding percentage	—	1,454,327	—	—	—	—	—	—	1,454,327
Adjustments of capital surplus and special reserve resulting from disposal of long-term investments accounted for by equity method	—	(2,834)	—	(74,933)	74,933	—	—	—	(2,834)
Corresponding adjustments to comply with investees' prior-period adjustment	—	—	—	—	(741)	—	—	—	(741)
Corresponding adjustments of capital surplus to comply with investees' adjustments	—	605	—	—	—	—	—	—	605
Cash dividends from long-term investments accounted for by equity method	—	—	—	(1,914,501)	1,914,501	—	—	—	—
Recognition of capital surplus resulting from treasury stock	—	1,270	—	—	—	—	—	—	1,270
Corresponding adjustment of capital surplus to comply with investee's recognition of issued common stock held by subsidiaries as treasury stock	—	167,545	—	—	—	—	—	—	167,545
Corresponding adjustment to comply with investees' reclassification of capital surplus resulting from disposal of property and equipment to special reserve	—	(152,063)	—	109,045	43,018	—	—	—	—
Reversal of special reserve	—	—	—	(2,387,611)	2,387,611	—	—	—	—
Unrealized loss on long-term equity investment	—	—	—	—	—	—	124,439	—	124,439
Net income of 2003	—	—	—	—	17,180,004	—	—	—	17,180,004
Balance as of December 31, 2003	**NT$ 65,873,483**	**22,226,880**	**13,582,086**	**18,362,171**	**24,796,920**	**4,389,569**	**(26,217)**	**(25,233)**	**149,179,659**

NAN YA PLASTICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(expressed in thousands of New Taiwan dollars and US dollars)

				Retained earnings					
	Capital stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation adjustments	Unrealized loss on long-term equity investments	Treasury stock	Total
Balance as of January 1, 2003	US$ 1,828,326	683,641	359,000	481,183	576,800	152,895	(4,432)	(742)	4,076,671
Appropriation and distribution of earnings:									
Legal reserve	—	—	40,590	—	(40,590)	—	—	—	—
Special reserve	—	—	—	184,606	(184,606)	—	—	—	—
Cash dividends.	—	—	—	—	(219,399)	—	—	—	(219,399)
Stock dividends	109,699	(73,133)	—	—	(36,566)	—	—	—	—
Director's and supervisors' remuneration	—	—	—	—	(782)	—	—	—	(782)
Employees' bonuses	—	—	—	—	(782)	—	—	—	(782)
Payment of unpaid cash dividend outstanding for over five years	—	(12)	—	—	—	—	—	—	(12)
Transfer of unpaid cash dividend and of directors' and supervisors' remuneration outstanding for over five years to capital surplus.	—	214	—	—	—	—	—	—	214
Change in cumulative translation adjustments . . .	—	—	—	—	—	(23,752)	—	—	(23,752)
Effects of not subscribing to investees' newly issued shares in accordance with holding percentage	—	42,787	—	—	—	—	—	—	42,787
Adjustments of capital surplus and special reserve resulting from disposal of long-term investments accounted for by equity method	—	(83)	—	(2,205)	2,205	—	—	—	(83)
Corresponding adjustments to comply with investees' prior-period adjustment . . .	—	—	—	—	(22)	—	—	—	(22)
Corresponding adjustments of capital surplus to comply with investees' adjustments	—	18	—	—	—	—	—	—	18
Cash dividends from long-term investments accounted for by equity method	—	—	—	(56,325)	56,325	—	—	—	—
Recognition of capital surplus resulting from treasury stock	—	37	—	—	—	—	—	—	37
Corresponding adjustment of capital surplus to comply with investee's recognition of issued common stock held by subsidiaries as treasury stock.	—	4,929	—	—	—	—	—	—	4,929
Corresponding adjustment to comply with investees' reclassification of capital surplus resulting from disposal of property and equipment to special reserve	—	(4,474)	—	3,208	1,266	—	—	—	—
Reversal of special reserve . . .	—	—	—	(70,244)	70,244	—	—	—	—
Unrealized loss on long-term equity investment	—	—	—	—	—	—	3,661	—	3,661
Net income of 2003	—	—	—	—	505,443	—	—	—	505,443
Balance as of December 31, 2003	**US$ 1,938,025**	**653,924**	**399,590**	**540,223**	**729,536**	**129,143**	**(771)**	**(742)**	**4,388,928**

See accompanying notes to consolidated financial statements.

NAN YA PLASTICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(expressed in thousands of New Taiwan dollars and US dollars, except earnings per share)

	2001	2002	2003	
	NTD	NTD	NTD	USD
Cash flows from operating activities:				
Net income	$ 7,861,369	$ 13,796,515	$ 17,180,004	$ 505,443
Adjustments:				
Depreciation	12,685,366	12,847,499	12,824,032	377,288
Amortization of deferred expenses and technical assistance costs	669,069	697,027	641,511	18,873
Amortization of organization cost	—	1,032	—	—
Provision for (reversal of) bad debt expense	(31,928)	25,869	(27,602)	(812)
Provision for (reversal of) unrealized LCM loss on inventories	12,718	(8,973)	373	11
Unrealized foreign currency exchange (gain) loss, net	142,283	(155,943)	(31,527)	(928)
Equity in net (earnings) loss of investee companies	1,732,846	(5,817,864)	(5,825,971)	(171,403)
Realized (unrealized) profit from inter-affiliates' transactions	—	60,421	(31,429)	(925)
Loss (gain) on sale of short-term investments	—	(1,993)	9,742	287
Gain on sale of long-term investments	(14)	(1,518,013)	(1,322,764)	(38,916)
Gain on sale of property, plant and equipment, net	(159,386)	(912,055)	(94,118)	(2,769)
Decrease (increase) in notes receivable	1,849,645	46,941	16,232	478
Decrease (increase) in accounts receivable and overdue accounts	2,589,422	(2,612,930)	(6,319,373)	(185,919)
Decrease in other receivables	68,552	436,185	(155,643)	(4,579)
Decrease (increase) in inventories	2,831,372	(1,325,956)	(2,376,717)	(69,924)
Increase in prepayments and other current assets	(435,979)	(150,141)	(411,123)	(12,095)
Cash dividends from investees accounted for by equity method	1,478,541	794,599	3,136,790	92,286
Decrease in notes payable	(7,318)	—	—	—
Increase (decrease) in accounts payable	(1,124,816)	1,676,253	1,539,674	45,298
Increase (decrease) in accrued expense	(1,579,381)	785,957	466,651	13,729
Increase (decrease) in other payables	(293,281)	275,090	429,869	12,647
Increase (decrease) in collections in advance	(89,288)	(480,248)	129,327	3,805
Increase in accrued pension liability	1,552,501	1,449,561	1,234,422	36,317
Decrease (increase) in deferred income tax assets	(3,325,598)	1,590,616	(2,595,864)	(76,371)
Minority interest income	31,656	8,696	27,493	809
Consolidated credits	1,558	—	—	—
Subtotal	18,598,540	7,711,630	1,263,985	37,187
Net cash provided by operating activities	26,459,909	21,508,145	18,443,989	542,630
Cash flows from investing activities:				
Increase in long-term investments	(14,648,410)	(6,404,554)	(4,261,397)	(125,372)
Proceeds from sale of long-term investments	48	2,074,328	2,256,832	66,397
Proceeds from sale of property, plant and equipment	753,714	1,264,534	198,057	5,827
Purchases of property, plant and equipment	(18,150,204)	(11,612,718)	(9,270,504)	(272,742)
Decrease in short-term investments	(208,101)	(712)	(10,505,293)	(309,070)
Proceeds from sale of short-term investments	—	51,993	6,041,993	177,758
Decrease (increase) in due from related parties	(2,498,300)	3,746,902	7,822,681	230,147
Decrease (increase) in refundable deposits	55,728	17,196	(17,200)	(506)
Increase in deferred expenses and technical assistance costs	(652,790)	(612,604)	(300,630)	(8,845)
Decrease (increase) in other miscellaneous assets	(996,307)	(3,005,006)	125,024	3,678
Net cash used in investing activities	(36,344,622)	(14,480,641)	(7,910,437)	(232,728)

NAN YA PLASTICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(expressed in thousands of New Taiwan dollars and US dollars, except earnings per share)

	2001	2002	2003	
	NTD	NTD	NTD	USD
Cash flows from financing activities:				
Increase (decrease) in due to related parties	6,863,722	(5,632,606)	(1,441,159)	(42,399)
Increase (decrease) in short-term borrowings	(4,383,330)	(13,103,557)	884,654	26,027
Increase (decrease) in commercial paper payable	105,639	(3,655,948)	190,005	5,590
Increase (decrease) in long-term debt	6,152,241	4,227,576	(831,292)	(24,457)
Increase in bonds payable	2,620,000	15,360,000	5,240,800	154,186
Increase in guarantee deposits	(95,013)	(18,075)	(75,318)	(2,216)
Increase (decrease) in other miscellaneous liabilities	203,600	(36,318)	376,072	11,064
Payment of cash dividends	(5,774,626)	(4,058,283)	(7,446,660)	(219,084)
Payment of directors' and supervisors' remuneration and employees' bonuses	(93,728)	(8,544)	(47,867)	(1,408)
Net cash provided by (used in) financing activities	5,598,505	(6,925,755)	(3,150,765)	(92,697)
Effect of foreign currency exchange translation	7,221	6,856	(5,361)	(158)
Increase (decrease) in cash and cash equivalents	(4,278,987)	108,605	7,377,426	217,047
Cash and cash equivalents at beginning of year	5,746,576	2,116,968	2,225,572	65,477
Cash and cash equivalents at end of year	**$ 1,467,589**	**$ 2,225,573**	**$ 9,602,998**	**$ 282,524**
Supplemental cash flow information:				
Interest paid (excluding interest capitalized)	**$ 5,971,721**	**$ 4,254,474**	**3,672,852**	**$ 108,057**
Income tax paid	**$ 58,258**	**$ 400,430**	**$ 233,770**	**$ 6,878**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001, 2002 AND 2003
(all amounts expressed in thousands of New Taiwan dollars and US dollars except per share information or unless otherwise specified)

(1) DESCRIPTION OF BUSINESS

Nan Ya Plastics Corp. ("NYPC") was incorporated on August 22, 1958, and established its factories in Kaohsiung City. NYPC is engaged in the manufacture and sale of plastic products, chemical fibers, chemical products, dyeing products, printed circuit boards, and their raw materials. NYPC has gone through several capital increases and established many divisions. Currently, NYPC has the following divisions: plastics, fiber, dyeing, plasticizer, printed circuit board, electronics and engineering. NYPC has 13 plants across Taiwan and branch offices in Mai-Liao and Sen-Kong. It is the biggest plastics processing company in the world. The consolidated financial statements include the accounts of NYPC, NYPCA, and NYPCBC (the "Company") and all material inter-company balances and transactions have been eliminated in the consolidated financial statements.

Nan Ya Plastics Corporation, America ("NYPCA") was incorporated in Delaware, USA, in 1989. NYPCA is engaged in the manufacture and sale of polyester fibers, flexible PVC sheeting, and plasticizer, and is a 100%-owned subsidiary of NYPC.

Nan Ya Printed Circuit Board Corp. ("NYPCBC") was incorporated on October 28, 1997. NYPCBC is the engaged in the manufacture and sale of printed circuit boards and related equipment. It was a 95.59%-, 89.11%- and 89.11%-owned subsidiary of the Company as of December 31, 2001, 2002 and 2003, respectively.

As of December 31, 2003 the Company had 22,027 employees in Taiwan.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements are mainly composed of the accounts of the Company. All inter-company transactions have been eliminated. The functional currency of NYPCA is the US dollar, and the financial statements have been translated into New Taiwan dollars in accordance with Republic of China Statement of Financial Accounting Standards No. 14.

When the Company owns more than 50% of an investee's voting common stock, the investee is treated as a subsidiary and the Company is required to prepare annual consolidated financial statements. However, if both the subsidiary's total assets and operating revenue are below 10% of the Company's respective account balances, such a subsidiary is not required to be consolidated.

As of December 31, 2002, the total assets of NYPCBC (HK), a 100.00%-owned subsidiary of NYPCBC, exceeded 10% of NYPCBC's corresponding account balance; NYPCBC (HK) was included in NYPCBC's 2002 consolidated financial statements accordingly, whereas NYPCBC did not prepare consolidated financial statements because NYPCBC (HK) did not reach the threshold for being included in consolidation then. Owing to NYPCBC's 2002 consolidated financial statements being included in the Company's 2002 consolidated financial statements, the consolidated entities included in the Company's 2002 consolidated financial statements were different from those of 2001 because NYPCBC (HK) was added in 2002.

Such change in reporting entities does not require the restating of the 2001 consolidated financial statements according to local GAAP. 2002 was the first time for NYPCBC to prepare consolidated financial statements.

(b) Foreign currency transactions and translations of foreign currency financial statements

The NYPC's and NYPCBC's functional and reporting currency is the New Taiwan dollar. Foreign currency transactions during the year are translated at the rates on the transaction dates. Foreign currency receivable and payable are translated into New Taiwan dollars at the market rate on the balance sheet date, and the resulting realized and unrealized gains or losses are recognized as non-operating income or expenses.

Exchange differences derived from the translation of NYPC's and NYPCBC's foreign long-term investments are included in stockholders' equity as cumulative translation adjustments. Foreign currency financial statements of foreign subsidiaries are translated into New Taiwan dollars at the exchange rates of the balance sheet dates, except for stockholders' equity accounts, which are translated at historical exchange rates, and revenue and expense accounts, which are translated at the weighted-average exchange rates during the reporting period.

(c) Convenience translation into US dollars

The consolidated financial statements are stated in New Taiwan dollars. Translation of the 2003 New Taiwan dollar amounts into US dollar amounts is included solely for the convenience of the readers, using the noon buying rate of the Federal Reserve Bank in New York on December 31, 2003, of NT$33.99 to US$1 uniformly for all the financial statements' accounts. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

(d) Cash and cash equivalents

Cash equivalents are defined as highly liquid short-term investments readily convertible into known amounts of cash and with maturities within three months. Interest rate fluctuations have little effect on the values of these investments. Cash equivalents include commercial paper and banker's acceptances and are stated at cost.

(e) Short-term investments

Short-term investments are stated at the lower of aggregate cost or market value. Aggregate cost is determined by the weighted-average method. Market value is determined by averaging the closing price of the last month of the accounting period. Losses resulting from decline in market value are recognized in the income statement of the current period. Stock dividends received are not recognized as investment income but are accounted for as an increase in the number of shares held. The cost per share after stock dividends is recalculated using the weighted-average method.

(f) Allowance for doubtful accounts

Allowance for doubtful accounts and sales allowances are shown at their net realizable value and calculated based upon the Company's evaluation of the collectibility of notes and accounts receivable.

(g) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by using the weighted-average method. Market value represents replacement cost or net realizable value.

(h) Long-term equity investments

Long-term investments in listed equity securities that represent less than 20% of the investee's common stock ownership, and where the Company does not have significant influence on the investee, are stated at the lower of cost or market value. Unrealized loss thereon is recorded as a reduction in stockholders' equity.

Long-term investments in non-listed equity securities are stated at cost. When there is evidence showing that a decline in the market value of such an investment is other than temporary and the probability of recovery is considered remote, the carrying value of the investment is reduced to reflect the market value and the resulting loss is recognized in the period of such a reduction. Stock dividends are not recognized as investment income but are booked as an increase in the number of shares held. The cost of long-term equity investment sold is calculated based on the weighted-average method.

Investments where the percentage of ownership exceeds 20%, or where the Company has significant influence on the operating and financial policies of the investee companies, are accounted for by the equity method. The audited financial statements should be based on applying the equity method if the balance of the investee's share capital exceeds or equals NT$30,000 thousand, or if the balance of the investee's operating revenue exceeds or equals NT$50,000 thousand, or 10% of the Company's corresponding account balance. The difference between the cost of an investment and the amount of underlying equity in net assets of an investee is amortized by using the straight-line method over five years.

The Company recognizes concurrently its equity in the earnings and losses of a more than 20%-owned equity-method investee company if such an investee is more than 50% owned, or is less than 50% owned but meets all the criteria set out below:

(i) The beginning owners' equity of such an investee is in excess of NT$50,000 thousand, and is in excess of 5% of the Company's beginning capital.

(ii) The Company is among the top three shareholders in terms of the holding percentage of such an investee, or the Company nominates the president or general manager of such an investee.

(iii) The Company owns more than 30% of such investee, or the combined holding percentage of such investee as held by the Company, the Company's directors, supervisors, executive officers, and other entities controlled directly or indirectly by the Company is in excess of 50%.

The Company defers the recognition of its equity in the net earnings or losses of those nonsubsidiary investee companies that do not meet all the criteria referred to above, based on the Company's average holding percentage in such investee companies during the preceding period, and based on the audited financial statements of such investee companies during the preceding period. The Company's accounting policy over the recognition of its equity in earnings or losses of Nan Chung Petrochemical Corp., which was a 50%-owned equity-method investee company, changed from deferral recognition to concurrent recognition in 2002.

When the Company owns more than 50% of an investee's common stock, the investee is treated as a subsidiary and included in the consolidated financial statements. However, if the subsidiary's total assets and operating revenue are both below 10% of the Company's respective account balances, consolidated financial statements are not required. However, if the total assets and operating revenue of all unconsolidated subsidiaries are over 30% of the Company's respective account balances, consolidated financial statements are still required for any subsidiaries whose total assets and operating revenue are more than 3% of the Company's respective account balance.

Gain/loss on disposal of long-term equity is recognized as investment income/loss. Unrealized gains or losses from transactions between the Company and investees or subsidiaries are eliminated. Unrealized gains or losses resulting from depreciable or amortizable assets will be recognized yearly over the respective useful lives of the related assets. However, the gains or losses will be recognized in the year of realization if the unrealized gains or losses result from non-depreciable assets.

(i) Property, plant and equipment

Property, plant and equipment are stated at cost except for the NYPC's equipment that was revalued on December 31, 1974 and 1982. The cost plus revaluation increments less accumulated depreciation is the net book value.

Gains on disposal of property, plant and equipment are recorded as non-operating income; and for NYPC and NYPCBC, such gain, net of income tax, was transferred from unappropriated retained earnings to capital surplus in the year of disposal before 2001. In 2001, pursuant to the declaratory statutes of the ROC Company Law, gain on disposal of property, plant and equipment occurring before 2000 may be transferred to unappropriated earnings from capital surplus upon approval at a general shareholders' meeting. Losses on the disposal of property, plant and equipment are recorded as non-operating expenses. Interest on borrowings obtained to finance the acquisition or construction of property, plant and equipment is capitalized. Maintenance and repairs are expensed when incurred, while major additions, improvements and replacement expenditures are capitalized.

Depreciation of NYPC's printed circuit board equipment located in the Shu-lin plant acquired before December 31, 1988, and equipment located in the Lin-yuan plant is provided over the estimated useful lives of the equipment by using the straight-line method. Depreciation of property, plant and equipment of NYPC's other divisions and plants is calculated using the declining-balance method. Assets that are still in service after reaching the end of their estimated useful lives are depreciated over their re-estimated useful lives. The depreciation of NYPCA is based on the straight-line method. The depreciation of NYPCBC is based on the fixed-percentage-on-declining-balance method.

(j) Technical assistance costs

Technical assistance costs principally represent payments made to technology institutions that provide technical assistance. The costs are deferred and amortized over their estimated economic lives by using the straight-line method.

(k) Deferred expenses

Deferred expenses are stated at cost and primarily consist of bond issuance costs, electrical expenses, and catalyst. These costs are amortized over their estimated useful lives.

(l) Commercial paper payable

Commercial paper payable is recorded at maturity value less discount.

(m) Pension plan

In compliance with the R.O.C. Labor Standards Law, NYPC and NYPCBC have established employee benefit pension plans for their regular employees. NYPC and NYPCBC funded the retirement fund monthly at 2% of paid salaries and wages, but NYPC's funding rate has been changed to 4% since December 1, 2001. The funds are deposited with the Central Trust of China. After either working for a certain length of time, reaching a certain age, or becoming disabled, an employee may apply for retirement. NYPC and NYPCBC will then pay retirement benefits according to the average salaries of the six months before retirement and based on the points accumulated according to years of service. Each employee gets 2 points for each service year from year 1 to year 15, and 1 point thereafter. A lump-sum retirement benefit will be paid through the retirement fund.

NYPC and NYPCBC adopted Republic of China Statement of Financial Accounting Standards No. 18 (R.O.C. SFAS No. 18), "Accounting for Pensions", to recognize the amortization of net periodic pension cost. The Statement requires that the Company and NYPCBC calculate actuarial pension liability by using the balance sheet date as the measurement date. The amount of accumulated benefit obligation in excess of the fair value of pension plan assets is deemed the minimum pension liability, and is recognized as accrued pension liability.

NYPCA adopted a defined contribution retirement plan. NYPCA funded the retirement fund regularly according to the plan; in addition, NYPCA appropriated extra funds to the retirement fund based on a rate of no more than 1% of total salaries and wages and on a rate of no more than 4% of total salaries and wages when NYPCA has net income. The funding amount was charged to profit and loss accounts during the period of such funding.

(n) Income tax

NYPC and NYPCBC apply Republic of China Statement of Financial Accounting Standards No. 22, “Accounting for Income Taxes” (ROC SFAS No. 22). Income taxes are accounted for using the asset and liability method. Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax basis amounts, net loss carryforwards, and income tax credits. Deferred income tax assets and liabilities are measured by using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or settled. NYPC also evaluates the possibility of realization of deferred income tax assets, and recognizes the allowance accounts, if necessary. Deferred income tax assets and liabilities are classified as current or non-current according to the classification of the assets or liabilities from which they are derived, or according to the time of their reversal and settlement if they are not related to assets and liabilities.

According to the ROC Income Tax Law, undistributed income of NYPC and NYPCBC, if any, is subject to an additional 10% retained earnings tax. The surtax is charged to income tax expense after the appropriation of earnings is approved by the stockholders in the following year.

(o) Treasury stock

Effective on January 1, 2002, the Company’s issued common stock held by their subsidiaries is considered as the Company’s treasury stock in accordance with ROC SFAS No. 30, “Accounting for Treasury Stock”. SFAS No. 30 also prescribes that previous years’ financial statements are not required to be restated and no prior period retroactive adjustment is required.

(p) Earnings per share

The computation of basic earnings per share is based on the weighted-average number of outstanding common shares.

The computation of fully diluted earnings per share is based on the abovementioned weighted-average number of outstanding common shares, plus the projected weighted-average number of common shares which might have been issued on the conversion of all the outstanding potential common shares that have diluting effect.

Stock dividends through unappropriated earnings and capital surplus recapitalization are included in the computation of the number of outstanding shares. Earnings per share are retroactively adjusted for stock dividend issuance.

(q) Derivatives

(i) *Foreign exchange forward contracts*

Foreign exchange forward contracts entered into for the purpose of hedging the risks of exchange rate fluctuation on foreign currency receivables and payables are translated into New Taiwan dollars using year-end exchange rates. The resulting translation difference is recorded as an exchange gain or loss in the accompanying consolidated statements of income. The difference between the forward rate and spot rate at the contract date is amortized over the contract period.

(ii) *Interest rate swap contracts*

Interest rate swap contracts entered into for hedging purposes were only recorded in memo account on contract signing date, since no principal was transferred Any interest income or expense resulting from rate differences is measured on the balance sheet date and settlement dates, and is reflected in the accompanying consolidated statements of income, and the related interest receivable or payable resulting from the contract interest rate and market interest rate on the balance sheet date and settlement dates, is treated as an adjustment for the hedging assets' or liabilities' interest income or expense.

(iii) *Cross currency swaps (CCSs)*

The Company enters into cross currency swaps in order to meet the need for different currencies. The current portion of foreign assets and liabilities are recognized at the contract date spot rate. The long-term portion is recognized at the contract forward exchange rate. The spread between the spot and forward rate is amortized over the contract period as income or expense.

(r) Revenue recognition

Revenue is recognized when products are delivered to customers and the significant risks and rewards of ownership are transferred.

(3) CHANGE IN REPORTING ENTITY

In 2001 and 2002, the Company included Nan Ya Plastic Corp., Nan Ya Plastic Corp., America, Nanya Technology Corp., and Nan Ya Printed Circuit Board Corp. In 2003, the Company's ownership in Nanya Technology Corp. decreased from 50.13% to 45.14%. As a result, Nanya Technology Corp. became a non-subsidiary of the Company and was excluded from the 2003 consolidated financial statements. For the purpose of comparison, the 2001 and 2002 consolidated financial statements were restated to conform to the 2003 consolidated financial statements in accordance with the aforementioned changes in the Company.

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(4) CHANGE IN ACCOUNTING PRINCIPLE, AND THE EFFECTS

As mentioned in note 2(o), the Company changed its accounting treatment of the issued common stock held by its subsidiaries. This change in accounting principle had no material impact on the presentation of consolidated financial statements and earnings per share as of and for the year ended December 31, 2002.

(5) SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2001, 2002 and 2003, are summarized as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Stock	1,679,001	1,679,713	1,680,405	49,438
Overseas funds	—	—	4,452,865	131,005
Open-end mutual funds	234,500	184,500	184,500	5,428
	1,913,501	1,864,213	6,317,770	185,871

(a) The market values of the Company's short-term investments accounted for by the lower-of-cost-or-market-value method amounted to NT$7,572,425, NT$11,591,619 and NT$20,312,193 as of December 31, 2001, 2002 and 2003, respectively.

(b) Short-term investments pledged to banks as collateral for loans as of December 31, 2001, 2002 and 2003, are described in note 21.

(6) NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

As of December 31, 2001, 2002 and 2003, the amounts of notes receivable and accounts receivable that were overdue or under legal proceedings totaled NT$188,526, NT$232,752 and NT$228,522, respectively, and have been reclassified as overdue accounts. The related allowances for doubtful overdue accounts amounted to NT$188,526, NT$232,752 and NT$228,522 in 2001, 2002 and 2003, respectively.

(7) INVENTORIES

As of December 31, 2001, 2002 and 2003, inventories consisted of the following:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Finished goods	6,644,420	6,061,376	6,345,253	186,680
Work in process	3,872,483	4,975,060	4,790,049	140,925
Machinery and accessories in process	911,043	1,568,597	3,912,006	115,093
Raw materials	5,674,854	6,220,414	5,982,466	176,007
Supplies	3,037,072	2,909,581	2,550,255	75,029
Consigned-out raw materials	148,905	113,964	90,933	2,675
Consigned-out finished goods	40,917	5,186	12,216	359
Goods in transit	538,400	355,396	841,144	24,747
Less: allowance for inventory devaluation	(83,564)	(55,938)	(67,457)	(1,984)
	20,784,530	22,153,636	24,456,865	719,531

Inventories have been insured against fire loss. Total insurance coverage amounted to NT$18,472,143, NT$19,158,301 and NT$17,875,402 as of December 31, 2001, 2002 and 2003, respectively.

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(8) LONG-TERM EQUITY INVESTMENTS

As of December 31, 2001, 2002 and 2003, long-term equity investments consisted of the following:

	2001		2002		2003		
Investee	**NT$**	**% of ownership**	**NT$**	**% of ownership**	**NT$**	**US$**	**% of ownership**
Equity method:							
Nan Ya Plastics Corp., U.S.A.	2,500,131	100.00	2,742,478	100.00	2,827,614	83,189	100.00
Nan Ya Plastics (H.K.) Co., Ltd.	7,992,484	99.99	10,702,230	99.99	12,918,203	380,059	99.99
Superior World Wide Trading Company	328,422	99.99	363,374	99.99	394,374	11,603	99.99
PFG Fiber Glass (H.K.) Co., Ltd.	340,423	50.00	335,276	50.00	626,832	18,442	50.00
Formosa Industries Corp.	—	—	527,274	42.50	1,833,948	53,955	42.50
Formosa Plastics Group Investment Corp.	207,393	99.88	162,235	100.00	139,453	4,103	100.00
Nanya Technology Corp.	17,060,359	51.69	21,266,719	50.13	22,183,594	652,651	45.14
Nan Ya Photonics Inc.	—	—	—	—	99,881	2,939	71.42
Formosa Environmental Protection Technology Corp.	16,811	53.98	30,142	50.42	241,351	7,101	24.34
Flexus Specialty, Ltd.	81,480	98.96	20,173	99.00	16,457	484	99.00
Formosa Petrochemical Corp.	31,324,778	26.90	34,577,983	26.90	36,647,823	1,078,194	26.23
PFG Fibre Glass Corp.	1,831,311	49.99	1,834,951	49.99	1,883,394	55,410	50.00
Yue-Chi Industry Co., Ltd	3,390	49.99	3,385	49.99	—	—	—
Nan Chung Petrochemical Corp.	789,235	49.99	884,877	50.00	920,733	27,088	50.00
Wen Fung Industrial Co., Ltd	34,718	48.81	45,382	49.99	53,394	1,571	49.99
Formosa Automobile Corp.	588,838	45.00	521,220	45.00	465,806	13,704	45.00
Ya Tai Development Co.	12,307	34.93	13,109	34.97	13,431	395	34.97
Formosa Heavy Industries Corp.	2,953,168	32.91	3,034,592	32.91	3,084,400	90,744	32.91
Formosa Fairway Corp.	86,291	33.32	86,694	33.32	87,899	2,586	33.34
Formosa Plastics Group Management Consultants Corp.	542	33.30	558	33.30	568	17	33.30
Formosa Plastics Transportation Corp.	312,013	33.27	304,043	33.33	347,513	10,224	33.33
Hwa Ya Science Park Management Consulting Co., Ltd.	534	32.00	669	34.00	690	20	34.00
Yi-Jih Construction Co.,.	102,683	29.21	102,806	29.22	103,437	3,043	29.22
Mai Liao Power Corporation.	7,168,618	24.94	7,457,504	24.94	7,700,945	226,565	24.94
Su-Hua Transport Corp.	50,000	25.00	50,000	25.00	49,285	1,450	25.00
Formosa Utility Venture Corp.	651,938	12.09	701,459	12.09	717,587	21,112	12.09
Formosa Material Supply Venture	24,177	9.00	33,324	9.00	40,213	1,183	9.00
Nan Ya Printed Circuit Board Corp., H.K.	1,018,398	100.00	—	—	—	—	—
Nan Ya Printed Circuit Board Corp., U.S.A.	—	—	1,404	100.00	1,663	49	100.00
Subtotal	75,480,442		85,803,861		93,400,488	2,747,881	

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	2001		2002		2003		
Investee	NT$	% of ownership	NT$	% of ownership	NT$	US$	% of ownership
Lower-of-cost-or-market-value method:							
Ta-Chong Commercial Banking Corp.	333,330	3.17	333,330	3.17	333,330	9,807	3.17
First Insurance Corp.	215	0.01	215	0.01	215	6	0.01
Subtotal	333,545		333,545		333,545	9,813	
Cost method:							
Formosa Group Ocean Marine Investment Corp.	856,948	19.00	856,948	19.00	856,948	25,212	19.00
Ampere Industrial Co., U.S.A.	33,127	18.00	33,127	18.00	33,127	975	18.00
Sequoia Bancshares, Inc.	51	3.58	51	3.58	51	2	3.58
Formosa Plastics Corp., U.S.A.	141,379	0.61	141,379	0.61	141,379	4,159	0.61
Formosa Plastics Maritime Corp.	1,620	18.00	1,620	18.00	1,620	48	18.00
Formosa Plastics Development Corp.	90,000	18.00	90,010	18.00	90,010	2,648	18.00
Mai Liao Harbor Administration Corp.	539,245	17.98	539,245	17.98	539,245	15,865	17.98
Formosa Plastics Marine Corp.	15,000	15.00	15,000	15.00	15,000	441	15.00
Asia Pacific Investment Co., Ltd.	727,407	14.99	727,407	14.99	727,407	21,401	14.99
Formosa Network Technology Corp.	6,250	12.50	13,331	12.50	13,331	392	12.50
WK Technology Fund Corp.	57,753	1.63	57,753	1.63	57,753	1,699	1.63
WK Technology Fund IV Corp.	26,800	1.08	26,800	1.08	26,800	788	1.08
Central Leasing International Corp.	14,425	1.07	14,425	1.07	14,425	424	1.07
China Television Service	28,609	0.89	28,609	0.89	28,609	842	0.89
China-Canada Investment & Development Co., Ltd.	8,250	0.80	8,250	0.80	8,250	243	0.80
Taiwan Aerospace Corp.	41,250	0.78	41,250	0.78	41,250	1,213	0.78
Laber Cooperative	1	0.03	1	0.03	—	—	—
Gala Television Corp.	—	—	91,162	6.25	91,162	2,682	6.25
Subtotal	2,588,115		2,686,368		2,686,367	79,034	

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	2001		2002		2003		
Investee	NT$	% of ownership	NT$	% of ownership	NT$	US$	% of ownership
Cumulative translation adjustments:							
Nan Ya Plastics Corp., U.S.A.	494,985		475,272		402,449	11,840	
Nan Ya Plastics (H.K.) Co., Ltd.	1,118,697		1,080,817		819,227	24,102	
Superior World Wide Trading Company	(65,329)		(48,821)		(29,653)	(872)	
PFG Fiber Glass (H.K.) Co., Ltd.	9,906		7,701		(3,331)	(98)	
Formosa Industries Corp.	—		1,197		(57,408)	(1,689)	
Formosa Heavy Industries Corp.	2,428		2,819		889	26	
Nanya Technology Corp.,	10,138		11,079		12,914	380	
Nan Ya Printed Circuit Board Corp., H.K.	26,661		—		—	—	
Nan Ya Printed Circuit Board Corp., U.S.A.	—		1		(33)	(1)	
Subtotal	1,597,486		1,530,065		1,145,054	33,688	
Unrealized loss on long-term equity investment:							
Ta-Chong Bank	(143,347)		(124,283)		—	—	
Flexus Specialty, Ltd.	(27,813)		(156)		—	—	
Subtotal	(171,160)		(124,439)		—	—	
Total long-term equity investments, net	**79,828,428**		**90,229,400**		**97,565,454**	**2,870,416**	

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(a) The original cost of equity-method long-term investments as of December 31, 2001, 2002 and 2003, is summarized as follows:

Investee	2001	2002	2003	
	NT$	NT$	NT$	US$
Nan Ya Plastics Corp., U.S.A.	313,920	313,920	313,920	9,236
Nan Ya Plastics (H.K.) Co., Ltd.	7,518,798	10,338,876	12,601,038	370,728
Superior World Wide Trading Company	33,677	33,677	33,677	991
PFG Fiber Glass (H.K.) Co., Ltd.	340,318	340,318	721,227	21,219
Formosa Industries Corp.	—	527,274	1,837,425	54,058
Formosa Plastics Group Investment Corp.	76,609	76,859	76,859	2,261
Formosa Environmental Protection Technology Corp.	26,990	60,500	245,515	7,223
Flexus Specialty, Ltd.	134,060	134,005	134,005	3,942
Formosa Petrochemical Corp.	28,148,961	28,146,674	27,445,947	807,471
PFG Fiber Glass Corp.	500,000	500,000	500,000	14,710
Yue-Chi Industry Co., Ltd.	45,234	45,234	—	—
Nan Chung Petrochemical Corp.	999,960	1,000,002	1,000,002	29,420
Wen Fung Industrial Co., Ltd.	14,763	15,964	15,964	470
Formosa Automobile Corp.	675,000	675,020	675,020	19,859
Ya Tai Development Co.	10,130	10,147	10,147	299
Formosa Heavy Industries Corp.	2,497,719	2,497,721	2,497,721	73,484
Formosa Fairway Corp.	33,320	33,320	33,320	980
Formosa Plastics Group Management Consultants Corp.	333	333	333	10
Formosa Plastics Transportation Corp.	16,572	17,254	17,254	508
Hwa Ya Science Park Management Consulting Co. Ltd.	320	359	359	11
Yi-Jih Construction Co.	58,000	58,000	58,000	1,706
Mai Liao Power Corporation	5,985,465	5,985,465	5,985,465	176,095
Su-Hua Transport Corp.	50,000	50,000	50,000	1,471
Nan Ya Printed Circuit Board Corp., H.K.	1,018,731	—	—	—
Nan Ya Printed Circuit Board Corp., U.S.A.	—	3,479	3,479	102
Nanya Technology Corp.,	23,019,644	25,939,254	25,939,254	763,144
Nan Ya Photonics Inc.	—	—	99,990	2,942
Total	71,518,524	76,803,655	80,295,921	2,362,340
Formosa Utility Venture Corp.	US$ 8,000	8,000	8,000	8,000
Formosa Material Supply Venture	72	72	72	72
	US$ 8,072	8,072	8,072	8,072

(b) Pursuant to the R.O.C. "Regulations Governing the Preparation of Financial Statements of Issuers of Securities," the accounting treatment for long-term equity investments where the percentage of ownership exceeds 20% is as follows.

(i) Percentage of ownership exceeds 50%

The investment income or losses for 2001, 2002 and 2003 have been recognized by using the equity method. Except for Nan Ya Photonics Inc. and Nan Ya Plastics Corp., U.S.A., the investment income or losses were recognized based on the financial statements audited by other auditors.

(ii) Percentage of ownership ranging between 20% and 50%

For 2001, 2002 and 2003, except for Nanya Technology Corp., Formosa Petrochemical Corp., PFG Fiber Glass Corp., PFG Fiber Glass (HK) Co., Ltd., Nan Chang Petrochemical Corp., Formosa Heavy Industries, and Formosa Environmental Protection Technology Corp., due to the unavailability of the other investee companies' concurrent audited financial statements, the Company deferred recognition of its equity in the net earnings or losses of such other investees based on the Company's average holding percentages and on the audited financial statements of such other investees for 2000, 2001 and 2002.

The Company recognizes concurrently its equity in the earnings and losses of nonsubsidiary investee companies if such a company meets all the criteria set out below:

a) The beginning owners' equity of such an investee is in excess of NT$50,000, and is in excess of 5% of the Company's beginning issued share capital.

b) The Company is among the top three shareholders in terms of the holding percentage of such investee, or the president or general manger of such investee is nominated by the Company.

c) The Company owns more than 30% of such an investee, or the combined holding percentage of the investee as held by the Company, the Company's directors, supervisors, executive officers, and other entities controlled directly or indirectly by the Company is in excess of 50%.

(iii) The translation differences of subsidiaries denominated in foreign currencies are accounted for as cumulative translation adjustment.

(iv) NYPC's board of directors in a meeting held in April 1994 resolved to increase the capital of Nan Ya Plastics (H.K.) Co., Ltd., a 99.99%-owned subsidiary of NYPC. The increase in capital will be used to invest in Mainland China. As of December 31, 2001, 2002 and 2003, NYPC had already remitted US$94,878, US$81,150 and US$65,600, which was equivalent to NT$3,190,792, NT$2,820,077 and NT$2,262,162, respectively, to Nan Ya Plastics Corp., Hong Kong. The investment has been approved by the R.O.C. Ministry of Economic Affairs.

(v) NYPC's accounting policy over the recognition of its equity in earnings or losses of its 50.00%-owned investee Nan Chung Petrochemical Corp. was changed from deferred recognition to concurrent recognition in 2002; the change was approved by the ROC SFC. NYPC recognized its equity in net earnings of Nan Chung Petrochemical Corp. in 2002 amounting to NT$95,600, of which NT$25,246 was recognized based on said investee's concurrent net earnings and NT$70,354 was recognized based on said investee's 2001 net earnings.

(vi) As of December 31, 2001, 2002 and 2003, the market values of NYPC's long-term equity investments accounted for by the lower of cost or market value, Ta Chong Bank and First Insurance Corp., amounted to NT$189,982, NT$209,262 and

NT$373,493, respectively, and the total unrealized loss on devaluation of the said two investees amounted to NT$143,348, NT$124,283 and NT$0, respectively. NYPC's equity-method investee Flexus Specialty Ltd. held issued shares of listed companies and recognized unrealized devaluation loss on December 31, 2001, 2002 and 2003; the corresponding recognition made by NYPC based on its holding percentage in Flexus Specialty, Ltd. amounted to NT$27,813, NT$156 and NT$0 on December 31, 2001, 2002 and 2003, respectively, recorded as unrealized devaluation loss under stockholders' equity.

(vii) As of December 31, 2002 and 2003, NYPC owned 99% of the shares of investee Flexus Specialty, Ltd., which owned 1,068,930 shares and 1,133,065 shares, respectively, of the Company's issued common stock. The average book values were NT$48.62 dollars and NT$45.87 dollars, respectively, per share. In compliance with ROC SFAS No. 30, NYPC accounted for a debit of NT$25,233 of treasury stock, NT$26,207 of allowance for long-term investment, NT$11 of unrealized losses on long-term investment, and a credit of $51,451 of long-term investment.

(viii) The unrealized gain resulting from NYPC's depreciable assets sold to equity-method investee companies, such as Nan Ya Plastics Corporation, U.S.A., Nanya Technology Corp., Formosa Petrochemical Corp., PFG Fiber Glass Corp., Formosa Heavy Industries Corp., Mai Liao Power Corp., Formosa Plastics Transportation Corp., Formosa Automobile Corp. and Wen Fung Industrial Co., Ltd., was recognized over the remaining useful lives of the respective assets. The same accounting treatment is applied when depreciable assets of equity-method investees are sold to NYPC.

(ix) NYPC's long-term equity investments where the percentage of ownership exceeds 50% — Formosa Plastics Group Investment Corp., Superior World Wide Trading Company, Nan Ya Plastics Corp., U.S.A., Nan Ya Plastics Corp, H.K., Flexus Specialty, Ltd., and Nan Ya Photonics Inc. — are not included in the consolidated financial statements due to the subsidiary's total assets and operating revenue both being below 10% of the Company's respective account balances.

(x) NYPCBC invested in NYPCBC, U.S.A. in 2002. Of NYPCBC's equity in net loss and gain of NYPCBC, U.S.A. recognized in 2002 and 2003 amounting to a loss of NT$2,075 and a gain of NT$259, respectively, were based on its concurrent unaudited financial statements.

(xi) Long-term investments pledged to banks or courts as collateral for loans and lawsuits as of December 31, 2001, 2002 and 2003, are described in note 21.

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(9) PROPERTY, PLANT AND EQUIPMENT

(a) Except for land, the property, plant and equipment of NYPC were revalued on December 31, 1974, and December 31, 1982. The balances of the revaluation increments as of December 31, 2001, 2002 and 2003, were as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Machinery and equipment	206,727	203,272	184,953	5,441
Miscellaneous equipment	71,999	71,999	71,364	2,100
	278,726	**275,271**	**256,317**	**7,541**

(b) The property, plant and equipment pledged to secure bank loans as of December 31, 2001, 2002 and 2003, are described in note 21.

(c) Insurance coverage as of December 31, 2001, 2002 and 2003, amounted to NT$94,862,357, NT$101,463,194 and NT$115,613,312, respectively. In addition, all the construction in progress of the Company was insured, and the insurance coverage as of December 31, 2001, 2002 and 2003, amounted to NT$26,173,939, NT$8,576,852 and NT$4,770,693, respectively. Nan Ya Plastic Corp., America's insurance coverage for its inventories and fixed assets was US$350 million in 2001, 2002 and 2003.

(d) The "advance payment for equipment" included relocation and compensation payments to fishermen in the Mai-Liao area, where NYPC plans to construct its Sixth Naphtha Cracker. The compensation payments amounted to NT$638,962, NT$638,471 and NT$646,082 as of December 31, 2001, 2002 and 2003, respectively, and will be reclassified as cost of the land after the Company acquires the industrial land from the government.

(e) In 2001, 2002 and 2003, the capitalized interest on the borrowings for the purchase of the property, plant and equipment of the Company amounted to NT$634,040 NT$368,228, and NT$321,590, respectively.

(f) The details and balance of NYPC's "other miscellaneous assets" which were transferred from property, plant and equipment as of December 31, 2001, 2002 and 2003, were as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Leased-out property, net	1,130,556	1,080,738	1,109,597	32,645
Land located in Lin Kou industrial Zone (including development cost)	709,925	489,179	511,871	15,059
Property held for future use, net	36,325	132,128	126,766	3,730
	1,876,806	**1,702,045**	**1,748,234**	**51,434**

The land located in the Lin Kou industrial zone owned by NYPC has a total area of 351,174 square meters and had been earmarked by the government to be used by sophisticated electronics and information industries. NYPC engaged Ya Tai Development Corp. to develop and partition the land. NYPC also engaged WK Technology Fund Corp. to sell the land. For 2001, 2002 and 2003, the gain derived from the sale of the land recognized by NYPC amounted to NT$115,107, NT$891,659 and NT$1,223, respectively. As of December 31, 2001, 2002 and 2003, NYPC had already received NT$534,775, NT$45,122 and NT$45,122, respectively, for the sale of the land, and the amount was accounted for as “collection in advance”.

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In addition, NYPC’s “Formosa Plastics Edifices” real estate, Lin Kou plant, and Jing Hsin plant were leased out and were accounted for as “leased-out property"; NYPC’s Chien Chen plant and Lin Yuan plant were dormant, and their land, buildings and equipment were accounted for as other assets.

(10) SHORT-TERM BORROWINGS AND EMPLOYEES’ SAVINGS

As of December 31, 2001, 2002 and 2003, short-term borrowings and employees’ savings consisted of the following:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Unsecured borrowing	11,146,000	442,900	1,132,100	33,307
Usance letters of credit	32,523	18,239	56,130	1,651
Secured loans	300,000	695,916	849,241	24,985
	11,478,523	**1,157,055**	**2,037,471**	**59,943**
Employees’ savings	**271,378**	**194,676**	**182,473**	**5,369**

(a) For 2001, 2002 and 2003, the interest rates on short-term borrowings and employees’ savings ranged from 2.48% to 5.54%, from 1.72% to 2.70%, and from 1.00% to 2.13%, respectively.

(b) The assets pledged for the above borrowings are described in note 21.

(11) COMMERCIAL PAPER PAYABLE

Commercial paper payable as of December 31, 2001, 2002 and 2003, was as follows:

	2001		2002		2003		
	NT$	Interest rates	NT$	Interest rate	NT$	Interest rate	US$
Commercial paper payable	4,220,000	1.87%~3.27%	550,000	1.45%~1.90%	740,000	0.74%~0.79%	21,771
Less: discount	(14,184)		(132)		(127)		(4)
	4,205,816		**549,868**		**739,873**		**21,767**

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(12) LONG-TERM DEBT

Long-term debt as of December 31, 2001, 2002 and 2003, was as follows:

Bank	Repayment period	Nature	Interest rate	2001	2002	2003	
				NT$	NT$	NT$	US$
Chiao Tung Bank . . .	November 5, 1997~November 5, 2012. Five years after the first appropriation date, pay the first installment; the rest of the principal is to be repaid semiannually in 20 installments after the first repayment.	Machinery loan	4.00%~2.525%	1,080,000	1,020,200	900,980	26,507
Chiao Tung Bank . . .	December 5, 1997~December 5, 2012. Five years after the first appropriation date, pay the first installment; the rest of the principal is to be repaid semiannually in 20 installments after the first repayment.	Machinery loan	4.00%~2.525%	1,699,000	1,604,000	1,424,000	41,895
Chiao Tung Bank . . .	December 27, 1996~December 27, 2011. Five years after the first appropriation date, pay the first installment; the rest of the principal is to be repaid semiannually in 20 installments after the first repayment.	Machinery loan	4.00%~2.525%	2,784,000	2,808,000	2,496,000	73,433
Chiao Tung Bank . . .	September 22, 1997~September 22, 2012. Five years after the first appropriation date, pay the first installment; the rest of the principal is to be repaid semiannually in 20 installments after the first repayment.	Machinery loan	3.375%~1.9375%	6,194,823	5,559,785	4,863,611	143,089
Chiao Tung Bank . . .	March 24, 1999~March 24, 2014. Five years after the first appropriation date, pay the first installment; the rest of the principal is to be repaid semiannually in 20 installments after the first repayment.	Machinery loan	4.00%~2.525%	2,360,000	2,623,000	2,623,000	77,170
Chiao Tung Bank . . .	December 22, 2000~December 22, 2010. Principal is to be repaid every January, April, July and October in 40 installments starting in 2001.	Machinery loan	5.725%~4.155%	264,600	235,200	205,800	6,055
Chiao Tung Bank . . .	2003~2010. Principal is to be repaid every February and August in 10 installments, US$20,000 for first eight installments and US$95,000 for last two installments starting in 2005	Machinery loan	2.05%	—	—	11,892,300	349,876

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Bank	Repayment period	Nature	Interest rate	2001	2002	2003	
				NT$	NT$	NT$	US$
Chiao Tung Bank . . .	Principal is to be repaid every January and July in 10 installments, US$27,000 for each installment starting in 2000.	Machinery loan	4.3625%~2.48%	6,614,811	4,691,655	—	—
Chiao Tung Bank . . .	Principal is to be repaid every year in 3 installments, US$15,000, US$10,000, and US$175,000 for each installment starting in 2002.	Machinery loan	2.25%~7.57%	6,999,800	6,121,714	—	—
Asia Trust and Investment Corporation	December 29, 2000~January 29, 2004. Principal due on maturity.	Unsecured loans	5.00%~2.1%	295,000	295,000	295,000	8,679
Nan Shan Insurance Company	November 16, 1997~November 27, 2004. Principal due on maturity.	Secured loan	5%~7%	5,000,000	5,000,000	—	—
Taishin International Bank.	October 15, 2001~October 15, 2006. Principal due on maturity.	Secured loan	4.70%~1.79%	930,000	930,000	930,000	27,361
Shin Kong Life Insurance Company	December 27, 2001~December 27, 2004. Principal due on maturity.	Secured loan	5.25%~2.95%	3,700,000	3,700,000	3,700,000	108,856
Taiwan Cooperative Bank.	December 8, 1999~December 8, 2005. Principal due on maturity.	Secured loan	2.625%~5.05%	4,000,000	4,000,000	4,000,000	117,682
First Commercial Bank.	December 15, 1999~December 15, 2005. Principal due on maturity.	Secured loan	4.10%~2.625%	5,000,000	5,000,000	5,000,000	147,102
Taipei Bank	December 29, 1999~December 29, 2005. Principal due on maturity.	Secured loan	5.10%~2.75%	3,850,000	3,850,000	3,850,000	113,269
Farmers Bank	August 29, 2001~August 29, 2006. Principal is to be repaid in 6 semi-annual installments starting on August 29, 2003.	Secured loan	4.05%~2.60%	3,000,000	3,000,000	3,000,000	88,261
Bank of Taiwan	September 10, 2001~September 10, 2006. Principal is to be repaid in 6 semi-annual installments, starting on September 10, 2003.	Secured loan	2.70%~5.50%	8,000,000	8,000,000	8,000,000	235,363
China Development Industrial Bank . .	September 10, 2001~September 10, 2004. Principal is to be repaid in 3 semi-annual installments, NT$500,000, NT$500,000, NT$1,000,000 for each installment, starting on September 10, 2003.	Secured loan	2.55%~3.505%	2,000,000	2,000,000	1,500,000	44,131
Industrial Development Bureau of the Ministry of Economic Affairs .	September 4, 2001~October 1, 2004. Principal is to be repaid in 8 quarterly installments, starting on December 31, 2001.	Development of new products	—	7,965	10,630	5,162	152
Taiwan Cooperative Bank.	May 23, 2002~May 23, 2009. Principal is to be repaid in 20 quarterly installments.	Secured loan	3.525%~2.55%	—	829,000	829,000	24,390

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Bank	Repayment period	Nature	Interest rate	2001	2002	2003	
				NT$	NT$	NT$	US$
Taishin International Bank.	December 31, 2002~October 31, 2004. Principal due on maturity.	Secured loan	2.25%	—	400,000	—	—
Hua Nan Bank	December 31, 2002~December 31, 2004. Principal due on maturity.	Secured loan	3.15%	—	2,248,900	—	—
International Bank of Taipei	December 24, 2002~December 24, 2005. Principal due on maturity.	Unsecured loan	2.30%~1.80%	—	750,000	900,000	26,478
Taiwan Bank	December 29, 2003~December 29, 2008 Principal is to be repaid every year in 2 installments, starting on December 29, 2007	Secured loan	1.80%	—	—	3,200,000	94,145
Bank of Overseas Chinese	June 26, 2003~June 26, 2008 Principal due on maturity	Secured loan	2.3158%	—	—	500,000	14,710
Industrial Bank of Taiwan	June 26, 2003~June 26, 2008 Principal due on maturity	Secured loan	2.355%	—	—	2,000,000	58,841
Taiwan Cooperative Bank.	June 27, 2003~May 23, 2009 Principal is to be repaid quarterly starting on June 27, 2005	Machinery loan	2.55%	—	—	1,000,000	29,420
ABN AMRO Bank (formerly Canadian Imperial Bank of Commerce)	September 11, 2002~September 10, 2007. Principal is to be repaid in 6 semi-annual installments, starting on March 10, 2005.	Secured loan	2.025%~2.4475%	—	487,142	849,241	24,985
				63,779,999	65,164,226	63,964,094	1,881,850
Less: current portion .				(3,592,314)	(4,015,368)	(6,912,438)	(203,367)
Long-term debt, excluding current portion. .				**60,187,685**	**61,148,858**	**57,051,656**	**1,678,483**

(a) The assets pledged for long-term debt are described in note 21.

(b) Long-term debt as of December 31, 2003, will be repaid in the following periods:

Periods	Total long-term debt	US currency-denominated debts
January 1~December 31, 2004	$ 6,912,438	16,840
January 1~December 31, 2005	20,792,277	56,840
January 1~December 31, 2006	11,797,276	56,840
January 1~December 31, 2007	5,260,610	56,840
After January 1, 2008	19,201,493	305,780
	$ 63,964,094	**493,140**

(c) In order to raise capital for the Sixth Naphtha Cracker project and the construction of related factories, NYPC signed a syndicated long-term mortgage loan agreement with the Chiao Tung Bank, the managing bank of the syndicated loan, and other banks on April 28, 1994. The details of the loan are as follows:

(i) Credit line: NT$15,300,000 (comprising NT$9,400,000 and US$227,000).

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(ii) Interest rate: as settled with each participating bank.

(iii) Period: 10 to 15 years.

(iv) Collateral: the acquired land, buildings and machinery financed by the loan.

As of December 31, 2003, NT$8,992,000 and US$177,000 of the credit line had been appropriated.

(13) BONDS PAYABLE AND INTEREST COMPENSATION PAYABLE

Bonds payable and interest compensation payable as of December 31, 2001, 2002 and 2003, were as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Domestic unsecured nonconvertible corporate bonds	18,600,000	34,950,000	32,950,000	969,403
Domestic secured nonconvertible corporate bonds	3,530,000	2,540,000	1,520,000	44,719
Overseas exchangeable bonds	—	—	8,154,720	239,915
Less: current portion	22,130,000	37,490,000	42,624,720	1,254,037
Bonds payable, excluding current portion	(2,990,000)	(9,020,000)	(3,520,000)	(103,560)
	19,140,000	**28,470,000**	**39,104,720**	**1,150,477**

(a) The terms of the domestic corporate bonds are as follows:

	The first domestic unsecured nonconvertible corporate bond	The second domestic unsecured nonconvertible corporate bond	The first domestic secured nonconvertible corporate bond	The third domestic unsecured nonconvertible corporate bond	The fourth domestic unsecured nonconvertible corporate bond	The fifth domestic unsecured nonconvertible corporate bond
Issued principal amount	NT$5,000,000	NT$4,000,000	NT$3,000,000	NT$3,000,000	NT$3,000,000	NT$6,000,000
Issuance date	April 16, 1996	July 10, 1996	December 30, 1996	March 6, 1997	August 5, 1997	October 1, 1998
Maturity	5 years	5 years	5,6,7 years	I: 5 years II: 6 years III: 7 years	I: 5 years II: 6 years III: 7 years	5 years A, C, D. H. J: 7.45% B, E.G, I: 7.35%
Bearing annual interest rate	6.875%	6.74%	6.54%	I: 6.59% II: 6.65% III: 6.70%	I: 6.53% II: 6.64% III: 6.75%	F, K: 7.31%
Interest payment date	April 16	July 10	December 30	March 6	August 5	October 1
Pledges	—	—	Securities	—	—	—
Issuing entity	The Company	The Company	The Company	The Company	The Company	The Company

	The second domestic secured nonconvertible corporate bond	The sixth domestic unsecured nonconvertible corporate bond	The seventh domestic unsecured nonconvertible corporate bond	The eighth domestic unsecured nonconvertible corporate bond	The third domestic unsecured nonconvertible corporate bond in 2002	Domestic unsecured nonconvertible corporate	The first domestic unsecured nonconvertible corporate bond in 2003
Issued principal amount	NT$1,520,000	NT$6,600,000	NT$5,000,000	NT$4,150,000	NT$6,000,000	NT$3,200,000	NT$6,000,000
Issuance date	September 28, 1999	December 10~21, 2001	April 12~30, 2002	July 22~26, 2002	November 18~December 6, 2002	August 1~8, 2002	May 2~13, 2003
Maturity	5 years	5, 6, 7 years	3, 4, 5 years	3, 4, 5 years	5 years	5 years	4, 5, 6, 7 years
Bearing annual interest rate	A to D: 6.05%	IA~IJ: 2.85% IIA~IIJ: 2.83% IIIA~IIIB: 2.82%	IA~IM: 3.35% IIA~IIL: 3.3224%	Floating rate	I: 2.90% II: 2.8793%	I: 3.50% II: 3.4699%	I: 1.7% II: 1.6928% III: 1.9% IV: 1.8911%
Interest payment date	September 28	December 10~21	April 12~30	July 22~ 26	November 18~ December 6	August 1~8 February 1~9	May 2~13
Pledges	Guarantee provided by Chiao Tung Bank	—	—	—	—	—	—
Issuing entity	The Company	The Company	The Company	The Company	The Company	NYPCBC	The Company

(b) The terms of the overseas exchangeable bonds are as follow:

Issued principal amount	US$240,000
Issuance date	July 17, 2003
Maturity	5 years
Bearing annual interest rate	0.00%
Exchange period	Aug. 17, 2003~July 2, 2008
Exchange price	NT$32.551
Redemption period at the option of the holder of the bonds	July 17, 2005~July 17, 2008, at their redemption value in US dollars
Redemption period at the option of the Company	July 17, 2006~July 17, 2008

(c) Redemption method:

(i) The Bonds will be convertible into common shares of Nan Ya Plastics Corp. ("NTC") or GDRs at any time on or after August 17, 2003, and prior to the close of business on July 2, 2008, except during any closed period.

(ii) NYPC may redeem all or some of the overseas exchangeable bonds on or after July 17, 2006, and prior to July 17, 2008, at its principal amount minus 0.75% per annum through to the redemption date, only when the following conditions are satisfied:

a. The market price per share of the common stock of NTC exceeds 130% of the exchange price then in effect, translated into US dollars at a fixed exchange rate of NT$34.38=US$1.00 for 30 consecutive trading days before the publication date.

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b. At least 90% of the principal amount of the bonds has already been redeemed, repurchased and cancelled, or exchanged.

c. Changes in ROC taxation would require the Company to gross up for payment of principal or interest, if any, at a rate greater than 20%.

(c) The assets pledged for the secured bonds are described in note 21.

(14) ACCRUED PENSION LIABILITY

NYPC and NYPCBC applied Republic of China Statement of Financial Accounting Standards No. 18, “Accounting for Pensions,” while preparing their annual financial statements. NYPC and NYPCBC recognized minimum pension liability based on actuarial reports, which used the balance sheet date as the measurement date. The following table sets forth the funded status and amounts recognized in the consolidated balance sheets as of December 31, 2001, 2002 and 2003:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Benefit obligation:				
Vested benefit obligation	3,582,791	4,001,617	4,639,925	136,509
Non-vested benefit obligation	5,974,395	5,158,257	7,337,637	215,876
Accumulated benefit obligation	9,557,186	9,159,874	11,977,562	352,385
Projected compensation increases	5,506,237	6,595,416	6,082,032	178,936
Projected benefit obligation	15,063,423	15,755,290	18,059,594	531,321
Fair value of plan assets	(229,709)	(264,155)	(386,532)	(11,372)
Funded status	14,833,714	15,491,135	17,673,062	519,949
Unrecognized transitional net obligation	(3,806,938)	(3,555,503)	(3,304,068)	(97,207)
Unrecognized gain (loss)	(4,166,824)	(3,626,119)	(4,825,059)	(141,955)
Accrual of insufficiency	2,530,842	701,578	2,222,533	65,388
Accrued pension liability	**9,390,794**	**9,011,091**	**11,766,468**	**346,175**

As of December 31, 2001, 2002 and 2003, the balance of the retirement fund deposited with the Central Trust of China by the Company amounted to NT$229,709, NT$264,155 and NT$386,532, respectively. The pension actually paid by the Company in 2001, 2002 and 2003 amounted to NT$534,414, NT$468,508 and NT$427,656, respectively. The unfunded amounts, accounted for as accrued expenses, amounted to NT$29,849, NT$30,186 and NT$32,213, respectively. As of December 31, 2001, 2002 and 2003, the actuarial present value of the vested benefits for the Company’s employees in accordance with the retirement benefit plan was approximately NT$3,582,791, NT$5,241,124 and NT$5,883,488, respectively.

Major assumptions used to determine the pension plan funded status as of December 31, 2003, were as follows:

	Nan Ya Plastics Corp.	Nan Ya Printed Circuit Board Corp.
Discount rate	3.0%	3.0%
Rate of increase in compensation	3.0%	3.0%
Expected long-term rate of return on plan assets	3.0%	3.0%

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NYPCA has a defined contribution pension plan covering substantially all employees. NYPCA contributed to the plan in the amounts of US$850, US$865 and US$892 in 2001, 2002 and 2003, respectively; the respective amounts were charged to operations.

(15) EMPLOYEE STOCK OPTION PLAN

During 2003, NYPCBC adopted an employee stock option plan to issue 6000 units of employee stock options with the right for each option to purchase one thousand shares of NYPCBC's common stock. NYPCBC fully issued these options on October 31, 2003.

The major terms of the plan are summarized as follows:

(a) The exercise price of the employee stock option: (1) If exercised before NYPC's IPO, the exercise price should not be lower than the net assets per share based on the Company's latest audited financial statements. (2) If exercised after NYPC's IPO, the exercise price should not be lower than the closing market price of NYPC's common stock on the stock option issuance date.

(b) Vesting period: The granted and issued options are eligible to be exercised in 3 installments according to the following schedule. The options are valid for eight years and are not transferable. The options will be cancelled when expired and will not be re-issued.

Exercise period	Accumulated exercisable percentage
October 2005	50%
October 2006	75%
October 2007	100%

(c) Shares to be issued: New common stock.

(d) Exercise price: NT$30 per share.

(16) INCOME TAX

(a) The Company adopted ROC SFAS No. 22, "Accounting for Income Taxes". The 25% tax rate is applied to the Company's taxable income. The components of the Company's income tax expense (benefit) for 2001, 2002 and 2003 are presented as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Current income tax expense (benefit)	(84,862)	96,151	147,408	4,337
Deferred income tax expense (benefit)	(3,333,527)	1,586,486	776,638	22,849
Non-taxable commercial paper interest income	197,158	—	—	—
Income tax expense (benefit)	**(3,418,192)**	**1,682,637**	**924,046**	**27,186**

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(b) The reconciliation between the income tax calculated based on financial pretax income and the reported income tax expense (benefit) for 2001, 2002 and 2003 was as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Income tax expense calculated based on financial pretax income	1,262,459	4,487,188	4,743,057	139,543
Difference resulting from different tax rate applied by subsidiary	111,370	45,657	(683,741)	(20,116)
10% income surtax on undistributed earnings	105,376	342,078	33,333	981
Tax-exempt income	(45,587)	—	(31,886)	(938)
Non-taxable dividend income	(72,801)	(75,601)	(113,489)	(3,339)
Non-taxable investment (income) loss	432,269	(1,379,409)	(1,429,231)	(42,049)
Gain on disposal of land	(28,913)	(222,915)	(23,469)	(690)
Gain on disposal of equity securities	(2,306)	(380,001)	(332,555)	(9,784)
Tax credits	(5,909,892)	(420,966)	(2,794,851)	(82,226)
Separately taxed income tax expense	(49)	—	—	—
Differences between estimated and actual income tax expense filing	—	(1)	136	4
Provision for (reversal of) valuation allowance for deferred income tax assets	728,143	(728,143)	1,592,156	46,842
Others	1,739	14,750	(35,414)	(1,042)
Income tax expense (benefit)	**(3,418,192)**	**1,682,637**	**924,046**	**27,186**

The authority has not yet approved the income tax deductible research and development expense and training expense yet.

(c) Deferred income tax assets and tax liabilities as of December 31, 2001, 2002 and 2003, were as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Current:				
Deferred income tax assets	1,700,323	2,216,684	3,331,948	98,027
Valuation allowance for deferred income tax assets	—	—	(8,156)	(240)
	1,700,323	2,216,684	3,323,792	97,787
Deferred income tax liabilities	(5,455)	—	(62,688)	(1,844)
Current deferred income tax assets, net	**1,694,868**	**2,216,684**	**3,261,104**	**95,943**
Non-current:				
Deferred income tax assets	11,389,311	11,194,391	10,828,278	318,573
Valuation allowance for deferred income tax assets	(728,143)	—	(1,938,137)	(57,021)
	10,661,168	11,194,391	8,890,141	261,552
Deferred income tax liabilities	(4,470,811)	(7,100,346)	(6,549,085)	(192,677)
Non-current deferred income tax assets, net	**6,190,357**	**4,094,045**	**2,341,056**	**68,875**
Total deferred income tax assets	**13,089,634**	**13,411,075**	**14,160,226**	**416,600**
Total deferred income tax liabilities	**(4,476,266)**	**(7,100,346)**	**(6,611,773)**	**(194,521)**
Total valuation allowance for deferred income tax assets	**(728,143)**	**—**	**(1,946,293)**	**(57,261)**

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(d) The deduction for investing in equipment for automation of production, research and development expense, resource-poor or less-developed rural areas, and major industries, and the expiry year as of March 31, 2004, were as follows:

	Tax credit for investing in equipment for automation of production		Tax credit for research and development expense		Tax credit for investing in resource-poor area		Tax credit for investing in major industries		Deduction expiry year
	NT$	US$	NT$	US$	NT$	US$	NT$	US$	
2000	—	—	—	—	—	—	673,891	20,421	2004
2001	—	—	—	—	—	—	3,721,931	112,786	2005
2002	—	—	—	—	695,998	21,091	—	—	2006
2003	485,985	14,727	389,890	11,815	1,704,590	51,654	—	—	2007
2004	38,600	1,169	94,556	2,865	31,897	967	—	—	2008
	524,585	**15,896**	**484,446**	**14,680**	**2,432,485**	**73,712**	**4,395,822**	**133,207**	

(e) NYPC's income tax returns through 2000 have been assessed and approved by the ROC tax authorities.

(17) STOCKHOLDERS' EQUITY

(a) Capital stock

(i) As of December 31, 2001 and 2002, NYPC had authorized capital stock amounting to NT$58,079,248 and NT$62,144,795, respectively, and had issued capital stock of NT$58,079,248 and NT$62,144,795, respectively, representing 5,807,925 thousand and 6,214,480 thousand shares, respectively, at NT$10 par value per share. All the authorized shares were issued.

(ii) The general stockholders' meeting held on June 6, 2003, resolved to increase NYPC's authorized capital stock to NT$65,873,483 and to transfer unappropriated retained earnings and capital surplus, amounting to NT$1,242,896 and NT$2,485,792, respectively, to capital stock. The capital increase referred to above was approved by the Republic of China Securities and Futures Commission (ROC SFC) on July 11, 2003, and registered with the authorities. As of December 31, 2003, NYPC's total authorized and issued stock amounted to 6,587,348 thousand shares.

(b) Treasury stock

In 2002 and 2003, the changes in treasury stock were as follows:

Unit: Shares of common stock

	2002			
Items	**Beginning number of shares**	**Addition**	**Disposal**	**Ending number of shares**
Issued shares of the Company owned by subsidiaries	**999,000**	**69,930**	**—**	**1,068,930**

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Unit: Shares of common stock

	2003			
Items	Beginning number of shares	Addition	Disposal	Ending number of shares
Issued shares of the Company owned by subsidiaries	**1,068,930**	**64,135**	**—**	**1,133,065**

As of December 31, 2002 and 2003, Flexus Specialty, Ltd. had acquired 1,068,930 and 1,133,065 shares of the Company's issued stock at an average book value of NT$48.62 and NT$45.87, respectively, per share. As of December 31, 2003, the shares had not been sold and the market price was NT$47.65 per share.

Effective January 1, 2002, pursuant to ROC SFC regulations, NYPC's issued common stock held by a subsidiary is to be recognized by the Company as treasury stock. NYPC is required to appropriate a special reserve on the balance sheet date amounting to the amount of that treasury stock's book value in excess of the market value multiplied by NYPC's holding percentage in said subsidiary. Said special reserve is to be reversed upon the recovery of market price.

(c) Capital surplus and restrictions on appropriation of earnings

(i) *Capital surplus*

As of December 31, 2001, 2002 and 2003, the details of capital surplus were as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Gains on disposal of property, plant and equipment — net of income tax	2,106	—	—	—
Additional paid-in capital in excess of the common stock's par value	14,140,000	11,816,830	9,331,038	274,523
Amount paid in excess of the common stock's par value derived from corporate bond conversion	10,028,523	10,028,523	10,028,523	295,043
Gains on acquisition of Taiwan Plasticizer Corp.	74,474	74,474	74,474	2,191
Revaluation increments	358,504	358,504	358,504	10,548
Other	918,836	958,628	2,434,341	71,619
	25,522,443	**23,236,959**	**22,226,880**	**653,924**

The ROC Company Law stipulates that capital surplus can only be used to offset a deficit and only realized capital surplus can be used to increase share capital. The realized capital surplus is limited to capital surplus generated from paid-in capital in excess of par value and donated assets. No cash dividends can be declared out of capital surplus. As of December 31, 2001, the capital surplus derived from after-tax net gain on fixed asset disposal amounted to NT$2,106. The ROC Company Law was newly amended in 2001 to eliminate the regulation on recognizing net gain on fixed asset disposal as capital surplus and allowed such capital surplus reversal upon the general stockholders' meeting approval. As a result, the general stockholders' meeting held on

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May 31, 2002, resolved to reverse the capital surplus from net gain on fixed asset disposal of NT$2,106, of which NT$1,895 was transferred to retained earnings and NT$211 was transferred to legal reserve.

As of December 31, 2001, 2002 and 2003, the details of revaluation increments were as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Amount transferred to capital stock	1,333,556	1,333,556	1,333,556	39,234
Accounted for as capital surplus	358,504	358,504	358,504	10,547
Accumulated revaluation increments	**1,692,060**	**1,692,060**	**1,692,060**	**49,781**

(ii) ***Legal reserve***

The R.O.C. Company Law stipulates that a company must retain 10% of its annual net earnings as legal reserve until such retention equals the amount of issued shares capital. The legal reserve may be used to offset an accumulated deficit, but cannot be distributed as cash dividends. However, up to 50% of the balance of legal reserve can be converted to capital stock upon approval at a stockholders' meeting when the balance of legal reserve reaches an amount equal to one-half of the issued capital stock.

(iii) ***Special reserve and distribution of earnings***

According to the R.O.C. Company Law and the Company's articles of incorporation, the Company's earnings are to be appropriated in the following order:

a. Pay income tax;

b. Offset prior year's deficit, if any;

c. Of the remaining balance, if any, 10% is to be set aside as legal reserve;

d. After setting aside the legal reserve, NT$0.01 per share is to be distributed to shareholders as interest on capital;

e. The remaining balance is to be distributed to owners as dividends or retained; 1% or more should be distributed as employee bonus, and 1% should be distributed as directors' and supervisors' remuneration, if the general stockholders' meeting resolves to make an earnings distribution.

NYPC's articles of incorporation stipulate that the investment income recognized based on the equity method and the deferred income tax benefit recognized from the increase in unexpired income tax credit are deemed unrealized and should be appropriated as special reserve before the distribution of interest on capital. Such special reserve is to be reversed to unappropriated retained earnings only when it is realized, that is, when investee companies declare dividends or income tax credits are used.

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(iv) ***Imputation credit account (ICA) and creditable ratio***

As of December 31, 2001, 2002 and 2003, the information related to the integrated tax system was as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Balance of imputation credit account	$83,747	$41,985	$37,397	$1,100
Creditable ratio for earnings distribution	0.39%	0.26%	0.17%	

As of December 31, 2001, 2002 and 2003, the undistributed earnings were as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Before January 1, 1998	$6,843,212	$6,843,212	$6,754,449	$198,719

(d) The appropriation of 2002 net income as employee bonus and directors' and supervisors' remuneration approved at the shareholders' meetings on June 6, 2003, was as follows:

	Amount	
	NT$	US$
Employee bonus	26,593	783
Remuneration for directors and supervisors	26,593	782
	53,186	1,565

The earnings distribution referred to above was in accordance with the resolution of the board of directors' meeting. Assuming the above employee bonus and directors' and supervisors' remuneration were expensed in the year when the earnings were recognized, the retroactively adjusted earnings per share for year 2002 would be as follows:

	Before income tax	After income tax
	NT$	NT$
Basic EPS	2.40	2.21

NYPC's appropriation of 2003 net income as employee bonus and directors' and supervisors' remuneration is subject to NYPC's directors' and shareholders' resolutions. After the resolutions, related information can be obtained from the public information Website.

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(18) EARNINGS PER SHARE

For the years ended December 31, 2001, 2002 and 2003, the weighted-average number of outstanding shares of common stock and the common stock equivalents for calculating the primary EPS consisted of the following:

Unit: thousands of NT$ and shares of common stock

	2001				
	Amount			Earnings per share	
	Income before income tax	Income after income tax	Total shares outstanding	Before income tax	After income tax
Basic earnings per share-retroactively adjusted	$ 4,443,177	7,861,369	6,587,348	0.67	1.19

	2002				
	Amount			Earnings per share	
	Income before income tax	Income after income tax	Total shares outstanding	Before income tax	After income tax
Basic earnings per share-retroactively adjusted	$ 15,479,152	13,796,515	6,586,226	2.35	2.09

	2003				
	Amount			Earnings per share	
	Income before income tax	Income after income tax	Total shares outstanding	Before income tax	After income tax
Basic earnings per share	$ 18,104,050	17,180,004	6,586,226	2.75	2.61

Unit: thousands of US$ and shares of common stock

	2003				
	Amount			Earnings per share	
	Income before income tax	Income after income tax	Total shares outstanding	Before income tax	After income tax
Basic earnings per share	$ 532,629	505,443	6,586,226	0.081	0.077

(19) FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Derivatives

(i) *Forward exchange contracts*

Starting in May 2001, NYPC entered into forward exchange contracts with a notional amount of US$90,000 thousand to hedge the risk of fluctuations in foreign exchange rates on a long-term Chiao Tung Bank US dollar syndicated loan. The above contracts call for a receipt of US$6,923 every 6 months starting in March 2002. The last receipt is due on March 24, 2008.

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Starting in August 2003, NYPC entered into forward exchange contracts with a notional amount of US$30,000 thousand to hedge the risk of fluctuations in foreign exchange rates on a Chiao Tung Bank long-term US dollar-denominated syndicated loan. The above contracts call for the receipt of US$1,765 every 6 months starting in August 2003. The last receipt is due on March 22, 2012. As of December 31, 2001, 2002, and 2003, the effective forward exchange contracts amounted to US$90,000,000, US$76,153,846.16, and US$92,307,692.32, respectively.

As of December 31, 2001, 2002 and 2003, the details of receivables and payables resulting from forward exchange contract transactions were as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Forward exchange contract receivables — foreign currencies	3,149,910	2,646,575	3,136,431	92,275
Forward exchange contract payable	(2,925,487)	(2,475,412)	(2,976,037)	(87,556)
Unamortized premium on forwards exchange contract	(83,627)	(70,066)	(133,437)	(3,926)
Net balance	**140,796**	**101,097**	**26,957**	**793**

The net balance is recognized as other receivables. In addition, the spread between the spot and forward rate is amortized using the straight-line method over the contract period and recognized as interest income. The amortized interest income amounted to NT$9,041, NT$13,561 and NT$16,670 in 2001, 2002 and 2003, respectively.

(ii) ***Cross currency swaps (CCSs)***

	Notional principal		
Counter-party	**2001**	**2002**	**2002**
	US$ (thousand)	**US$ (thousand)**	**US$ (thousand)**
ABN AMRO Bank interest rate swap contracts	**90,000**	**76,154**	**62,308**

NYPC engaged in CCSs to hedge the risk of interest rate fluctuations of the Chiao Tung Bank syndicated loan. As of December 31 2003, NYPC had 7 unexpired US dollar CCS contracts with ABN AMRO Bank, with the last settlement date on March 24, 2008. According to the contracts, NYPC pays interest semi-annually to ABN AMRO Bank based on a fixed rate of 5%, and on the exchange rate on the contract effective date and collects interest based on LIBOR and the contracted fixed exchange rate. The differences in interest derived from these transactions are recognized as non-operating income or expense. The loss derived from the CCSs amounted to NT$6,421, NT$48,476 and NT$78,233 in 2001, 2002 and 2002, respectively.

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(iii) ***Interest rate swaps***

a) NYPC engages in interest rate swap transactions to hedge the risk of fluctuations in interest rates of long-term debt. A summary of the swaps is as follows:

Counter-party	Notional principal 2001	Notional principal 2002
	US$ (thousand)	US$ (thousand)
Banque Paribas interest rate swap contracts	20,000	20,000
Bank of America interest rate swap contracts	20,000	20,000
ABN AMRO Bank interest rate swap contracts	26,667	—
Union Bank of Switzerland interest rate swap contracts	11,944	—
	78,611	**40,000**

As of December 31, 2002, NYPC had 3 unexpired contracts with the above banks, with the last settlement date on September 22, 2003. According to the contracts, NYPC pays to the counter-parties interest based on a contracted fixed rate ranging from 5.15% to 5.38%, and collects interest based on the London Inter-Bank Offered Rate (LIBOR). The differences between these swaps are recognized as non-operating income or expense. The non-operating income and loss derived from the interest rate swaps amounted to a gain of US$587, a loss of US$1,137, and a loss of US$1,492 in 2001, 2002 and 2003, respectively.

b) NYPC engaged in interest rate swap transactions with Citibank, N.A. and ABN AMRO to hedge the risk of fluctuations in interest rates of NT dollar long-term debt. The contracts with Citibank N.A. and ABM AMRO Bank both end on December 27, 2008. According to the contracts, NYPC pays interest quarterly to Citibank N.A. and ABN AMRO Bank based on a fixed rate of 3.45% and 3.69%, and collects interest based on the issuing rate of commercial paper (CP) offered in the secondary market. The differences in interest derived from these swaps are recognized as non-operating income or expense. The loss derived from the interest rate swaps amounted to NT$38,983 and NT$61,334 in 2002 and 2003, respectively. The details of the above-mentioned swaps are listed below:

Counter-party	Notional principal 2002	Notional principal 2003	
	NT$	NT$	US$
Citibank, N.A.	1,320,000	1,100,000	32,362
ABN AMRO Bank	1,500,000	1,153,846	33,947
	2,820,000	**2,253,846**	**66,309**

c) NYPC entered into interest rate swap contracts in July and August 2002 with Bank of America to hedge the risk of fluctuations in interest rates of NT dollar long-term debt, and all the contracts end on July 30 and August 26, 2007. According to the contracts, NYPC pays interest quarterly to Bank of America based on a fixed rate of 2.85%, 2.88% and 2.80%, and collects interest based on the issuing rate of CP offered in the secondary market. The loss derived from the interest rate swaps amounted to NT$2,455 and NT$16,462 in 2002 and 2003, respectively. The details of the above-mentioned swaps are listed below:

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Counter-party	Notional principal 2002	2003	
	NT$	NT$	US$
Bank of America	500,000	500,000	14,710
Bank of America	300,000	300,000	8,826
Bank of America	270,000	270,000	7,944
	1,070,000	**1,070,000**	**31,480**

d) NYPC engaged in interest rate swap transactions with Deutsche Bank to hedge the risk of fluctuations in interest rates of the eighth domestic corporate bond issued in 2002. The contract started on June 11, 2002, and ends on July 26, 2007. According to the contract, NYPC pays interest semi-annually to Deutsche Bank based on a fixed rate of 3.85%, and collects interest determined based on either a fixed rate minus the 90-day CP floating rate in the secondary market or a fixed rate multiplied by the interest accumulated. The gain derived from the interest rate swaps amounted to NT$17,717 in 2003. The details of the above-mentioned swaps are listed below:

Counter-party	Notional principal 2002	2003	
	NT$	NT$	US$
Deutsche Bank	**4,150,000**	**4,150,000**	**122,095**

e) NYPC entered into interest rate swap contracts with Deutsche Bank and Bank of America to hedge the risk of fluctuations in interest rates of the Chiao Tung Bank syndicated loan. The contracts started in August~September 2003 and end on August 28 and September 2, 2008. According to the contracts, the Company pays interest semi-annually to Deutsche Bank and Bank of America based on LIBOR, and collects interest determined based on a fixed rate and the CP floating rate in the secondary market. The loss derived from the interest rate swaps amounted to NT$2,315 in 2003. The details of the above-mentioned swaps are listed below:

Counter-party	Notional principal 2003	
	NT$	US$
Deutsche Bank	4,000,000	117,681
Bank of America	1,400,000	41,189
	5,400,000	**158,870**

(iv) The Company believes that the possibility of loss incurred by contract breaches is minimal because the counter-parties are all internationally well-known banks with good reputations.

(b) Non-derivative financial instruments

In accordance with R.O.C. Statement of Financial Accounting Standards No. 27, "Disclosure of Financial Instruments", the fair value of the Company's non-derivative financial instruments is as follows:

(i) The methods and assumptions used to estimate the fair value of each class of financial instruments

a) Because the maturity dates of short-term financial instruments, including cash and cash equivalents, pledged time deposits, notes and accounts receivable/payable, receivables from and payables to related parties, short-term borrowings, current installments of long-term debt, short-term notes and bills payable, accrued expenses, and other receivable and payable, are within one year, their book value is the best estimate of their fair value. This principle is applied in estimating the fair value of short-term financial instruments.

b) The market price is the fair value of marketable securities if an open market exists, whereas other financial methodologies are used in estimating the fair value of securities without an existing trading market.

c) The discounted present value of anticipated cash flows is the fair value of long-term debt and bonds payable. The applied discounting rates are based on the proposed interest rates of the assumed long-term loans with terms similar to those of NYPC's existing long-term liabilities.

(ii) As of December 31, 2001, 2002 and 2003, except for the book value of short-term investments accounted for by the lower-of-cost-or-market-value method amounting to NT$1,913,501, NT$1,864,213 and NT$6,317,770, respectively, with their fair value amounting to NT$7,572,425, NT$11,591,619 and NT$20,312,193, respectively, the fair values of other non-derivative financial instruments approximated the book values of the balance sheet.

(20) RELATED-PARTY TRANSACTIONS

(a) Name and relationship

Name	Relationship
Formosa Plastics Corp.	Same president as the Company
Formosa Chemicals & Fiber Corp.	Same president as the Company
Chang Gung Memorial Hospital	Same president as the Company
Formosa Asahi Spandex Co., Ltd.	Same president as the Company
Mai-Liao Harbor Administration Corp.	Same president as the Company
Formosa Plastics Marine Corp.	Same president as the Company
Asia Pacific Development Corp.	Same president as the Company
Formosa Idemitsu Petrochemical Corp.	Same president as the Company
Inotera Memories Inc.	The president is the Company's general manager
Nan Ya Plastics Corp., U.S.A.	A subsidiary of the Company
Formosa Plastic Group Investment Corp.	A subsidiary of the Company
Nan Ya Plastics (Hong Kong) Co., Ltd.	A subsidiary of the Company
Flexus Specialty, Ltd.	A subsidiary of the Company
Nanya Technology Corp.	Investee accounted for by the equity method
Formosa Environmental Protection Technology Corp.	Investee accounted for by the equity method
Nan Chung Petrochemical Corp.	Investee accounted for by the equity method
Formosa Heavy Industries Corp.	Investee accounted for by the equity method
Formosa Petrochemical Corp.	Investee accounted for by the equity method
Formosa Automobile Corp.	Investee accounted for by the equity method
Wen Fung Industrial Co., Ltd.	Investee accounted for by the equity method
FPG Fiber Glass Corp.	Investee accounted for by the equity method
Ya Tai Development Corp.	Investee accounted for by the equity method
Formosa Plastics Transportation Corp.	Investee accounted for by the equity method
Mai-Liao Power Corp.	Investee accounted for by the equity method
Formosa Industries Corp.	Investee accounted for by the equity method
Su-Hua Transport Corp.	Investee accounted for by the equity method
Pei-Jeng Trading Co., Ltd.	A subsidiary of Nanya Technology Corp.
P. T. Indonesia Nan Ya Indah Plastics Co.,	A subsidiary of the Company's subsidiary
Nan Ya Plastics (Guang Zhou) Co., Ltd.	A subsidiary of the Company's subsidiary
Nan Ya Rigid Film (Guang Zhou) Co., Ltd.	A subsidiary of the Company's subsidiary
Nan Ya Plastics (Nan Tong) Co., Ltd.	A subsidiary of the Company's subsidiary
Nan Ya Synthetic Leather (Nan Tong) Co., Ltd.	A subsidiary of the Company's subsidiary
Nan Ya Plastics Construction Materials (Nan Tong) Co., Ltd.	A subsidiary of the Company's subsidiary
Nan Ya Plastics Film (Hui Zhou) Co., Ltd.	A subsidiary of the Company's subsidiary
Nan Ya Electronic Materials (KunShan) Co., Ltd.	A subsidiary of the Company's subsidiary
Nan Ya Copper Foil (KunShan) Co., Ltd.	A subsidiary of the Company's subsidiary
Nan Ya Glass Fabrics (KunShan) Co., Ltd.	A subsidiary of the Company's subsidiary
Nan Ya Co-Generation Plant (KunShan) Co., Ltd.	A subsidiary of the Company's subsidiary
Yung Chia Chemical Industry Corp.	Same president as its parent company's (Formosa Plastics Corp.)
Formosa plastics Corp. U.S.A.	Same president as the Company
Formosa plastics Corp. America	A subsidiary of Formosa Plastics Corp. with the same president as the Company
Formosa Material Supply Venture, Ltd	NYTCA investee accounted for by the equity method
Formosa Utility Venture, Ltd.	NYTCA investee accounted for by the equity method
Nan Ya Printed Circuit Board Corp., U.S.A.	A subsidiary of NYPCBC
First International Computer Incorporation	The president is a relative of the Company president
Formosa Network Technologies Corp.	The president is a relative of the Company president

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(b) Significant related-party transactions

(i) *Purchases and sales*

Purchases from related parties in 2001, 2002 and 2003 were as follows:

	2001		2002		2003		
	NT$	% of net purchases	NT$	% of net purchases	NT$	US$	% of net purchases
Formosa Plastics Corp.	8,321,581	11.28	9,482,400	11.27	11,695,473	344,086	11.52
Formosa Chemicals & Fiber Corp.	12,675,586	17.17	16,679,467	19.82	20,227,966	595,115	19.92
Yung Chia Chemical Industries Co.	2,062,691	2.79	1,493,174	1.77	950,851	27,974	0.94
PFG Fiber Glass Corp.	2,516,928	3.41	1,993,097	2.37	2,046,387	60,205	2.02
Formosa Petrochemical Corp.	10,028,472	13.59	7,815,210	9.29	11,743,371	345,495	11.56
Formosa Plastics Corp. U.S.A.	3,791,053	5.14	3,888,007	2.76	3,828,051	112,623	3.77
Formosa Plastics Marine Corp.	—	—	72,910	0.09	469,348	13,808	0.46
Formosa Utility Venture Corp.	556,068	0.75	417,724	0.50	480,636	14,141	0.47
Nan Chung Petrochemical Corp.	2,472,193	3.35	2,323,008	4.62	2,699,247	79,413	2.66
Formosa Idemitsu Petrochemical Corp.	—	—	—	—	162,886	4,792	0.16
Nan Ya Electronic Materials (KunShan)	—	—	—	—	123,301	3,628	0.12
Other	763	—	3,332	—	713	21	—
Total	**42,425,335**	**57.48**	**44,168,329**	**52.49**	**54,428,230**	**1,601,301**	**53.60**

The Company pays the related parties by drawing checks on the 15th of the month following the month of purchase. The purchasing prices and payment terms of the purchases from other related parties are not materially different from those for non-related general suppliers.

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Sales to related parties in 2001, 2002 and 2003 were as follows:

	2001		2002		2003		
	NT$	% of net sales	NT$	% of net sales	NT$	US$	% of net sales
Formosa Plastics Corp.	483,613	0.37	586,636	0.42	872,845	25,679	0.51
Formosa Chemicals & Fiber Corp.	1,124,898	0.86	1,090,753	0.78	2,854,571	83,983	1.68
Nan Ya Plastics Corp., H.K.	443,643	0.34	411,138	0.29	315,737	9,289	0.19
PFG Fiber Glass Corp.	106,776	0.08	—	—	—	—	—
Formosa Petrochemical Corp.	910,488	0.69	801,612	0.57	644,907	18,973	0.38
Mai Liao Power Corp.	109,590	0.08	—	—	—	—	—
Formosa Automobile Corp.	132,372	0.10	—	—	—	—	—
Formosa Plastics Corp. U.S.A.	159,670	0.12	192,308	0.14	241,327	7,100	0.14
Chang Gung Memorial Hospital	315,099	0.24	439,293	0.31	219,113	6,446	0.13
Nanya Technology Corp.	—	—	436,132	0.31	377,845	11,116	0.22
Formosa Asahi Spandex Co., Ltd.	145,905	0.11	277,246	0.20	362,391	10,662	0.21
Formosa Heavy Industries Corp.	237,878	0.18	8,913	0.01	270,617	7,962	0.16
Nan Ya Plastics (Guang Zhou) Co., Ltd.	—	—	196,706	0.14	263,916	7,765	0.16
Nan Ya Rigid Film (Guang Zhou) Co., Ltd.	—	—	329,066	0.24	190,955	5,618	0.11
Nan Ya Plastics (Nan Tong) Co., Ltd.	—	—	146,230	0.11	186,666	5,492	0.11
Nan Ya Synthetic Leather (Nan Tong) Co., Ltd.	—	—	—	—	122,393	3,601	0.07
Nan Ya Plastics Construction Materials (Nan Tong) Co., Ltd.	—	—	—	—	145,372	4,277	0.08
Nan Ya Plastics Film (Hui Zhou) Co., Ltd.	—	—	904,520	0.65	194,483	5,722	0.11
Nan Ya Electronic Materials (Kun Shan) Co., Ltd.	—	—	602,000	0.43	108,705	3,198	0.06
Nan Ya Copper Foil (Kun Shan) Co., Ltd.	—	—	—	—	1,185,521	34,878	0.70
Nan Ya Glass Fabrics (Kun Shan) Co., Ltd.	—	—	221,991	0.16	1,055,819	31,063	0.62
Nan Ya Co-Generation Plant (Kun Shan) Co., Ltd.	—	—	—	—	804,290	23,662	0.48
Formosa Industries Corp.	—	—	—	—	2,216,681	65,216	1.31
Inotera Memories Inc.	—	—	—	—	154,823	4,555	0.09
Other	118,650	0.09	654,462	0.47	428,721	12,613	0.28
Total	**4,288,582**	**3.26**	**7,299,006**	**5.23**	**13,217,698**	**388,870**	**7.80**

NYPC's sales to Formosa Plastics Corporation and Nan Ya Plastics Corp., USA mainly were sales of machinery and accessories. Receivables from Formosa Plastics Corp. are collected upon inspection completion. Receivables from Nan Ya Plastics Corp., USA are collected within 360 days of the Document Against Acceptance (D/A) acceptance date after inspection and test-run completion. The selling prices are quoted based on a reasonable margin rate.

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The selling prices and terms of NYPC's sales to Formosa Chemicals & Fiber Corporation and other related parties are not materially different from those offered to general customers. Collections are made on the 15th of the month following the month of the related sale.

(ii) *Accounts receivable and payable (excluding financing)*

The balance of receivables from and payables to related parties (excluding financing transactions) as of December 31, 2001, and 2002, 2003, consisted of the following:

	2001		2002		2003		
	NT$	%	NT$	%	NT$	US$	%
Accounts receivable:							
Formosa Plastics Corp.	54,495	0.33	—	—	—	—	—
Formosa Chemicals & Fiber Corp.	115,851	0.69	161,755	0.83	404,614	11,904	1.56
Nan Ya Plastics Corp., H. K.	54,221	0.32	—	—	—	—	—
Formosa Petrochemical Corp.	167,355	1.00	89,288	0.46	69,464	2,043	0.27
Chang Gung Memorial Hospital	137,182	0.82	191,895	0.98	81,918	2,410	0.32
Nan Ya Rigid Film (Guang Zhou) Co., Ltd.	—	—	115,603	0.59	46,427	1,366	0.18
Nan Ya Plastics (Nan Tong) Co., Ltd.	—	—	—	—	117,097	3,445	0.45
Nan Ya Plastics Film (Hui Zhou) Co., Ltd.	—	—	568,846	2.91	79,673	2,344	0.31
Nan Ya Electronic Materials (Kun Shan) Co., Ltd.	—	—	179,265	0.92	61,997	1,824	0.24
Nan Ya Glass Fabrics (Kun Shan) Co., Ltd.	—	—	158,323	0.81	350,565	10,314	1.35
Nan Ya Co-Generation Plant (Kun Shan) Co., Ltd.	—	—	—	—	454,860	13,382	1.75
Formosa Industries Corp.	—	—	—	—	1,495,546	44,000	5.76
Inotera Memories Inc.	—	—	—	—	116,729	3,435	0.45
Other	138,719	0.83	712,871	3.65	546,379	16,074	2.09
	667,823	**3.99**	**2,177,846**	**11.15**	**3,825,269**	**112,541**	**14.73**

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	2001		2002		2003		
	NT$	%	NT$	%	NT$	US$	%
Accounts payable:							
Formosa Plastics Corp.	666,506	7.19	913,256	10.82	1,192,150	35,073	11.56
Formosa Chemicals & Fiber Corp.	908,887	9.80	1,792,720	21.24	1,635,415	48,115	15.85
Yung Chia Chemical Industries Co.	98,770	1.06	114,108	1.35	—	—	—
PFG Fiber Glass Corp.	28,503	0.30	146,487	1.74	205,350	6,041	1.99
Formosa Petrochemical Corp. . .	509,004	5.49	981,328	11.62	1,445,839	42,537	14.02
Nan Chung Petrochemical Corp.	174,871	1.89	233,814	2.77	279,907	8,235	2.71
Formosa Idemitsu Petrochemical Corp.	—	—	—	—	17,971	529	0.17
Nan Ya Electronic Materials (Kun Shan) Co., Ltd.	—	—	—	—	95,856	2,820	0.93
Formosa Plastics Corp. U.S.A. . .	—	—	—	—	100,639	2,961	0.98
Other.	—	—	53,429	0.63	—	—	—
	2,386,541	**25.73**	**4,235,142**	**50.17**	**4,973,127**	**146,311**	**48.21**

(iii) *Financing transactions*

The details of NYPC's borrowings from and loans to related parties in 2001, 2002 and 2003 were as follows:

	2001				
	Date of maximum balance	Maximum balance	Ending balance	Interest rate	Amount of interest
		NT$	NT$		NT$
Due from related parties — current:					
Formosa Petrochemical Corp.	January 6, 2001	11,000	—	6.218~6.859%	98,567
Formosa Plastics Transportation Corp. . . .	May 2, 2001	101,100	—	4.656~6.609%	2,155
Pei Jeng Trading Co., Ltd .	December 11, 2001	569,100	569,100	4.656~6.609%	26,963
Nan Chung Petrochemical Corp.	June 21, 2001	595,700	—	4.656~6.609%	1,842
Formosa Automobile Corp.	December 13, 2001	683,900	506,300	4.656~6.609%	21,798
Ya Tai Development Co. . .	December 19, 2001	328,600	324,500	4.656~6.609%	10,820
Flexus Specialty, Ltd.	June 18, 2001	28,100	17,600	4.656~6.609%	506
Wen Fung Industrial Co., Ltd.	March 27, 2001	140,200	—	4.656~6.609%	2,363
Formosa Environmental Protection Technology Corp.	December 28, 2001	1,162,600	1,162,600	4.656~6.609%	40,278
Subtotal.			2,580,100		205,292
Due from related parties — noncurrent:					
Nanya Technology Corp. . .	January 1, 2001	2,400,000	2,000,000	4.656~6.609%	3,224
Formosa Chemicals & Fiber Corp..	December 31, 2001	4,000,000	4,000,000	4.656%	510
Formosa Plastics Corp. America	December 31, 2001	146,495	146,496	2.694~7.266%	—
Formosa Plastics Corp. U.S.A.	—	6,680,780	5,629,195	2.694~7.266%	—
Subtotal.			11,775,691		3,734
Total			**14,355,791**		**209,026**

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	2001				
	Date of maximum balance	Maximum balance	Ending balance	Interest rate	Amount of interest
		NT$	NT$		NT$
Due to related parties — current:					
Formosa Plastics Corp. .	June 8, 2001	4,576,900	1,489,300	4.656~6.609%	57,919
Formosa Chemicals & Fiber Corp..	December 31, 2001	4,000,000	4,000,000	4.656~6.609%	30,441
Formosa Plastics Transportation Corp. .	December 14, 2001	53,500	2,500	4.656~6.609%	72
Nan Chung Petrochemical Corp. .	December 31, 2001	530,200	530,200	4.656~6.609%	5,508
PFG Fiber Glass Corp. .	April 16, 2001	848,100	46,400	4.656~6.609%	11,476
Mai Liao Harbor Administration Corp. .	September 20, 2001	246,000	246,000	4.656~6.609%	3,432
Formosa Heavy Industries Corp.	August 15, 2001	2,900,000	—	4.656~6.609%	20,775
Wen Fung Industrial Co., Ltd.	November 9, 2001	33,000	8,400	4.656~6.609%	148
Formosa Petrochemical Corp..	March 15, 2001	5,200,500	1,368,800	4.656~6.609%	115,084
Nan Ya Plastics Corp., U.S.A.	December 31, 2001	—	118,997	—	—
Subtotal.			7,810,597		244,855
Due to related parties — noncurrent:					
Nan Ya Plastics Corp., U.S.A.	—	—	2,771,592	—	—
Total			**10,582,189**		**244,855**

	2002				
	Date of maximum balance	Maximum balance	Ending balance	Interest rate	Amount of interest
		NT$	NT$		NT$
Due from related parties — current:					
Formosa Group Oscan Marine Investment Corp..	August 29, 2002	205,443	205,443	3.891~4.199%	2,827
Formosa Plastics Transportation Corp. .	December 17, 2002	335,900	288,900	3.891~4.656%	1,778
Pei-Jeng Trading Co., Ltd.	December 10, 2002	802,200	403,800	3.891~4.588%	24,512
PFG Fiber Glass Corp. .	December 31, 2002	761,600	761,600	3.902~4.588%	5,611
Formosa Automobile Corp..	December 18, 2002	985,200	963,300	3.891~4.588%	31,472
Ya Tai Development Corp..	April 9, 2002	445,900	414,800	3.891~4.588%	13,877
Flexus Specialty, Ltd. . .	April 2, 2002	19,000	13,600	3.891~4.588%	677
Mai Liao Power Corp. . .	June 26, 2002	2,000,000	509,200	3.891~4.063%	7,725
Formosa Petrochemical Corp..	December 11, 2002	2,215,400	—	3.891~4.063%	6,464
Formosa Environmental Protection Technology Corp. . . .	December 26, 2002	1,213,700	1,143,700	3.891~4.656%	49,735
Wen Fung Industrial Co., Ltd.	December 10, 2002	22,400	11,100	3.902~4.588%	27
Formosa Chemicals & Fiber Corp..	January 1, 2002	4,000,000	—	3.902~4.656%	34,082
Subtotal.			4,715,443		178,787

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	2002				
	Date of maximum balance	Maximum balance	Ending balance	Interest rate	Amount of interest
		NT$	NT$		NT$
Due from related parties — noncurrent:					
Formosa Plastics Corp. America	December 1, 2002	150,926	150,926	2.736~4.183%	4,759
Formosa Plastics Corp. U.S.A.	December 1, 2002	9,153,851	8,547,964	2.748~4.183%	232,120
Subtotal			8,698,890		236,879
Total			**13,414,333**		**415,666**
Due to related parties — current:					
Formosa Plastics Transportation Corp.	November 14, 2002	117,200	—	3.891~4.656%	536
Formosa Plastics Corp.	April 15, 2002	3,488,600	—	3.891~4.588%	75,931
Formosa Chemicals & Fiber Corp.	January 1, 2002	4,000,000	—	3.902~4.656%	38,364
Formosa Plastics Group Investment Corp.	May 17, 2002	80,000	25,900	3.891~4.588%	1,169
Nan Chung Petrochemical Corp.	March 1, 2002	709,000	661,800	3.891~4.656%	19,303
PFG Fiber Glass Corp.	July 23, 2002	145,000	—	3.891~4.588%	265
Mai Liao Harbor Administration Corp.	January 1, 2002	246,000	—	3.891~4.588%	9,172
Wen Fung Industrial Co., Ltd.	April 18, 2002	55,300	—	3.891~4.588%	536
Formosa Petrochemical Corp.	June 17, 2002	1,619,000	—	3.891~4.588%	5,250
Subtotal			687,700		150,526
Due to related parties — noncurrent:					
Formosa Heavy Industries Corp.	December 25, 2002	1,500,000	1,500,000	3.902%	1,123
Nan Ya Plastics Corp., U.S.A.	December 1, 2002	2,924,229	2,924,229	2.748~4.183%	93,599
Subtotal			4,424,229		94,722
Total			**5,111,929**		**245,248**

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	2003							
	Date of maximum balance	Maximum balance		Ending balance		Interest rate	Amount of interest	
		NT$	US$	NT$	US$		NT$	US$
Due from related parties — current:								
Formosa Plastics Corp.	June 19, 2003	299,700	8,817	—	—	3.266%	—	—
Formosa Petrochemical Corp.	July 14, 2003	4,623,900	136,037	—	—	3.142%~3.44%	7,427	219
Pei-Jeng Trading Co., Ltd.	July 10, 2003	420,400	12,368	53,400	1,571	3.046%~3.657%	8,297	244
Nan Chung Petrochemical Corp.	November 28, 2003	798,200	23,483	476,000	14,004	3.046%~3.213%	3,469	102
PFG Fiber Glass Corp.	January 1, 2003	761,600	22,407	70,200	2,065	3.046%~3.657%	3,831	113
Formosa Plastics Transportation Corp.	January 16, 2003	362,700	10,671	—	—	3.10%~3.657%	4,211	124
Flexus Specialty, Ltd.	July 24, 2003	18,400	541	10,100	297	3.046%~3.657%	433	13
Wen Fung Industrial Co., Ltd.	December 3, 2003	226,500	6,664	197,900	5,823	3.046%~3.375%	2,208	65
Formosa Environmental Protection Technology Corp.	August 11, 2003	1,170,100	34,425	301,400	8,867	3.046%~3.657%	27,564	811
Mai Liao Power Corp.	January 3, 2003	590,600	17,376	—	—	3.10%~3.657%	785	23
Formosa Automobile Corp.	April 30, 2003	990,600	29,144	601,300	17,691	3.046%~3.657%	25,534	751
Ya Tai Development Corp.	April 15, 2003	505,500	14,872	500,000	14,710	3.046%~3.657%	16,149	475
Nanya Technology Corp.	October 27, 2003	950,400	27,961	—	—	3.098%~3.44%	2,617	77
Formosa Plastics Marine Corp.	January 1, 2003	205,443	6,044	205,443	6,044	3.046%~3.657%	6,742	198
Formosa Chemicals & Fiber Corp.	June 26, 2003	2,242,400	65,972	—	—	3.142%~3.266%	795	23
Su-Hua Transport Corp.	December 26, 2003	350,300	10,306	344,100	10,124	3.046%~3.375%	5,997	176
Asia Pacific Development Corp.	May 26, 2003	1,000,000	29,420	—	—	3.046%~3.316%	13,899	409
Formosa Network Technologies Corp.	April 4, 2003	2,800	82	—	—	3.266%~3.375%	1	—
Subtotal				2,759,843	81,196		129,959	3,823
Due from related parties — noncurrent:								
Formosa Plastics Corp. America	December 1, 2003	151,702	4,463	151,702	4,463	2.971%~3.463%	5,295	156
Formosa Plastics Corp. U.S.A.	December 1, 2003	11,783,593	346,678	2,689,166	79,117	2.971%~3.463%	299,869	8,822
Subtotal				2,840,868	83,580		305,164	8,978
Total				**5,600,711**	**164,776**		**435,123**	**12,801**

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	2003								
	Date of maximum balance	Maximum balance		Ending balance		Interest rate	Amount of interest	
		NT$	US$	NT$	US$		NT$	US$
Due to related parties — current:								
Formosa Plastics Corp.	April 30, 2003	1,298,400	38,199	734,200	21,600	3.046%~3.657%	5,200	153
Formosa Chemicals & Fiber Corp.	May 22, 2003	2,423,700	71,306	135,900	3,998	3.046%~3.44%	8,756	258
Formosa Plastics Transportation Corp.	September 24, 2003	127,400	3,748	19,200	565	3.046%~3.1%	238	7
PFG Fiber Glass Corp.	April 15, 2003	137,900	4,057	—	—	3.098%~3.375%	191	6
Formosa Plastics Group Investment Corp.	January 1, 2003	25,900	762	4,000	118	3.046%~3.44%	486	14
Mai Liao Harbor Administration Corp.	December 31, 2003	38,300	1,127	38,300	1,127	3.046%	8	—
Wen Fung Industrial Co., Ltd.	February 18, 2003	21,800	641	—	—	3.266%~3.657%	72	2
Nan Chung Petrochemical Corp.	April 30, 2003	923,400	27,167	—	—	3.098%~3.657%	11,226	330
Nanya Technology Corp.	July 2, 2003	665,900	19,591	—	—	3.046%~3.375%	862	25
Formosa Petrochemical Corp.	October 17, 2003	8,832,700	259,862	—	—	3.046%~3.375%	33,461	984
Subtotal				931,600	27,408		60,500	1,779
Due to related parties — noncurrent:								
Formosa Heavy Industries Corp.	January 20, 2003	1,699,000	49,985	—	—	3.046%~3.657%	46,679	1,373
Subtotal				—	—		46,679	1,373
Total				931,600	27,408		107,179	3,152

(iv) *Endorsements and guarantees*

Obligations of related parties guaranteed by the Company as of December 31, 2001, 2002 and 2003, were as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Nan Ya Plastics (H.K.) Co., Ltd.	4,530,263	938,331	543,648	15,994
Formosa Industries Corp.	—	—	2,757,315	81,121
Indonesia P.T.Nan Ya Indah Plastics Co.	—	556,048	543,648	15,994
Mai Liao Power Corporation	6,172,500	5,485,000	5,485,000	161,371
Mai Liao Harbor Administration Corp.	2,098,426	2,098,426	2,098,426	61,737
Nanya Technology Corp.	33,237,374	21,000,000	24,400,000	717,858
Total	**46,038,563**	**30,077,805**	**35,828,037**	**1,054,075**

In 2002 and 2003, the short-term loan of Nan Ya Printed Circuit Board (Kunshan) Co., Ltd. from Citic Industrial Bank was guaranteed by Nan Ya Electronic Materials (Kunshan) Co., Ltd., and the guaranteed credit line amounted to US$25,000 and US$30,000, respectively.

The long-term syndicated loan headed by ABN AMRO Bank to Nan Ya Printed Circuit Board (Kunshan) Co., Ltd. was guaranteed by the Company and Nan Ya Plastics (H.K.) Co., Ltd.'s providing a comfort letter.

As of December 31, 2002, the guarantees provided by Nan Ya Printed Circuit Board (Kunshan) Co., Ltd. to secure loans of related parties amounted to US$25,000.

(v) ***Acquisition of property, plant and equipment***

The Company contracted with Formosa Heavy Industries Corp. to construct the Company's factory expansion. The contract price in 2001, 2002 and 2003 was NT$909,394, NT$662,603 and NT$1,080,317, respectively. As of December 31, 2001, 2002 and 2003, the unpaid contract price amounted to NT$351,248, NT$112,665 and NT$45,823, respectively.

(vi) ***Utility expenses***

Part of the utilities of NYPC's Lin-yuan plant and all of the utilities of the Company's Ren-wu plant, including power, water and steam, are supplied by or paid on the Company's behalf by the utility plants of Formosa Plastics Corp. Such utility expenses are calculated monthly, paid in the following month, and amounted to NT$203,219, NT$185,359 and NT$177,070 in 2001, 2002 and 2003, respectively. The utilities of the Company's Mai Liao plant, including power, water and steam, are supplied by Formosa Petrochemical Corp. and Nan Chung Petrochemical Corp. The expenses for utilities supplied by Formosa Petrochemical Corp. amounted to NT$1,093,427, NT$1,398,355 and NT$1,748,854 in 2001, 2002 and 2003, respectively. The expenses for utilities supplied by Nan Chung Petrochemical Corp. amounted to NT$20,151, NT$23,102 and NT$31,966 in 2001, 2002 and 2003, respectively.

(vii) ***Contract for property purchase***

NYPC signed a contract with Formosa Plastics Corp. in April 2002 to purchase parcels of land located in the Sen Kong industrial zone, measuring 96,268 square meters. The total contract price of NT$553,302 had been paid in full as of December 31, 2002. The contract price was settled using the appraised value provided by the appraising institute as a reference. The title to the land was completely deeded to NYPC on April 25, 2002.

In April 2002, NYPC sold the land and building located in Jenwu Syang to Formosa Plastics Corp. for NT$157,957. The gain on sale of the assets amounting to NT$96,644 was credited to "nonoperating revenue — gains on sale of fixed assets". The title transfer was completed on August 14, 2003.

NYPC signed a contract with First International Computer Inc. in June 2002 to purchase land and an office located in Taipei City, measuring 289 and 1,648 square meters, respectively. The total contract price of NT$159,566 was settled using the appraised value provided by the appraising institute as a reference, and had been paid in full as of December 31, 2002. The title to the said real estate was deeded to the Company on August 20, 2002.

In 2001, NYPC entered into an agreement with Formosa Plastics Transportation Corp. to sell a parcel of land located in the Lin Kou industrial zone. For 2001, the gain derived from sale of land recognized by NYPC amounted to NT$142,860. This receivable was received in full in 2002.

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(viii) *Others*

In 2003, NYPCBC requested NYPCBC (U.S.A.) to search for market information, to perform credit checks, and to obtain client lists on its behalf. As a result, NYPCBC paid commissions to NYPCBC (U.S.A.) amounting to NT$11,252,723.

Nan Ya Printed Circuit Board (Kunshan) Co., Ltd. and Nan Ya Electronic Materials (Kunshan) Co., Ltd. jointly acquired a right, for RMB68,000 thousand, to use a parcel of land measuring 1,120,000 square meters inside the Kunshan Economic and Technical Development Zone, located in Kunshan City, Jiangsu Province, Mainland China. The said two entities recognized such right based on the square meters used, and Nan Ya Printed Circuit Board (Kunshan) Co., Ltd. recognized RMB13,600 thousand accordingly.

(21) PLEDGED PROPERTIES

As of December 31, 2001, 2002 and 2003, the pledges provided to banks or courts were as follows:

	2001	2002	2003	
	NT$	NT$	NT$	US$
Common stock of Formosa Plastics Corp. and Formosa Petrochemical Corp.	22,119,528	15,198,485	13,235,551	389,395
Land, buildings and machinery	52,325,594	52,559,088	56,003,507	1,647,647
Total	**74,445,122**	**67,757,573**	**69,239,058**	**2,037,042**

(22) COMMITMENTS AND CONTINGENCIES

As of December 31, 2001, 2002 and 2003, commitments and contingencies of the Company were as follows:

(a) The outstanding letters of credit for the importation of raw materials as of December 31, 2001, 2002 and 2003, amounted to NT$2,665,494, NT$2,245,569 and NT$1,325,569, respectively.

(b) As of December 31, 2001, 2002 and 2003, endorsements made for other companies or affiliates amounted to NT$46,038,563, NT$30,599,100 and NT$36,337,707, respectively.

(c) As of December 31, 2001, 2002 and 2003, the cost of other companies' inventories consigned to the Company for dyeing amounted to NT$325,212, NT$300,590 and NT$194,778, respectively.

(d) NYPCA's construction of facilities and its future operations are subject to extensive regulation under USA federal, state and local environmental laws and regulations regarding air emissions and water discharges and the generation, handling, storage, transportation, treatment and disposal of waste and other materials, and to laws relating to occupational health and safety. NYPCA believes that the facilities being constructed are in compliance in all material respects with the applicable environmental, health and safety laws and regulations, and that the additional costs that might be incurred as required by laws or regulations in the future will not significantly affect its financial position.

(e) A syndicated loan of US$350,000, headed by Chiao Tung Bank, was undertaken by NYPCA for the construction of its plant. As of December 31, 2003, NYPCA had utilized the entire amount. NYPC confirmed to the Banks as follows:

(i) NYPC has read and understands the Agreement and the Loan Documents referred to therein and agrees with, and consents to, the Company's and NYPCA's undertakings and obligations thereunder.

(ii) NYPC is, and shall remain, the legal and beneficial owner of one hundred percent (100%) of the issued and outstanding capital stock of NYPCA, until all of the Obligations are paid and performed in full.

(iii) NYPC is, and shall remain, active in the management of NYPCA, until all of the Obligations are paid and performed in full.

(f) Nan Ya Plastics Corp. obtained a joint bank loan for building a new factory through NYPC (HK)'s subsidiaries in China. The credit banks include HSBC, Industrial and Commercial Bank of China, Chiao Tung Bank, ABN AMRO Bank and ANZ Bank NPC issued conform letters to the credit banks stating that NYPC had no intention to lower its ownership in the subsidiaries below 51%. In addition, NYPC will progressively monitor the operations of the subsidiaries, and maintain a sound financial ability, as well as pay debts on schedule.

(23) SUBSEQUENT EVENTS

In order to improve its financial structure and repay short-term loans, NYPC applied for the issuance of domestic unsecured on convertible corporate bonds with a principal amount of NT$5,000,000. The issuance was approved by the ROC SFC.

(24) OTHERS

(a) Provision for losses on foreign investment

Since 1992, under the "Statute for Upgrading Industries", the Company has recorded a provision for "losses on foreign investments" equal to 20% of the total investment cost in foreign nations as approved by the relevant industry and tax authority. Such a provision is deductible for income tax filing purposes. Since this provision and reversal were not in accordance with ROC generally accepted accounting principles, the provisions for income tax filing purposes accordingly were not included in financial statements. The unreversed provision amounted to NT$1,068,462, NT$1,068,462, and NT$1,745,112 on December 31, 2001, 2002 and 2003, respectively. According to the "Statute for Upgrading Industries", the provisions should be reversed as revenue for income tax purposes in the fifth year after the year of provision if no loss occurs during these five years.

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(b) The Company's human resource expenses, depreciation expense, depletion expense and amortization expense for 2002 and 2003 were as follows:

	2002		
	Operating Cost	Operating Expenses	Total
	NT$	NT$	NT$
Human resource expenses			
Salaries	12,121,379	3,504,634	15,626,013
Labor and health insurance	1,000,953	275,241	1,276,194
Pension cost	1,444,691	529,411	1,974,102
Other	801,465	86,044	887,509
Depreciation expense	12,010,991	836,508	12,847,499
Depletion expense	—	—	—
Amortization expense	501,608	195,419	697,027

	2003		
	Operating Cost	Operating Expenses	Total
	NT$	NT$	NT$
Human resource expenses			
Salaries	13,330,566	3,170,958	16,501,524
Labor and health insurance	1,120,676	251,702	1,372,378
Pension cost	1,404,840	407,077	1,811,917
Other	833,388	81,774	915,162
Depreciation expense	12,300,316	523,716	12,824,032
Depletion expense	—	—	—
Amortization expense	459,882	181,629	641,511

	2003		
	Operating Cost	Operating Expenses	Total
	US$	US$	US$
Human resource expenses			
Salaries	392,191	93,291	485,482
Labor and health insurance	32,971	7,405	40,376
Pension cost	41,331	11,976	53,307
Other	24,519	2,406	26,925
Depreciation expense	361,880	15,408	377,288
Depletion expense	—	—	—
Amortization expense	13,530	5,344	18,873

(c) Reclassification

The Company reclassified certain accounts in the 2003 consolidated report compared to the 2002 consolidated report. These reclassifications have no significant effects on the financial statements.

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(25) SEGMENT INFORMATION

(a) Information about operations in different industry segments in 2001, 2002 and 2003 is summarized as follows:

	2001					
	Plastics	Electronics	Fibers	Other	Adjustments and eliminations	Consolidated
Revenue from parties outside the Company	NT$ 38,878,380	28,152,765	52,898,342	12,502,757	—	132,432,244
Inter — company revenue	2,060,470	—	1,328,792	7,681,075	(11,070,337)	—
Total revenue	**NT$ 40,938,850**	**28,152,765**	**54,227,134**	**20,183,832**	**(11,070,337)**	**132,432,244**
Operating income	**NT$ 4,127,014**	**1,792,978**	**4,045,528**	**1,144,141**	**—**	11,109,661
Investment income						3,878,353
General corporate revenue						1,847,837
Investment loss						(5,310,657)
General corporate expense						(1,942,711)
Interest expense						(5,107,650)
Income from continuing operations before income tax						**4,474,833**
Identifiable assets at end of year	**NT$ 31,633,069**	**41,772,513**	**55,442,768**	**18,268,685**	**—**	147,117,035
Long-term equity investment						79,828,427
Other assets						40,615,538
Total assets at end of year						**267,561,000**
Depreciation and amortization	**NT$ 2,454,989**	**3,834,377**	**5,172,160**	**1,435,214**		
Capital expenditure (addition to fixed assets)	**NT$ 4,363,234**	**9,273,534**	**1,607,816**	**2,905,620**		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
DECEMBER 31, 2001, 2002 AND 2003
(all amounts expressed in thousands of New Taiwan dollars and US dollars except per share information or unless otherwise specified)

	2002					
	Plastics	Electronics	Fibers	Other	Adjustments and eliminations	Consolidated
Revenue from parties outside the Company	NT$ 40,422,722	30,915,730	56,927,134	14,571,824	—	142,837,410
Inter — company revenue	2,174,605	25,466	1,441,537	8,917,664	(12,559,272)	—
Total revenue	**NT$ 42,597,327**	**30,941,196**	**58,368,671**	**23,489,488**	**(12,559,272)**	**142,837,410**
Operating income	**NT$ 3,717,045**	**177,478**	**6,666,220**	**1,689,373**	**—**	12,250,116
Investment income						7,756,734
General corporate revenue						2,297,830
Investment loss						(116,340)
General corporate expense						(2,815,277)
Interest expense						(3,885,216)
Income from continuing operations before income tax						**15,487,847**
Identifiable assets at end of year	**NT$ 30,934,274**	**44,222,946**	**53,920,452**	**26,005,296**	**—**	155,082,968
Long-term equity investment						90,229,400
Other assets						31,687,262
Total assets at end of year						**276,999,630**
Depreciation and amortization	**NT$ 3,064,905**	**3,915,250**	**5,002,457**	**1,561,914**		
Capital expenditure (addition to fixed assets)	**NT$ 1,924,060**	**4,959,853**	**2,303,419**	**2,425,386**		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
DECEMBER 31, 2001, 2002 AND 2003
(all amounts expressed in thousands of New Taiwan dollars and US dollars except per share information or unless otherwise specified)

	2003					
	Plastics	Electronics	Fibers	Other	Adjustments and eliminations	Consolidated
Revenue from parties outside the Company	NT$ 42,807,421	39,478,715	70,181,829	19,963,856	—	172,431,821
Inter — company revenue	3,078,931	—	1,533,168	10,500,953	(15,113,052)	—
Total revenue	**NT$ 45,886,352**	**39,478,715**	**71,714,997**	**30,464,809**	**(15,113,052)**	**172,431,821**
Operating income	**NT$ 2,389,873**	**1,288,820**	**8,886,725**	**1,973,354**	**—**	14,538,772
Investment income						8,435,675
General corporate revenue						1,557,347
Investment loss						(842,607)
General corporate expense						(2,215,018)
Interest expense						(3,342,626)
Income from continuing operations before income tax						**18,131,543**
Identifiable assets at end of year	**NT$ 32,377,633**	**42,097,973**	**61,072,412**	**27,060,370**	**—**	162,608,388
Long-term equity investment						97,565,454
Other assets						33,564,634
Total assets at end of year						**293,738,476**
Depreciation and amortization	**NT$ 3,064,905**	**3,915,250**	**5,002,457**	**1,561,914**		
Capital expenditure (addition to fixed assets)	**NT$ 1,924,060**	**4,959,853**	**2,303,419**	**2,425,386**		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
DECEMBER 31, 2001, 2002 AND 2003
(all amounts expressed in thousands of New Taiwan dollars and US dollars except per share information or unless otherwise specified)

	2003						
		Plastics	Electronics	Fibers	Other	Adjustments and eliminations	Consolidated
Revenue from parties outside the Company	US$	1,259,412	1,161,480	2,064,779	587,345	—	5,073,016
Inter — company revenue		90,583	—	45,106	308,942	(444,631)	—
Total revenue	**US$**	**1,349,995**	**1,161,480**	**2,109,885**	**896,287**	**(444,631)**	**5,073,016**
Operating income	**US$**	**70,311**	**37,918**	**261,451**	**58,057**	**—**	427,737
Investment income							248,181
General corporate revenue							45,818
Investment loss							(24,790)
General corporate expense							(65,167)
Interest expense							(98,341)
Income from continuing operations before income tax							**533,438**
Identifiable assets at end of year	**US$**	**952,564**	**1,238,540**	**1,796,776**	**796,127**	**—**	4,784,007
Long-term equity investment							2,870,416
Other assets							987,486
Total assets at end of year							**8,641,909**
Depreciation and amortization	**US$**	**90,171**	**115,188**	**147,174**	**45,952**		
Capital expenditure (addition to fixed assets)	**US$**	**56,607**	**145,921**	**67,768**	**71,356**		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
DECEMBER 31, 2001, 2002 AND 2003
(all amounts expressed in thousands of New Taiwan dollars and US dollars except per share information or unless otherwise specified)

(b) Geographic area information

Information regarding operations in different geographic areas in 2001, 2002 and 2003 is summarized as follows:

	2001			
	Republic of China	Americas	Adjustments and eliminations	Consolidated
Revenue from parties outside the Company	NT$ 104,238,459	28,193,785	—	132,432,244
Inter — company revenue	329,099	1,704,369	(2,033,468)	—
Total revenue	**NT$ 104,567,558**	**29,898,154**	**(2,033,468)**	**132,432,244**
Operating income	**NT$ 10,142,195**	**967,466**	**—**	11,109,661
Investment income				3,878,353
General corporate revenue				1,847,837
Investment loss				(5,310,657)
Interest expense				(1,942,711)
General corporate expense				(5,107,650)
Income from continuing operations before income tax				**4,474,833**
Identifiable assets at end of year	**NT$ 110,432,766**	**36,684,269**	**—**	147,117,035
Long — term equity investment				79,828,427
Other assets				40,615,538
Total assets at end of the year				**267,561,000**

	2002			
	Republic of China	Americas	Adjustments and eliminations	Consolidated
Revenue from parties outside the Company	NT$ 113,430,960	29,406,450	—	142,837,410
Inter — company revenue	354,565	1,704,369	(2,058,934)	—
Total revenue	**NT$ 113,785,525**	**31,110,819**	**(2,058,934)**	**142,837,410**
Operating income	**NT$ 9,756,212**	**2,493,904**	**—**	12,250,116
Investment income				7,756,734
General corporate revenue				2,297,830
Investment loss				(116,340)
General corporate expense				(2,815,277)
Interest expense				(3,885,216)
Income from continuing operations before income tax				**15,487,847**
Identifiable assets at end of year	**NT$ 121,888,326**	**33,194,642**	**—**	155,082,968
Long-term equity investment				90,229,400
Other assets				31,687,262
Total assets at end of year				**276,999,630**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
DECEMBER 31, 2001, 2002 AND 2003
(all amounts expressed in thousands of New Taiwan dollars and US dollars except per share information or unless otherwise specified)

	2003			
	Republic of China	Americas	Adjustments and eliminations	Consolidated
Revenue from parties outside the Company	NT$ 140,615,799	31,816,022	—	172,431,821
Inter — company revenue	329,099	1,704,369	(2,033,468)	—
Total revenue	**NT$ 140,944,898**	**33,520,391**	**(2,033,468)**	**172,431,821**
Operating income	**NT$ 13,708,211**	**830,561**	**—**	14,538,772
Investment income				8,435,675
General corporate revenue				1,557,347
Investment loss				(842,607)
Interest expense				(3,342,626)
General corporate expense				(2,215,018)
Income from continuing operations before income tax				**18,131,543**
Identifiable assets at end of year	**NT$ 127,652,843**	**34,955,545**	**—**	162,608,388
Long-term equity investment				97,565,454
Other assets				33,564,634
Total assets at end of year				**293,738,476**

	2003			
	Republic of China	Americas	Adjustments and eliminations	Consolidated
Revenue from parties outside the Company	US$ 4,136,976	936,041	—	5,073,017
Inter — company revenue	9,682	50,143	(59,825)	—
Total revenue	**US$ 4,146,658**	**986,184**	**(59,825)**	**5,073,017**
Operating income	**US$ 403,301**	**24,436**	**—**	427,737
Investment income				248,181
General corporate revenue				45,818
Investment loss				(24,790)
Interest expense				(98,341)
General corporate expense				(65,167)
Income from continuing operations before income tax				**533,438**
Identifiable assets at end of year	**US$ 3,755,600**	**1,028,407**	**—**	4,784,007
Long-term equity investment				2,870,416
Other assets				987,486
Total assets at end of year				**8,641,909**

(all amounts expressed in thousands of New Taiwan dollars and US dollars except per share information or unless otherwise specified)

(c) Export sales

Export sales in 2001, 2002 and 2003 are summarized as follows:

Geographic area	2001	2002	2003	
	NT$	NT$	NT$	US$
U.S.A.	2,405,822	2,443,899	2,916,561	85,806
Southeast Asia	20,637,927	26,599,822	39,578,794	1,164,425
Other areas (less than 10% of the consolidated operating revenues)	23,609,396	24,906,121	30,038,915	883,758
	46,653,145	**53,949,842**	**72,534,270**	**2,133,989**

(d) Major customers

When 10% or more of the revenue of the Company is derived from sales to a single customer, such a customer is considered a major customer. There was no such major customer in 2001, 2002 and 2003.

English Translation of a Report Originally Issued in Chinese

REVIEW REPORT OF INDEPENDENT AUDITORS

April 20, 2004

To the Board of Directors and Stockholders of
Formosa Chemicals & Fibre Corporation

We have reviewed the accompanying balance sheets of Formosa Chemicals & Fibre Corporation ("the Company") as of March 31, 2003 and 2004, and the related statements of income, changes in stockholders' equity, and cash flows for the three-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report on these financial statements based on our review.

We conducted our review in accordance with the Republic of China ("R.O.C."). Statement of Generally Accepted Auditing Standards No. 36 "Review of Financial Statements". We only performed analytical procedures, comparison and inquiries, but did not audit in accordance with auditing standards generally accepted in R.O.C.. Accordingly, we do not express such an opinion based on audits of the financial statements taken as a whole.

As discussed in Note 6 to the financial statements, investment income under equity method for certain companies amounted to NT$1,033,795 thousand, which represented 24.98% of net earnings before taxes, for the period ended March 31, 2003 and the related long term investments stated under equity method as at March 31, 2003 amounted to NT$53,908,652 thousand, which represented 29.73% of total assets, were based on the management accounts of the investee companies owing to the unavailability of their audited accounts as at March 31, 2003. As a consequence, the financial statements as at March 31, 2003 and of its profit and cash flows for the period then ended March 31, 2003 do not give all the information required by R.O.C. SFAS No. 5 about the investment income under equity method recognized by the Company. It is not practicable to quantify the effects of the departure from this requirement.

Based on our review, except for any adjustments for the recognition of the investment income under equity method in respect of the long-term investments that might have been found to be necessary had we been able to obtain the audited financial statements of investee companies for the period ended March 31, 2003 as detailed in preceding paragraph, we are not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in R.O.C.

The accompanying financial statements as of and for the three-month periods ended March 31, 2003, have been translated into United States dollars solely for the convenience of the readers. We have reviewed the translation, and in our opinion, the financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in Note 2.(14) to the financial statements.

Diwan, Ernst & Young
Taipei, Taiwan
Republic of China

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 on Taiwan and not those of any other jurisdictions. The standards, procedures and practices to review such financial statements are those generally accepted and applied in the Republic of China on Taiwan.

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA CHEMICALS & FIBRE CORPORATION

BALANCE SHEETS
MARCH 31, 2003 AND 2004
(Expressed in thousands of dollars)
(Unaudited)

ASSETS	Notes	New Taiwan Dollars 2003	New Taiwan Dollars 2004	US Dollars 2004
CURRENT ASSETS:				
Cash and cash equivalents		$ 159,095	$ 446,487	$ 13,530
Short-term investments	3(1)&5	3,051,224	8,358,223	253,279
Notes receivable, net	3.(2)	717,470	622,894	18,876
Notes receivable — related parties, net	4	166,572	210,856	6,390
Accounts receivable, net	3.(2)	4,166,515	4,345,441	131,680
Accounts receivable — related parties, net	4	2,914,540	3,931,024	119,122
Other receivables, net	3.(2) &4	1,013,385	1,667,085	50,518
Other receivables — related parties	4	2,597,000	591,600	17,927
Other financial assets — current	3.(1) & 5	148,966	174,486	5,287
Inventories, net	3.(3)	16,659,378	17,355,608	525,928
Deferred income tax assets	3.(13)	1,801,366	2,673,905	81,027
Other current assets		1,144,448	1,442,534	43,713
Total current assets		34,539,959	41,820,143	1,267,277
LONG-TERM INVESTMENTS	3.(4) & 5			
Long-term investments accounted by equity method		61,614,456	69,103,678	2,094,051
Long-term investments accounted by cost method		3,642,161	3,554,655	107,717
		65,256,617	72,658,333	2,201,768
OTHER FINANCIAL ASSETS — NON-CURRENT	3.(4) & 5	325,493	340,359	10,314
PROPERTY, PLANT AND EQUIPMENT:	3.(5), 4 &5			
Cost:				
Land		2,071,127	2,069,242	62,704
Buildings and structures		11,709,115	11,926,870	361,420
Machinery and equipment		105,379,744	108,163,251	3,277,674
Transportation equipment		497,630	525,588	15,927
Machinery and equipment — revaluation increment		204,514	204,514	6,198
		119,862,130	122,889,465	3,723,923
Less: Accumulated depreciation		(55,930,392)	(60,010,796)	(1,818,509)
Construction in process and prepayments for equipments		9,840,498	8,056,438	244,134
Net property, plant and equipment		73,772,236	70,935,107	2,149,548
INTANGIBLE ASSETS:				
Deferred pension cost	3.(10)	197,709	705,361	21,375
OTHER ASSETS:				
Deferred charges		2,683,091	2,690,131	81,519
Deferred income tax assets, net	3.(13)	3,667,002	103,287	3,130
Other miscellaneous assets	3.(6) & 7	843,043	688,795	20,873
Total other assets		7,193,136	3,482,213	105,522
TOTAL ASSETS		$ 181,285,150	$ 189,941,516	$ 5,755,804

(Continued on next page)

The accompanying notes are an integral part of financial statements.

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA CHEMICALS & FIBRE CORPORATION

BALANCE SHEETS — (Continued)
MARCH 31, 2003 AND 2004
(Expressed in thousands of dollars)
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY	Notes	New Taiwan Dollars 2003	New Taiwan Dollars 2004	US Dollars 2004
CURRENT LIABILITIES:				
Due to banks	3.(7)&5	$ 769,176	$ 910,091	$ 27,578
Other short-term borrowings	3.(7)	429,650	572,289	17,342
Accounts payable		1,680,293	1,651,533	50,046
Accounts payable — related parties	4	2,992,873	4,228,020	128,122
Accrued expenses		3,031,653	3,044,838	92,268
Other payables — related parties	4	57,800	57,500	1,743
Current portion of bonds payable	3.(8)	7,000,000	1,650,000	50,000
Current portion of long-term bank loans	3.(9)	3,760,470	2,405,541	72,895
Current portion of long-term notes payable	3.(9)&5	19,300	1,306,300	39,585
Other current liabilities	4	593,393	592,607	17,958
Total current liabilities		20,334,608	16,418,719	497,537
LONG-TERM LIABILITIES:				
Bonds payable	3.(8)	16,250,000	19,600,000	593,939
Long-term bank loans	3.(9) & 5	39,116,652	23,436,961	710,211
Long-term notes payable	3.(9)	130,275	9,436,975	285,969
Total long-term liabilities		55,496,927	52,473,936	1,590,119
OTHER LIABILITIES:				
Accrued pension liability	3.(10)	4,022,445	4,946,333	149,889
Other liabilities	7	333,819	322,103	9,761
		4,356,264	5,268,436	159,650
Total liabilities		80,187,799	74,161,091	2,247,306
STOCKHOLDERS' EQUITY	3.(11)			
Capital stock — common stock		41,805,522	45,149,964	1,368,181
Capital surplus:				
Additional paid-in capital — common stock		2,710,554	2,710,554	82,138
Additional paid-in capital — bond conversion		5,514,032	5,514,032	167,092
Long-term equity investments		188,420	187,287	5,675
From business combination		170,042	170,042	5,153
Others		34,182	34,182	1,036
		8,617,230	8,616,097	261,094
Retained earnings:				
Legal reserve		9,084,341	10,181,619	308,534
Special reserve	3.(13)	18,470,044	18,170,988	550,636
Unappropriated retained earnings	3.(13)	22,917,680	33,726,730	1,022,022
		50,472,065	62,079,337	1,881,192
Unrealized valuation losses on long-term equity investments	3.(4)	(43,894)	(7,995)	(242)
Cumulative translation adjustments	3.(4)	246,451	(56,951)	(1,726)
Treasury stock	3.(15)	(23)	(27)	(1)
Total stockholders' equity		101,097,351	115,780,425	3,508,498
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		$ 181,285,150	$ 189,941,516	$ 5,755,804

The accompanying notes are an integral part of financial statements.

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA CHEMICALS & FIBRE CORPORATION

STATEMENTS OF INCOME
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2003 AND 2004
(Expressed in thousands of dollars, except earnings per share)
(Unaudited)

		New Taiwan Dollars		US Dollars
	Notes	2003	2004	2004
OPERATING REVENUES:				
Sales	4	$ 26,002,128	$ 30,378,405	$ 920,558
Service revenue		41,732	3,832	116
Other operating revenue		27,587	31,823	964
		26,071,447	30,414,060	921,638
Less: Sales returns, discounts and allowances		103,484	168,391	5,103
NET OPERATING REVENUE		25,967,963	30,245,669	916,535
OPERATING COSTS	3.(12) & 4	21,259,531	23,427,520	709,925
GROSS PROFIT FROM OPERATIONS		4,708,432	6,818,149	206,610
OPERATING EXPENSES:				
Selling expenses	3.(12)	657,828	647,693	19,627
General and administrative expenses		510,672	647,301	19,615
Research and development expenses		112,661	88,055	2,668
Total operating expenses		1,281,161	1,383,049	41,910
OPERATING INCOME		3,427,271	5,435,100	164,700
NON-OPERATING INCOME:				
Interest income	4 & 7	31,970	13,285	403
Investment income by equity method	3.(4)	1,106,619	2,623,075	79,487
Gains on disposal of fixed assets		—	33,734	1,022
Gain on disposal of investments	3.(4)	5,180	52,300	1,585
Foreign exchange gain, net	4	18,215	81,603	2,473
Rental income	4	33,699	36,875	1,117
Other income	7	78,067	75,136	2,277
Total non-operating income		1,273,750	2,916,008	88,364
NON-OPERATING EXPENSE:				
Interest expense	3.(5) & 4 & 7	549,485	428,407	12,982
Loss on disposal of fixed assets		—	21	1
Loss on disposal of investments		—	992	30
Other expenses		13,699	13,315	403
Total non-operating expense		563,184	442,735	13,416
INCOME BEFORE INCOME TAXES		4,137,837	7,908,373	239,648
INCOME TAX EXPENSE	3.(13)	(753,736)	(493,882)	(14,966)
NET INCOME		$ 3,384,101	$ 7,414,491	$ 224,682
Earnings per share before income taxes	3.(14)	$ 0.92	$ 1.75	$ 0.05
Earnings per share after income taxes	3.(14)	$ 0.75	$ 1.64	$ 0.05

The accompanying notes are an integral part of financial statements.

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA CHEMICALS & FIBRE CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2003 AND 2004
(Expressed in thousands of dollars) (Unaudited)

			Retained earnings							
New Taiwan Dollars	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Unrealized valuation losses on long-term equity investments	Cumulative translation adjustments	Net loss not recognized as pension cost	Treasury stock	Total
Balance as of January 1, 2003	$ 41,805,522	8,617,230	9,084,341	18,470,044	19,533,579	(61,429)	257,971	—	(23)	97,707,235
Change in cumulative translation adjustments from long-term equity investments	—	—	—	—	—	—	(11,520)	—	—	(11,520)
Recognition of investees' LCM loss on long-term investments	—	—	—	—	—	17,535	—	—	—	17,535
Net income for first quarter of 2003	—	—	—	—	3,384,101	—	—	—	—	3,384,101
Balance as of March 31, 2003	$ 41,805,522	8,617,230	9,084,341	18,470,044	22,917,680	(43,894)	246,451	—	(23)	101,097,351
Balance as of January 1, 2004	$ 45,149,964	8,615,060	10,181,619	18,170,988	26,312,239	(55,085)	116,627	(16,426)	(27)	108,474,959
Correspondent adjustments to comply with investees' adjustment accounted by equity method	—	1,037	—	—	—	—	—	16,426	—	17,463
Change in cumulative translation adjustments from long-term equity investments	—	—	—	—	—	—	(173,578)	—	—	(173,578)
Recognition of investees' LCM loss on long-term investments	—	—	—	—	—	47,090	—	—	—	47,090
Net income for the first quarter of 2004	—	—	—	—	7,414,491	—	—	—	—	7,414,491
Balance as of March 31, 2004	$ 45,149,964	8,616,097	10,181,619	18,170,988	33,726,730	(7,995)	(56,951)	—	(27)	115,780,425
US Dollars										
Balance as of January 1, 2004	$ 1,368,181	261,062	308,534	550,636	797,340	(1,669)	3,534	(498)	(1)	3,287,119
Correspondent adjustments to comply with investees' adjustment accounted by equity method	—	32	—	—	—	—	—	498	—	530
Change in cumulative translation adjustments from long-term equity investments	—	—	—	—	—	—	(5,260)	—	—	(5,260)
Recognition of investees' LCM loss on long-term investments	—	—	—	—	—	1,427	—	—	—	1,427
Net income for the first quarter of 2004	—	—	—	—	224,682	—	—	—	—	224,682
Balance as of March 31, 2004	$ 1,368,181	261,094	308,534	550,636	1,022,022	(242)	(1,726)	—	(1)	3,508,498

The accompanying notes are an integral part of financial statements.

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA CHEMICALS & FIBRE CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2003 AND 2004
(Expressed in thousands of dollars)
(Unaudited)

	New Taiwan Dollars		US Dollars
	2003	2004	2004
Cash flows from operating activities:			
Net income	$ 3,384,101	$ 7,414,491	$ 224,682
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,469,420	1,505,458	45,620
Amortization	150,053	190,837	5,783
Amortization of premium on forward exchange contract	(13,094)	(10,797)	(327)
Gain on disposal of forward exchange contract	(324)	6,424	195
Investment income on equity method	(1,106,619)	(2,623,075)	(79,487)
Gain on disposal of property, plant, equipment and other assets	—	(33,713)	(1,022)
Gain on disposal long-term investments, net	—	(49,354)	(1,496)
Decrease (increase) in notes receivable	(79,838)	50,864	1,541
Increase in accounts receivable	(353,607)	(670,456)	(20,317)
Decrease in notes receivable — related parties	65,900	50,119	1,519
Decrease (increase) in accounts receivable — related parties	231,437	(388,549)	(11,774)
Increase in other receivables	(316,686)	(215,010)	(6,515)
Decrease (increase) in inventories	74,510	(503,097)	(15,245)
Decrease (increase) in other current assets	(725,145)	853,241	25,856
Increase (decrease) in accounts payable	262,035	(580,193)	(17,582)
Increase (decrease) in accounts payable — related parties	6,876	(60,603)	(1,836)
Increase in accrued expenses	(575,986)	(450,780)	(13,660)
Decrease in other current liabilities	(183,731)	(363,996)	(11,030)
Decrease in deferred debit — loss on inter-affiliate accounts	49,511	—	—
Increase in deferred credit — gain on inter-affiliate accounts	15,001	1,447	44
Decrease in deferred income tax assets	753,736	493,857	14,965
Increase in deferred pension cost and accrued pension liability	88,927	95,549	2,895
Net cash provided by operating activities	3,196,477	4,712,664	142,809
Cash flows from investing activities:			
Increase in long-term investments	(1,749,045)	(911,441)	(27,619)
Proceeds from sales of long-term investments	—	136,860	4,147
Decrease (increase) in short-term investments	6,720,794	(1,747,385)	(52,951)
Purchases of property, plant and equipment	(253,192)	(1,830,696)	(55,476)
Proceeds from sales of property, plant, equipment and other assets	(44,147)	55,141	1,671
Increase in deferred charges	(45,190)	(41,247)	(1,250)
Decrease (increase) in other receivables — related parties	(1,578,500)	2,551,800	77,327
Decrease in accounts receivable from forward exchange contract	18,570	4,638	141
Increase in other assets	(1,825)	(35,536)	(1,077)
Net cash provided (used) in investing activities	3,067,465	(1,817,866)	(55,087)
Cash flows from financing activities:			
Increase in due to banks	447,042	554,304	16,797
Increase in other short-term borrowings	162,100	203,550	6,168
Decrease in other liabilities	(28,951)	(16,518)	(501)
Repayments of bonds payable	—	(3,000,000)	(90,909)
Repayments of long-term bank loans	(7,230,165)	(517,159)	(15,671)
Net cash used in financing activities	(6,649,974)	(2,775,823)	(84,116)
Effect of foreign exchange translations	(60,557)	(144,756)	(4,387)
Decrease in cash and cash equivalents	(446,589)	(25,781)	(781)
Cash and cash equivalents at beginning of year	605,684	472,268	14,311
Cash and cash equivalents at end of year	$ 159,095	$ 446,487	$ 13,530
Supplemental information of cash flow:			
Interest paid (excluding interest capitalized)	$ 789,896	$ 609,620	$ 18,473
Income taxes paid	$ 6,881	$ 1,064	$ 32
Non-cash investing and financing activities:			
Current portion of long-term loans, long-term notes payable and bonds payable	$ 10,779,770	$ 5,361,841	$ 162,480
Proceeds from sale of property, plant, equipment and other assets this year	$ 18,862	$ 35,688	$ 1,081
Beginning receivable from sale of property, plant, equipment and other assets	8,858	225,394	6,830
Ending receivable from sale of property, plant, equipment and other assets	(71,867)	(205,941)	(6,240)
Proceeds from sale of property, plant, equipment and other assets	$ (44,147)	$ 55,141	$ 1,671

The accompanying notes are an integral part of financial statements.

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA CHEMICALS & FIBRE CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2003 AND 2004
(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)
(Unaudited)

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.

1. DESCRIPTION OF BUSINESS

Formosa Chemicals & Fibre Co., Ltd. ("the Company") was incorporated on March 5, 1965. The Company now has seven business divisions: First Chemical Division, Petrochemicals Division, Third Chemical Division, Plastics Division, Textile Division, Nylon Division, and Engineering & Construction Division, as well as a carpet project team. The major operating activity of the Company are production and sales of petrochemical products, including PTA, PS, AN, Butadiene, SM polymer, SM, benzene, toulene, p-xylene (PX) and o-xylene (OX), as well as nylon fiber, and rayon staple fiber. We also engage in spinning, weaving, dyeing and finishing.

As of March 31, 2004, there were 6,462 employees in the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared based on "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in Republic of China. Summary of significant accounting policies and measurement bases were as follows:

(1) Current and non-current assets and liabilities

Current assets are assets that are related to the regular business cycle, and are expected to be turned into cash within one year after the balance sheet date, or to be sold or consumed in the normal business processes. Current liabilities are liabilities to be repaid within one year after the balance sheet date, or liabilities that occurred from the company's business operation, and were planned to pay off under the normal business cycle. Those assets and liabilities are considered as non-current assets and liabilities other than the current assets and liabilities.

(2) Short-term investments

Short-term investments are stated at the lower of aggregate cost or market value. Market value is determined by the average closing price of the last month of the accounting period.

The market value of open-ended mutual funds is measured by the net asset value of the mutual funds on the balance sheet date.

Stock dividends are not recognized as income, although an increase of shares is noted. The cost of short-term investments sold is calculated based on the weighted-average method.

(3) Allowance for doubtful accounts

Allowance for doubtful accounts is determined based on the collectibles of the accounts.

(4) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by using the monthly weighted average method. Market value represents replacement cost or net realizable value.

(5) Long-term investments

Long-term investments in listed equity securities that represent less than 20% of the investee's common stock ownership and where the Company and its subsidiaries do not have significant influence over the investees are stated at the lower of cost or market value. Unrealized loss thereon is recorded as a reduction in stockholders' equity. However, long-term investments in non-listed equity securities are stated at cost. When there is evidence showing that a decline in the market value of such investment is other than temporary and the probability of recovery is considered remote, the carrying value of the investment is reduced to reflect the market value and the resulting loss is recognized in the period of such reduction. Stock dividends are not recognized as investment income but recorded as an increase in the number of shares held. The cost of long-term equity investment sold is calculated based on the weighted-average method.

Investments where the percentage of ownership exceeds 20%, or where the Company and its subsidiaries have significant influence on the operating and financial policies of the investee companies are accounted for by the equity method. The difference between cost of investment and the amount of underlying equity in net assets of an investee is amortized as investment gain or loss by using the straight-line method over five years.

When the Company holds more than 50% of an investee company's common stock, the investee company is treated as a subsidiary and included in consolidated financial statements at the end of accounting period except when the nature of operation of subsidiaries is different from the company's or both the subsidiary's total assets and operating revenue are below 10% of the Company's respective account balances. Nevertheless, if the total assets and operating revenues of all unconsolidated subsidiaries are over 30% of the Company's respective account balances, consolidation is still required for any subsidiaries whose total assets and operating revenue are more than 3% of the Company's respective account balances. Such subsidiaries are included in the consolidated financial statements until the percentage decreases to 20% of less.

Gains or losses on disposal of long-term equity investments are recognized as investment income or loss. The unrealized gains or losses resulted from transactions between the Company and investees or subsidiaries are deferred. For the unrealized gains or losses resulting from depreciable or amortizable assets, the gains or losses will be recognized yearly over the respective useful lives of the assets. However, the gains or losses will be recognized in the year of realization if the unrealized gains or losses result from other assets.

(6) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation. Major renewals, improvements and additions are recorded as capital expenditures. Interest expense on the acquisition of assets is capitalized and classified under appropriate categories of property and equipment. Gains (losses) on the disposal of property and equipment are recorded as non-operating incomes (expenses).

Depreciation of property, plant and equipment, is calculated by using the fixed-percentage decline method and straight-line method basis over estimated useful lives of the assets.

(7) Deferred charges

Deferred charges principally represent technical assistance costs and issuing fees of corporate bonds. The deferred technical assistance costs are amortized over five years, but the deferred technical assistance costs of PC plant are amortized over ten years. The deferred issuing fees of corporate bonds are amortized from the issuance date to the end redemption period if the bond is redeemable, or amortized on a straight-line basis over the issued period, if the bond is not redeemable.

(8) Retirement benefits

In compliance with the Labor Law of the Republic of China ("R.O.C."), the Company has an employee retirement plan for its regular employees. Provision and funding of the pension are based on 2% of total salaries and wages. The fund is deposited with the Central Trust of China, a government entity. After working for certain years, upon reaching a certain age, or when disable, employees may apply for retirement benefits to be paid by the Company according to the base calculated by the number of years of service as well as the average salaries of the last six months before retirement. For the first fifteen years, each employee gets two credits for each year of service from year one to year fifteen. Starting from the sixteenth year, one credit is rewarded for each additional year of service. A lump sum retirement benefit will be paid through the retirement fund. If the fund is insufficient, the remaining balance will be charged to current operations.

The Company has applied the R.O.C. Statements of Financial Accounting Standards ("SFAS") No. 18, "Accounting for Pensions," since 1995. SFAS No. 18 requires that the actuarial pension liability be calculated using the balance sheet date as the measurement date, and the excess amount of accumulated benefit obligation over fair value of pension plan assets recognized as minimum pension liability. In addition, in compliance with the rules issued by Securities and Futures Commission ("SFC") of R.O.C., the amortization of net periodic pension cost has been recognized. The net periodic pension cost consists of service cost, amortization of unrecognized prior service cost, amortization of unrecognized gain or loss and amortization of unrecognized transitional net assets. The amortization is on the straight-line method over seventeen years and is the expected future average remaining service years of the employees.

According to R.O.C. SFAS NO. 23 "Presentation and Disclosures for Interim Financial Statements", pension plan disclosures can be less than the disclosures required by R.O.C. SFAS NO. 18 "Accounting for Pensions".

(9) Income taxes

The Company adopted the R.O.C. SFAS No. 22, "Accounting for Income Taxes," in preparing annual financial statements. Deferred income tax assets and liabilities are recognized based on the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis amount, net loss carry forwards and unused tax credits. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary timing differences are expected to reverse or settle. The effect of the change in income tax rates on deferred income tax assets and liabilities is recognized in the year of enactment. The Company also evaluates the possibility of the realization of deferred income tax assets, and recognizes a valuation allowance account if necessary. Deferred income tax assets and liabilities are classified as current or non-current according to the assets or liabilities accounts from which they are derived, or according to the years of reversal if they are not related to specific assets or liabilities.

Effective in year 1998, any tax-adjusted retained earnings, which have not been distributed in the next year, should be subject to an additional tax of 10% under the Integrated Income Tax System. The tax levied should be recorded as income tax expense in the year when the non-distribution resolution is made by the shareholders' meeting.

The adjustment of the tax expense levied in the prior years should be recorded as current income tax expense.

(10) Treasury stocks

The Company adopted the R.O.C. SFAS No. 30, "Accounting for Treasury Stocks," in preparing annual financial statements. The stock shares of the Company hold by its subsidiary are accounted for treasury stocks according to the holding percentage.

(11) Basic earnings per share

Basic earnings per share is calculated based on the weighted-average outstanding number of shares during the period and is adjusted retroactively to reflect the effect of the increase in issued common stock resulting from the declaration of stock dividends.

(12) Foreign-currency transactions and translation of financial statements in foreign currencies

The Company maintains its financial records in New Taiwan dollars. Foreign currency transactions entered into during the year are translated at the rates prevailing at the transaction dates. Assets and liabilities denominated in foreign currencies as of the balance sheet date were converted into New Taiwan dollars at the exchange rate prevailing on that date. The resulting realized and unrealized gains or losses are recognized as non-operating income or expenses. Exchange differences of the Company's long-term investments are included in the stockholders' equity as translation adjustments.

Foreign currency financial statements of foreign affiliates accounted for under the equity method where the local currency is the functional currency are translated into New Taiwan dollars at the exchange rate on the balance sheet date, except for stockholders' equity accounts, which are translated at historical exchange rates, revenues and expenses, which are translated at the weighted average exchange rates during the reporting period, and stock dividends, which are translated at the exchange rate on the declaration date.

For hedge of a net asset or liability position, foreign currency transactions are measured and recorded at the spot rate in effect at the transaction date. A change in the exchange rate between the date of the transaction and the settlement date results in an exchange gain or loss that is reflected in income for the period. At the balance sheet date, any remaining balances that are denominated in a currency other than the functional currency are adjusted to reflect the current exchange rate, and the gain or loss is charged to income. For the swap forward contract, premiums and discounts may be amortized to income over the term of the forward contract. For hedge of a net investment in a foreign entity, exchange gains and losses are recognized as equity adjustments and will offset equity adjustments recorded in the net investment.

(13) Financial instruments

Derivatives financial instruments are stated at cost, and evaluated based on the fair market value on the balance sheet date. The resulting differences are accounted for as periodic income or expense.

Non-derivative financial instruments are recognized and valued under the accounting policies above and generally accepted accounting principles in the R.O.C..

(All amounts expressed in thousands of dollars
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(14) Convenience translation into US dollars

The financial statements are stated in New Taiwan dollars. Translations of the 2003 New Taiwan dollar amounts into US dollar amounts are included solely for the convenience of the readers, using the noon buying rate from the Federal Reserve Bank of New York on March 31, 2003, of NT$33 to US$1. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be converted into US dollars at this rate or any other rate of exchange.

3. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Short-term investments and other financial assets-current

Short-term investments and other financial assets- current as of March 31, 2003 and 2004 were as follows:

	New Taiwan Dollars				US Dollars	
	March 31				March 31	
	2003		2004		2004	
	Cost	Market value	Cost	Market value	Cost	Market value
Listed securities	$ 3,051,224	$ 15,959,104	$ 3,473,599	$ 22,213,127	$ 105,260	$ 673,125
Open-ended mutual funds	—	—	$ 4,884,624	4,956,680	148,019	150,202
	$ 3,051,224	$ 15,959,104	$ 8,358,223	$ 27,169,807	$ 253,279	$ 823,327
Other financial assets — current:						
Stocks pledged as collateral for due to banks	$ 148,966	$ 876,436	$ 174,486	$ 1,068,231	$ 5,287	$ 32,371

Other financial assets — current pledged to bank or courts as collateral for loans and lawsuits are described in Note 5.

FORMOSA CHEMICALS & FIBRE CORPORATION

NOTES TO FINANCIAL STATEMENTS — (Continued)
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2003 AND 2004
(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)
(Unaudited)

(2) Notes receivable, accounts receivable and other receivables

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Notes receivable	$ 721,460	$ 624,215	$ 18,916
Less: allowance for bad debts	(3,990)	(1,321)	(40)
Notes receivable, net	$ 717,470	$ 622,894	$ 18,876
Accounts receivable	$ 4,171,800	$ 4,345,880	$ 131,693
Less: allowance for bad debts	(5,285)	(439)	(13)
Account receivable, net	$ 4,166,515	$ 4,345,441	$ 131,680
Other receivables	$ 1,064,584	$ 1,699,621	$ 51,504
Less: allowance for bad debts	(51,199)	(32,536)	(986)
Other receivables, net	$ 1,013,385	$ 1,667,085	$ 50,518

(3) Inventories

Inventories as of March 31, 2003 and 2004 consisted of as following:

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Raw materials	$ 5,943,722	$ 6,392,111	$ 193,700
Supplies	1,772,982	1,635,282	49,554
Work in process	1,540,147	1,853,393	56,164
Finished goods	6,560,312	6,724,225	203,764
Goods in transit	755,441	472,272	14,311
Consigned out raw materials	68,910	257,038	7,789
Consigned out finished goods	9,431	11,634	353
Other inventories	8,433	9,653	293
	16,659,378	17,355,608	525,928
Less: allowance for inventory valuation loss	—	—	—
	$ 16,659,378	$ 17,355,608	$ 525,928

FORMOSA CHEMICALS & FIBRE CORPORATION

NOTES TO FINANCIAL STATEMENTS — (Continued)
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2003 AND 2004
(All amounts expressed in thousands of dollars
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(Unaudited)

(4) Long-term investments and other financial assets non-current

Long-term investments as of March 31, 2003 and 2004 consisted of as following:

	New Taiwan Dollars				US Dollars
	March 31				March 31
	2003		2004		2004
Investee	**Percentage of ownership**	**Carrying amount/ original cost**	**Percentage of ownership**	**Carrying amount/ original cost**	**Carrying amount/ original cost**
Equity method:					
Formosa Chemicals & Fibre Corp., America	100.00	$ 183,570	100.00	$ 178,434	$ 5,407
FCFC Investment Corp. (Cayman)	100.00	2,381,426	100.00	4,016,185	121,703
Formosa Biomedical Technology Corp.	—	—	99.99	255,274	7,736
Formosa Idemitsu Petrochemical Corp.	50.00	225,598	50.00	257,271	7,796
Formosa Industries Corp.	42.50	1,363,500	42.50	2,122,110	64,306
Formosa BP Chemicals Corp.	50.00	255,023	50.00	541,255	16,402
Tah Shin Spinning Corp.	71.10	164,404	84.10	195,014	5,910
Formosa Taffeta Co., Ltd.	37.40	7,799,699	37.40	7,991,153	242,156
Formosa Heavy industries Corp.	32.91	2,913,590	32.91	2,981,441	90,347
Formosa Fairway Corp.	33.32	99,811	33.33	89,102	2,700
Formosa Plastics Group Management Consultants Corp.	33.30	567	33.30	572	17
Formosa Plastics Transportation Corp.	33.33	451,151	33.33	507,348	15,374
Formosa Petrochemical Corp.	28.12	37,250,992	27.57	40,799,463	1,236,347
Su-Hau Transport Corporation	25.00	47,218	25.00	55,227	1,674
Mai Liao Power Corp.	24.94	8,391,068	24.94	8,716,430	264,134
Hwa Ya Science Park Management Consulting Co. Ltd.	33.00	684	33.00	1,371	41
Chia-Nan Enterprise Corporation	30.00	130,049	30.00	169,981	5,151
Formosa Environmental Technology Corp.	—	—	24.34	234,042	7,092
		61,658,350		69,111,673	2,094,293
Less: allowance for valuation losses in long-term investments		(43,894)		(7,995)	(242)
		61,614,456		69,103,678	2,094,051
Lower of cost or market value method:					
Formosa Union Chemical Corp	4.24	23,909	4.24	23,909	724
Fuh-Hwa Financial Holding Co., Ltd.	0.01	4,166	—	—	—
Ours Commercial Banking Corp.	3.15	333,330	2.36	249,990	7,576
		361,405		273,899	8,300
Less: allowance for valuation losses in long-term investments		—		—	—
		361,405		273,899	8,300

FORMOSA CHEMICALS & FIBRE CORPORATION

NOTES TO FINANCIAL STATEMENTS — (Continued)
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2003 AND 2004
(All amounts expressed in thousands of dollars except earnings per share information or unless otherwise stated)
(Unaudited)

	New Taiwan Dollars				US Dollars
	March 31				March 31
	2003		2004		2004
Investee	Percentage of ownership	Carrying amount/ original cost	Percentage of ownership	Carrying amount/ original cost	Carrying amount/ original cost
Cost method:					
Mai Liao harbor administration Corp.	17.98	$ 539,260	17.98	$ 539,260	$ 16,341
Ampere Industrial Co., Ltd	18.00	30,246	18.00	30,246	917
Asia Pacific Investment Corp.	14.97	725,839	14.97	725,839	21,995
Formosa Plastics Corp., U.S.A.	3.51	818,316	3.51	818,316	24,797
Formosa Network Technology Corp.	12.50	13,331	12.50	13,331	404
Formosa Plastics Marine Corp.	15.00	15,000	15.00	15,000	455
Formosa Ocean Group Marine Investment Corp.	19.00	856,948	19.00	856,948	25,968
Taiwan Aerospace Corp.	0.79	41,250	0.79	41,250	1,250
Central Leasing International Corp..	1.07	14,425	1.07	14,425	437
Taiwan Stock Exchange Corp.	2.00	1,800	2.00	1,800	55
Yi-Jih Development Co.	1.51	3,000	1.51	3,000	91
China Television Service	1.20	38,419	1.20	38,419	1,164
Formosa Plastics Marine Co.	18.22	1,750	18.22	1,750	53
Formosa Plastics Development Co.	18.00	90,010	18.00	90,010	2,728
Gala TV Corp.	6.25	91,162	6.25	91,162	2,762
		3,280,756		3,280,756	99,417
Net Amount		$ 65,256,617		$ 72,658,333	$ 2,201,768

Other financial assets — non-current

	New Taiwan Dollars				US Dollars
	March 31				March 31
	2003		2004		2004
Investee	Carrying shares	Carrying amount/ original cost	Carrying shares	Carrying amount/ original cost	Carrying amount/ original cost
Formosa Plastics Corp.	17,020,000	$ 122,082	17,020,000	$ 149,789	$ 4,539
Nan Ya Plastics Corp.	28,265,000	202,691	28,165,000	190,570	5,775
Stocks pledged as collateral for long term loans.		$ 325,493		$ 340,359	$ 10,314
Market price		$ 1,711,373		$ 2,176,480	$ 65,954

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

a. The investment income (loss) and original costs of long-term investments evaluated by the equity method were as follows:

	New Taiwan Dollars				US Dollars	
	2003		2004		2004	
Investee	Original cost	Investment income (loss)	Original cost	Investment income (loss)	Original cost	Investment income (loss)
Formosa Chemicals & Fibre Corp., America	$ 296,654	$ 1,583	$ 296,654	$ 1,223	$ 8,989	$ 37
Formosa Idemitsu Petrochemical Corp.	299,999	(41,568)	299,999	7,621	9,091	231
Tah Shin Spinning Corp.	49,775	525	79,785	1,080	2,418	33
Formosa Industries Corp.	1,384,586	(2,266)	2,262,182	(19,270)	68,551	(584)
Formosa BP Chemicals Corp.	262,500	(6,922)	585,000	(15,919)	17,727	(482)
Formosa Taffeta Co., Ltd.	719,003	72,824	719,003	100,764	21,788	3,053
Formosa Heavy Industries Corp.	2,497,721	17,560	2,497,721	20,969	75,689	635
Formosa Fairway Corp.	33,320	2,632	33,320	(288)	1,010	(9)
Formosa Plastics Group Management Consultants Corp.	333	—	333	—	10	—
Formosa Plastics Transportation Corp.	17,256	15,186	17,255	16,185	523	491
Hwa Ya Science Park Management Consulting Co. Ltd.	340	14	340	685	10	21
Formosa Petrochemical Corp.	29,440,116	891,207	28,670,200	2,371,703	868,794	71,870
Mai Liao Power Corp.	5,985,531	166,875	5,985,531	117,776	181,380	3,569
Chia-Nan Enterprise Corp.	119,134	(178)	161,134	(454)	4,883	(14)
FCFC Investment Corp. (Cayman)	2,414,603	(8,787)	4,311,012	(33,799)	130,637	(1,024)
Su-Hau Transport Corp.	50,000	(2,066)	50,000	3,669	1,515	111
Formosa Environmental Technology Corp.	—	—	243,375	(4,324)	7,375	(131)
Formosa Biomedical Technology Corp.	—	—	199,990	55,454	6,060	1,680
Total	$ 43,570,871	$ 1,106,619	$ 46,412,834	$ 2,623,075	$ 1,406,450	$ 79,487

The Company had decided to use equity method to prepare interim financial statements for the first and third quarters starting from 2003 on long-term investments for the percentage of ownership exceed 20% but below 50%. The Company recognized investments in Formosa Taffeta Co., Ltd. for the three-month periods ended March 31, 2003 and in Formosa Heavy Industries Corp., Formosa Petrochemical Corp., Mai Liao Power Corp., and Formosa Taffeta Co., Ltd. for the three-month periods ended March 31, 2004 based on reviewed financial statements by the certified public accountant. The investment of the other investee companies accounted for under the equity method were based on the information provided by the investee companies without any review by the certified public accountant.

b. In October 2003, the Company purchased 2,778,696 shares of Tah shin Spining Corp. for NT$30,010 thousand and the Company's holding percentage has increased to 84.10%.

c. The Company, Nan Ya Plastics Corp., Formosa Taffeta Corp., and Kingcar Corp. invested Formosa Industries Corp. in Vietnam in February 2002. The registered capital of Formosa Industries Corp. is US$108,000, but the Board of the Directors of Formosa Industries Corp. resolved to increase capital US$85,000 thousand on August 28, 2003. As the result of capital increasing, the registered capital of Formosa Industries Corp. increased to US$193,000 thousand. The Company proposed to invest US$36,125 thousand based on its original holding percentage of 42.5%. The Company has invested US$65,875 thousand (about NT$2,262,182 thousand) at the end of March 31, 2004 for the holding percentage of 42.5%.

d. The Company had joint venture with BP Global Investments Limited to establish Formosa BP Chemicals Corp. for producing and selling acetic acid. The capital of Formosa BP Chemicals Corp. is NT$1,710,000 thousand, and the actual received capital was NT$1,170,000 thousand on March 31, 2004. The Company subscribed 58,500,000 shares for NT$585,000 thousand and the holding percentage was 50%.

e. The Company sold 161,000 shares of the Formosa Petrochemical Corp. in the fourth quarter of 2002. The total selling price was NT$4,816 thousand, and gain on disposal of shares amounted to NT$1,855 thousand. The Company sold another 43,394,000 shares in December 2003. The total selling price was NT$1,860,344 thousand, and gain on disposal of shares amounted to NT$1,092,208 thousand.

f. Chia-Nan Enterprise Corporation issued new shares in December 2003. The Company subscribed 2,100,000 new shares for NT$42,000 thousand based on its original holding percentage of 30%.

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g. The Company incorporated 100% owned companies in Ningbo of China indirectly invested by FCFC Investment Corp. (Cayman) to produce and sell petrochemical product. As of December 31, 2003 those investments which have be approved by the Investment Commission, Ministry of Economic Affairs were described below:

		Investment Commission of Ministry of Economic Affairs			Amount has been invested	
Investee	Date of the Board meeting	Approved date	Approved issue number	Approved investment amount	USD	NTD equivalent amount
Formosa ABS Plastic (Ningbo) Limited Co.	May. 25, 2001	Sep. 4, 2001	90021130	US$48,120	48,120	1,656,425
Formosa Power (Ningbo)	May. 25, 2001	Jun. 20, 2002	90021131	US$49,830	40,000	1,375,009
Limited Co.	Dec. 30, 2003	Apr. 16, 2004	092044757	US$36,000		
Formosa Chemical Industries (Ningbo) Limited Co.	Aug. 1, 2002	Nov. 21, 2002	0910024074	US$49,000	28,000	950,514
Formosa PS (Ningbo) Limited Co.	May. 5, 2003	Jul. 24, 2003	092016052	US$17,000	2,550	86,769

The Company invested in 52,000 shares of FCFC Investment Corp. (Cayman) for US$127,440 thousand for the holding percentage of 100% as of March 31, 2004.

h. The Company subscribed 24,337,500 new shares of Formosa Environmental Technology Corp. for NT$243,375 thousand for the holding percentage of 24.34% in August 2003.

i. The Company subscribed 19,999,000 new shares of Formosa Biomedical Technology Corp. for NT$199,999 thousand for the holding percentage of 99.99% in November 2003.

j. The Company sold 9,500,000 shares of Our Commercial Banking Corp. in the first quarter of 2004. The total selling price was NT$133,686 thousand, and gain on disposal of shares amounted to NT$50,346 thousand.

k. The market values of long-term equity investments accounted for using the lower of cost or market value method as of March 31, 2003 and 2004, was as follows:

	New Taiwan Dollars		US Dollars
	March 31		March 31
Name of investee	2003	2004	2004
Formosa Union Chemical Corp.	$ 138,192	$ 135,440	$ 4,104
Fuh Hwa Financial Holding Co., Ltd.	1,760	—	—
Our Commercial Banking Corp.	302,452	380,713	11,537
	$ 442,404	$ 516,153	$ 15,641
Losses of valuation	$ —	$ —	$ —

The Company recognized NT$43,894 thousand and NT$7,995 thousand losses of valuation from Formosa Taffeta Corp. accounted for using equity method according to holding percentage on March 31, 2003 and 2004, respectively.

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l. The cumulative translation adjustments of long-term investments accounted for using equity method as of March 31, 2003 and 2004, were as follows:

	New Taiwan Dollars		US Dollars
	March 31		March 31
Name of investee	2003	2004	2004
Formosa Chemical & Fibre Corp., America	$ 107,210	$ 97,965	$ 2,969
FCFC Investment Corp. (Cayman)	71,518	(103,499)	(3,136)
Formosa Taffeta Co., Ltd.	79,626	45,439	1,377
Formosa Heavy Industries Corp.	2,819	(6,263)	(190)
Formosa Industries Corp.	(14,722)	(9,051)	(2,743)
Formosa Plastics Transportation Corp.	—	(82)	(3)
Total	$ 246,451	$ (56,951)	$ (1,726)

m. Long-term equity investments and other financial assets non-current pledged to banks or courts as collateral for loans and lawsuits were described in Note 5.

(5) Property, plant and equipment

a. Machinery and equipment was reappraised on December 31, 1974. The balances of the reappraisal increments were NT$204,514 thousand as of March 31, 2003 and 2004.

b. Property, plant and equipment pledged to secure bank loans were described in Note 5.

c. Advance payments for property, plant and equipment included compensation payments to the affected fishermen in Mai-Lia area, where the Sixth Naphtha Cracker and Six Naphtha Expansion Project were located. As of March 31, 2003 and 2004, the compensation payments amounted to NT$357,884 thousand and were reclassified as part of the cost of the industrial land, which was acquired from the government.

d. Interests before capitalized interests were NT$639,179 thousand and NT$479,088 thousand for 2003 and 2004, respectively. The capitalized interests were parts of cost for purchase or construction of property, plant and equipment amounted to NT$89,694 thousand and NT$50,681 thousand in 2003 and 2004, respectively. The capitalized interest rates were 3.60%~3.87% and 3.09%~3.19% for 2003 and 2004, respectively.

e. The property transactions between the Company and related parties were described in Note 4.

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(6) Other miscellaneous assets

As of March 31, 2003 and 2004, other miscellaneous assets consisted of the following:

	New Taiwan Dollars		US Dollars
	March 31		March 31
Name of investee	2003	2004	2004
Land	$ 280,220	$ 289,262	$ 8,766
Buildings	311,734	321,628	9,746
Less: accumulated depreciation	(217,177)	(228,198)	(6,915)
Rental assets	374,777	382,692	11,597
Guarantee deposits paid	162,122	120,767	3,660
Forward exchange contract receivables — net (Note 7)	96,722	—	—
Land-Ling-Co industry area	134,178	130,549	3,956
Overdue receivables	29,717	55,266	1,675
Less : allowance for bed debts	(29,717)	(55,266)	(1,675)
Other	75,244	54,787	1,660
Total	$ 843,043	$ 688,795	$ 20,873

a. There were NT$68,947 thousand and NT$22,482 thousand of "Other miscellaneous assets" represented parcels of land, located in Shin-Kong county and Lin-Kou county, etc, for 2003 and 2004, respectively. The ownership of the land has not been deeded to the Company due to the restriction of existing laws. The land is presently registered under the name of nominal trustees and mortgaged to the Company to secure the Company's title to the land.

b. The property transactions between the Company and related parties were described in Note 4.

(7) Due to banks and other short-term borrowings

Short-term loans from banks and loans from employees as of March 31, 2003 and 2004 consisted of the following:

	New Taiwan Dollars		US Dollars	Mortgaged and pledged
	2003	2004	2004	
Usance letters of credit	$ 291,476	$ 410,091	$ 12,427	Note 5
Credit loans	477,700	500,000	15,151	None
Due to banks	$ 769,176	$ 910,091	$ 27,578	
Loans from employees	$ 429,650	$ 572,289	$ 17,342	None
Interest rate	1.39%–1.71%	0.38%–1.05%		

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(8) Bonds payable

Bonds payable as of March 31, 2003 and 2004 were comprised of the following:

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Domestic unsecured nonconvertible corporate bonds	$ 23,250,000	$ 21,250,000	$ 643,939
Less: current portion of bonds payable	(7,000,000)	(1,650,000)	(50,000)
	$ 16,250,000	$ 19,600,000	$ 593,939

The Company issued nonconvertible corporate bonds with a total face value of NT$312.5 billion. All bonds were issued at principal amounts. The terms of nonconvertible corporate bonds were as follows:

		Issuance date	Maturity date	Yield rate (%)	Issued principal amount	Balance as of Mar. 31, 2004	Note
Unsecured bonds	A	Dec. 10, 1996	Dec. 10, 2001	6.59	$ 1,500,000	$ —	Term bonds
No. 1	B	Dec. 10, 1996	Dec. 10, 2002	6.65	1,500,000	—	"
	C	Dec. 10, 1996	Dec. 10, 2003	6.70	1,500,000	—	"
Unsecured bonds	A	Jun. 24, 1998	Jun. 24, 2005	7.61	2,500,000	2,500,000	"
No. 2	B	Jun. 24, 1998	Jun. 24, 2003	7.34	400,000	—	"
	C	Jun. 24, 1998	Jun. 24, 2003	7.48	400,000	—	"
	D	Jun. 25, 1998	Jun. 25, 2003	7.34	400,000	—	"
	E	Jun. 25, 1998	Jun. 25, 2003	7.48	400,000	—	"
	F	Jun. 26, 1998	Jun. 26, 2003	7.345	400,000	—	"
	G	Jun. 26, 1998	Jun. 26, 2003	7.48	500,000	—	"
Unsecured bonds	A	Jan. 28, 1999	Jan. 28, 2004	6.70	500,000	—	"
No. 3	B	Jan. 28, 1999	Jan. 28, 2004	6.59	100,000	—	"
	C	Jan. 28, 1999	Jan. 28, 2004	6.60	800,000	—	"
	D	Jan. 27, 1999	Jan. 27, 2004	6.595	300,000	—	"
	E	Jan. 27, 1999	Jan. 27, 2004	6.60	300,000	—	"
	F	Jan. 27, 1999	Jan. 27, 2004	6.70	200,000	—	"
	G	Jan. 27, 1999	Jan. 26, 2004	6.60	200,000	—	"
	H	Jan. 26, 1999	Jan. 26, 2004	6.595	100,000	—	"
	I	Jan. 26, 1999	Jan. 26, 2004	6.495	200,000	—	"
	J	Jan. 26, 1999	Jan. 26, 2004	6.70	300,000	—	"
Unsecured bonds No. 4	A	Feb. 19, 2002 ~ Mar. 8, 2002	Feb. 19, 2005 ~ Mar. 8, 2005	3.00	2,600,000	2,600,000	Serial bonds, be settled 33% of principle as of first repayment.
			Feb. 19, 2006 ~ Mar. 8, 2006				Be settled 34% of principle as of second repayment.
			Feb. 19, 2007 ~ Mar. 8, 2007				Be settled 34% of principle as of third repayment.
	B	Feb. 19, 2002 ~ Mar.7, 2002	Feb. 19, 2005 ~ Mar. 8, 2005	2.9778	2,400,000	2,400,000	"
			Feb. 19, 2006 ~ Mar. 8, 2006				"
			Feb. 19, 2007 ~ Mar. 8, 2007				"

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		Issuance date	Maturity date	Yield rate (%)	Issued principal amount	Balance as of Mar. 31, 2004	Note
Unsecured bonds No. 5	A	Jul. 5, 2002	Jul. 5, 2005	5.40 *(Note)*	$ 300,000	$ 300,000	Serial bonds, be settled 33% of principle as of first repayment.
			Jul. 5, 2006				Be settled 34% of principle as of second repayment.
			Jul. 5, 2007				Be settled 34% of principle as of third repayment.
	B	Jul. 5, 2002	Jul. 5, 2005	5.876 *(Note)*	200,000	200,000	"
			Jul. 5, 2006				"
			Jul. 5, 2007				"
	C	Jul. 5, 2002	Jul. 5, 2005	5.626 *(Note)*	200,000	200,000	"
			Jul. 5, 2006				"
			Jul. 5, 2007				"
	D	Jul. 5, 2002	Jul. 5, 2005	6.006 *(Note)*	300,000	300,000	"
			Jul. 5, 2006				"
			Jul. 5, 2007				"
	E	Jul. 5, 2002	Jul. 5, 2005	5.986 *(Note)*	300,000	300,000	"
			Jul. 5, 2006				"
			Jul. 5, 2007				"
	F	Jul. 5, 2002	Jul. 5, 2005	5.996 *(Note)*	250,000	250,000	"
			Jul. 5, 2006				"
			Jul. 5, 2007				"
	G, H	Jul. 5, and	Jul .5, 2005	4.15 *(Note)*	450,000	450,000	
		Jul. 8, 2002	Jul. 5, 2006				
			Jul. 5, 2007				
	I, M	Jul. 5, 2002 ~ Jul. 11, 2002	Jul. 5, 2005	5.675 *(Note)*	1,750,000	1,750,000	"
			Jul. 5, 2006				"
			Jul. 5, 2007				"
Unsecured bonds No. 6		Dec. 2, 2002 ~ Dec. 23, 2002	Dec. 2 ~ Dec. 23, 2007	4.44875 *(Note)*	5,000,000	5,000,000	Term bonds
Unsecured bonds No. 1 of 2003	A	Jul. 7 ~ Jul. 16, 2003	Jul. 16 ~ Jul. 17, 2009	3.15 *(Note)*	1,800,000	1,800,000	Term bonds
	B, C	Jul. 7 ~ Jul. 16, 2003	Jul. 16 ~ Jul. 17, 2009	3.00 *(Note)*	1,200,000	1,200,000	"
Unsecured bonds No. 1 of 2003	D	Jul. 7 ~ Jul. 8, 2003	Jul. 8 ~ Jul. 17, 2009	2.85 *(Note)*	400,000	400,000	"
	E	Jul. 7 ~ Jul. 8, 2003	Jul. 8 ~ Jul. 17, 2009	2.80 *(Note)*	500,000	500,000	"
	F	Jul. 7 ~ Jul. 9, 2003	Jul. 9 ~ Jul. 17, 2009	2.873 *(Note)*	600,000	600,000	"
	G	Jul. 7 ~ Jul. 8, 2003	Jul. 8 ~ Jul. 17, 2009	2.00 *(Note)*	500,000	500,000	"
Subtotal					$ 31,250,000	21,250,000	
Less: current portion of bonds payable						(1,650,000)	
Bonds payable						$ 19,600,000	

(Note) The yield rate was the floating rate used to calculate interest of which the Company should pay on March 31, 2004.

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(9) Long-term bank loans and long-term notes payable

Long-term bank loans and long-term notes payable as of March 31, 2003 and 2004 consisted of the following:

				New Taiwan Dollars		US Dollars
				March 31		March 31
Creditors	Repayment period	Collateral	Interest rate (%)	2003	2004	2004
Bank of communication and other banks (Sixth naphtha cracker project syndicate loan-item A) .	November 2002~November 2012 in 21 semi-annual installments.	Land acquired in the project	2.53	$ 874,000	$ 786,000	$ 23,818
Bank of communication and other banks (Sixth naphtha cracker project syndicate loan-item A-II)	December 2004~December 2011 in 15 semi-annual installments.	Buildings and factories acquired in the project	2.62	760,000	760,000	23,030
Bank of communication and other banks (Sixth naphtha cracker project syndicate loan-item B) .	December 2002~December 2012 in 21 semi-annual installments.	Buildings and factories acquired in the project	2.53	1,192,200	1,058,880	32,087
Bank of communication and other banks (Sixth naphtha cracker project syndicate loan-item B-II)	June 2004~June 2011 in 15 semi-annual installments.	Machinery and equipments acquired in the project	2.62	4,816,000	4,816,000	145,940
Bank of communication and other banks (Sixth naphtha cracker project syndicate loan-item C) .	December 2001~December 2011 in 21 semi-annual installments.	Machinery and equipments acquired in the project	2.53	3,348,000	2,976,000	90,181
Bank of communication and other banks (Sixth naphtha cracker project syndicate loan-item C-II)	December 2004~December 2011 in 15 semi-annual installments.	Machinery and equipments acquired in the project	4.16	281,000	281,000	8,515
Bank of communication and other banks (Sixth naphtha cracker project syndicate loan-item D) .	March 2002~March 2012 in 21 semi-annual installments.	Machinery and equipments acquired in the project	1.94	$ 7,693,650 USD(221,400)	$ 6,498,336 USD(196,800)	$ 196,920
Bank of communication and other banks (Sixth naphtha cracker project syndicate loan-item E) .	January 2001~October 2010 in 40 quarter-annual installments.	Machinery and equipments acquired in the project	4.16	149,575	130,275	3,948
Bank of communication and other banks (Sixth naphtha cracker project syndicate loan-item F) .	Mach 2004~March 2014 in 21 semi-annual installments.	Machinery and equipments acquired in the project	2.53	2,667,000	2,540,000	76,970
Taiwan Cooperative Bank .	Interest paid monthly in 24 installments starting from December 2002; principal paid at maturity, Be early settled in 2003.	Stock pledged	—	1,300,000	—	—
China Development Industrial Bank.	Interest paid monthly in 60 installments starting from September 1999; principal paid from September 2003 at three times, Be early settled in 2003.	Stock pledged	—	1,500,000	—	—

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Creditors	Repayment period	Collateral	Interest rate (%)	New Taiwan Dollars March 31 2003	New Taiwan Dollars March 31 2004	US Dollars March 31 2004
China Development Industrial Bank	December 2002~June 2007; interest paid monthly, principal paid at semi-annual.	Machinery and equipments acquired in the project	2.80	$ 5,400,000	$ 4,200,000	$ 127,273
The Taishin Bank	Interest paid monthly in 42 installments starting from December 2001; principal paid at maturity	Stock pledged	1.79	1,330,000	1,330,000	40,303
Chang Hwa Bank	December 2003~December 2006; interest paid monthly; principal paid at maturity.	Land and factories pledged	2.63	6,300,000	5,000,000	151,515
The Taipei Bank	Interest paid monthly in 36 installments starting from December 2000; principal paid at maturity.	Land and factories pledged	2.75	4,000,000	4,000,000	121,212
The International Bank of Taipei	Interest paid monthly in 24 installments starting from December 2001; principal paid at maturity; extended to December 2005.	Other	1.80	1,000,000	1,000,000	30,303
Sub-total				42,611,425	35,376,491	1,072,015
Idemitsu Petrochemical Corp. Ltd.	Interest paid in semi-annual from October 2001 to December 2013; principal paid in 10 installments annually from 2004.	Other	0.82	415,272 (JPY1,430,000)	1,209,286 (JPY3,850,000)	36,645
Sub-total of non-financial institution				415,272	1,209,286	36,645
				43,026,697	36,585,777	1,108,660
Less: current portion of long-term bank loans				(3,760,470)	(2,405,541)	(72,895)
current portion of long-term notes payable				(19,300)	(1,306,300)	(39,585)
long-term notes payable				(130,275)	(9,436,975)	(285,969)
				$ 39,116,652	$ 23,436,961	$ 710,211

a. The collateral for long-term bank loans was described in Note 5.

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b. Long-term bank loans and long-term notes payable as of March 31, 2004 will be repaid in the following periods:

Periods	Total long-term bank loans and long-term notes payable amounts (including USD currency loans)
2004.4.1–2005.3.31	$ 3,711,841
2005.4.1–2006.3.31	10,111,421
2006.4.1–2007.3.31	8,781,420
2007.4.1–2008.3.31	3,181,420
After 2008.4.1	10,799,674
	$ 36,585,776

c. In order to finance the construction of the Sixth Naphtha Cracker project and the related factories, the Company entered into a long-term loan agreement with 32 banks on April 28, 1994. The Bank of Communication was the manager bank for the syndicate loan. Because the six Naphtha Cracker project expanded, the Company re-entered into the long-term loan agreement with the banks on May 6, 1999 and on December 6, 2000. The details were as follows:

(a) Total credit line: included NT$16,235,000 thousand and US$260,000 thousand.

(b) Interest rate: Based on the agreement with the banks.

(c) Period: 10~15 years.

(d) Collateral: The property, plant and equipment acquired by using the proceeds of the loan were pledged as the collateral.

As of March 31, 2003 and 2004, approximately NT$14,042,0000 thousand, US$260,000 thousand and NT$14,802,000 thousand, US$260,000 thousand of the loans had been disbursed, respectively.

According to the long-term loan agreement, the Company should settle that loans by issuing notes. As of March 31, 2004, the Company had issued notes of NT$11,863,000 thousand, of which NT$1,119,725 thousand were settled, and NT$1,306,300 thousand and NT$9,436,975 thousand was recorded as current portion of long-term notes payable and long-term notes payable, respectively.

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d. In order to rebuild the factory buildings and buy the equipment for generating electric power, the Company entered into a long-term loan agreement with banks on December 23, 1999, and the China Development Industrial Bank was the manager bank for the syndicate loan. The details were as follows:

(a) Total credit line: NT$6,000,000 thousand.

(b) Interest rate : Base on reference interest rate markup 1.4% annual, floating spread.

(c) Period: Seven years after the Company first withdraw from the loan.

(d) Collateral: The property, plant and equipment acquired by using the proceeds of the loan were pledged as the collateral.

As of March 31, 2003 and 2004, all the above credit line has been used.

(10) Accrued pension liability

The Company adopted SFAS No. 18, "Accounting for Pension". The Company calculates actuarial present value of pension liability using the balance sheet date as the measurement date. The following table sets forth the details of funded status and its reconciliation between the accrued pension liability recognized in the Company's balance sheets as of March 31, 2003 and 2004:

	New Taiwan Dollars		US Dollars
	2003	2004	2004
Accrued pension liability at beginning of year	$ 3,933,518	$ 4,850,784	$ 146,994
Recognition in first quarter	175,815	173,058	5,244
Payment in first quarter	(86,888)	(77,509)	(2,349)
Accrued pension liability at end of year	$ 4,022,445	$ 4,946,333	$ 149,889

The balance of the pension fund that the Company deposited with Central Trust of China as of March 31, 2003 and 2004 amounted to NT$8,027 thousand and NT$7,045 thousand, respectively. In 2003 and 2004, the actual pension payments amounted to NT$88,528 thousand and NT$77,200 thousand, respectively.

(11) Stockholders' equity

a. *Capital stock*

(a) The Company's 2002 general stockholders' meeting resolved to transfer unappropriated retained earnings of NT$2,366,350 thousand to capital by issuing stock dividends with a par value of NT$10 per share. The shares increases referred to above were approved and registered with the related government authorities on September 24, 2002.

(b) The Company's 2003 general stockholders' meeting resolved to transfer unappropriated retained earnings of NT$3,344,442 thousand to capital by issuing stock dividends with a par value of NT$10 per share. The shares increases referred to above were approved and registered with the related government authorities on August 11, 2003.

b. *Capital surplus and restrictions on appropriations and distributions of retained earnings*

(a) *Capital surplus*

According to R.O.C. Company Law, capital surplus can only be used to offset a deficit or increase share capital, and can not be distributed as cash dividends. According to regulations of SFC, capital surplus should be used to offset a deficit before being transferred to capital. The amount transferred to capital can not be over 10% of the total capital each year. A capital increase that is conducted by transferring paid-in capital in excess of par value can be done only once a year, and only in years other than the year in which such excess arose.

(b) *Legal reserves*

According to R.O.C. Company Law, the Company should appropriate 10% of the net income as the legal reserve until the legal reserve equals the capital. Legal reserve can only be used to offset a deficit , and can not be distributed as cash dividends. When the legal reserve reaches 50% of the capital, the shareholders could declare to transfer the legal reserves, no more than half of the reserves, to capital. According to the regulations of SFC, the legal reserves should first be used to offset deficit before transferring to capital.

(c) *Special reserve and earnings distribution*

According to the Company's articles of incorporation, the Company's earnings are being appropriated and distributed in the following orders:

(1) Pay income taxes;

(2) Offset prior year's deficit, if any;

(3) 10% is to be set aside as legal reserve;

(4) After setting aside the legal reserve, NT$1 per share is to be distributed to shareholders as dividend.

(5) The remaining balance, if any, the Company shall allocate 1% of the amount declared as employee bonus, and 1% as directors' and supervisors' remuneration, respectively.

(6) If the Company's current year earning is not enough to distribute NT$1 per share to shareholders, the Company cannot allocate employee bonus and directors' and supervisors' remuneration. But the Company can use the accumulated unappropriated retained earnings to distribute bonus to shareholders according to the general stockholders' meeting.

When the legal reserve equals the Company's total paid-in capital, the Company may stop the appropriation.

If the Company's income includes investment income recognized using equity method and unused tax credits, a special reserve is appropriated before distribution dividends. When the investment income is realized, this special reserve will be reversed back to retained earnings.

c. *Dividend policy*

The Company is in the mature stage and the profit is stable. The Board of Directors established the cash dividend or stock dividend percentage. The dividend will be distributed at least 50% of the distributable earnings after deduction of the legal reserves, directors' and supervisors' remuneration, employee bonus and special reserves. The Company would prefer cash dividend. If important investment measures are taken or financial structure need to be improved, part of the dividend would be paid with stock not to exceed 50% of the dividends.

The Board of the Directors and the general stockholders' meeting of 2003 resolved to allocate earnings of 2002 to employee and directors and supervisors of NT$43,348 thousand and NT$43,348 thousand, respectively. The primary earnings per share of 2002 were $2.62.

The Board of the Directors' meeting declared to allocate earning of 2003 to employee and directors and supervisors of NT$96,873 thousand and NT$96,873 thousand, respectively. The primary earnings per share of 2003 was NT$3.92, but if those remuneration of directors and supervisors and bonuses of employee was accounted as expense of 2003, the primary earnings per share of 2003 was NT$3.88.

Please refer to Taiwan Sock Exchange's "Market Observation Post System" for annual dividends distribution by the shareholders' meeting and the Board of Directors' meeting.

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(12) Personnel expense, depreciation expense and amortization

The Company' personnel expense, depreciation expense and amortization for the year ended March 31, 2003 and 2004 were summarized as follows:

	New Taiwan Dollars					
	2003			2004		
	Operation cost	Operation expense	Total	Operation cost	Operation expense	Total
Personnel expense:						
Salary expense	$ 942,175	$ 406,526	$ 1,348,701	$ 983,252	$ 381,417	$ 1,364,669
Insurance expense	52,755	24,752	77,507	53,387	24,984	78,371
Pension expense	123,333	52,098	175,431	117,278	55,781	173,059
Other personnel expense	40,936	14,710	55,646	58,204	15,870	74,074
Depreciation expense	1,414,140	55,280	1,469,420	1,456,610	48,848	1,505,458
Depletion expense	—	—	—	—	—	—
Amortization expense	146,696	3,357	150,053	187,533	3,304	190,837

	US Dollars		
	2004		
	Operation cost	Operation expense	Total
Personnel expense:			
Salary expense	$ 29,796	$ 11,558	$ 41,354
Insurance expense	1,618	757	2,375
Pension expense	3,554	1,690	5,244
Other personnel expense	1,764	481	2,245
Depreciation expense	44,140	1,480	45,620
Depletion expense	—	—	—
Amortization expense	5,683	100	5,783

(13) Income taxes

a. The Company is subject to a corporate income tax rate of 25%. The Company adopted SFAS No 22, "Accounting for Income Taxes". The income tax expenses for the year ended March 31 2003 and 2004 were composed of the following:

	New Taiwan Dollars		US Dollars
	2003	2004	2004
Current income tax expense	$ —	$ 25	$ 1
Deferred income tax expense	753,736	493,857	14,965
Income tax expense	$ 753,736	$ 493,882	$ 14,966

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b. The reconciliation between the income tax expense for income tax return purposes and the income tax expense for financial reporting purposes for 2003 and 2004 were as follows:

	New Taiwan Dollars		US Dollars
	2003	2004	2004
Income tax at statutory rate	$ 1,034,449	$ 1,977,083	$ 59,912
Tax exempted gain from sale of land	—	(1,009)	(30)
Tax exempted income-investment income of long-term equity	(279,418)	(668,730)	(20,265)
Tax exempted income-gain on sale of securities	(1,295)	(12,827)	(389)
20% preferential taxes on certain interest income	—	25	1
Provision for valuation allowance for deferred income tax asset	—	(810,674)	(24,566)
Other	—	10,014	303
Income tax expense	$ 753,736	$ 493,882	$ 14,966

c. The balance of income tax receivable as of March 31, 2003 and 2004 consisted of the following:

	New Taiwan Dollars		US Dollars
	2003	2004	2004
Prepaid tax expense in 2003 and 2004	$ 6,881	$ 1,064	$ 32
Prepaid tax expense before 2003 and 2004	—	12,075	366
Booked on other receivable	$ 6,881	$ 13,139	$ 398

d. The deferred income tax assets and liabilities on March 31, 2003 and 2004 were as follows:

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Current:			
Deferred income tax assets	$ 1,804,306	$ 2,681,677	$ 81,263
Valuation allowance for deferred income tax assets	—	(7,772)	(236)
	1,804,306	2,673,905	81,027
Deferred income tax liabilities	(2,940)	—	—
Total deferred income tax assets — current	$ 1,801,366	$ 2,673,905	$ 81,027
Non-current:			
Deferred income tax assets	$ 11,588,080	$ 7,205,919	$ 218,361
Valuation allowance for deferred income tax assets	(7,921,078)	(7,102,632)	(215,231)
Total deferred income tax assets — non-current	$ 3,667,002	$ 103,287	$ 3,130
Total deferred income tax assets	$ 13,392,386	$ 9,887,596	$ 299,624
Total deferred income tax liabilities	$ 2,940	$ —	$ —
Total valuation allowance for deferred income tax assets	$ (7,921,078)	$ (7,110,404)	$ (215,467)

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The tax effects of timing differences for deferred income tax assets and liabilities as of March 31, 2003 and 2004, were presented below:

	New Taiwan Dollars				US Dollars	
	March 31				March 31	
	2003		2004		2004	
	Amount	Tax effect	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets:						
Current:						
Income tax credit . . .	$ —	$ 1,800,000	$ —	$ 2,664,645	$ —	$ 80,747
Unrealized loss from affiliated companies transactions	15,004	3,750	18,380	4,595	557	139
Unrealized exchange loss	—	—	14,092	3,523	427	107
Other.	2,222	556	35,658	8,914	1,081	270
		1,804,306		2,681,677		81,263
Non-current:						
Income tax credit . . .	—	10,386,571	—	5,925,089	—	179,548
Unrealized exchange loss	701,484	175,371	487,770	119,694	14,781	3,627
Pension expenses in excess of tax deductible limit . . .	3,771,614	942,903	4,187,466	1,046,867	126,893	31,723
Unrealized investment losses by equity method .	332,939	83,235	457,078	114,269	13,851	3,463
		11,588,080		7,205,919		218,361
Total deferred income tax assets		$ 13,392,386		$ 9,887,596		$ 299,624
Deferred income tax liabilities						
Current:						
Unrealized exchange gain.	$ 11,759	$ 2,940	$ —	$ —	$ —	$ —

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As of March 31, 2004, the unused income tax credits, according to the statute for Upgrading Industry, were as follows:

	New Taiwan Dollars	US Dollars	
	March 31, 2004		
Description	Amount	Amount	Expired year
Income tax credit for investing in remote areas	$ 1,357,773	$ 41,145	2004
	4,921,736	149,144	2005
	317,474	9,620	2006
	6,596,983	199,909	
Income tax credit for investing in important industries	1,992,751	60,386	2005
Total	$ 8,589,734	$ 260,295	

The income tax credits are available to offset income tax payable in the current year, and the unused balances can be used to offset the income tax payable in the subsequent four years. The offsetting amounts is limited to 50% of the offsetting year's income tax payable, but is not subject to the 50% limitation in the final year of offset. (There are no limitations imposed on the offsetting amount if the offsetting credits are derived from investments in desolate areas.)

e. The Company's income tax returns have been assessed by the R.O.C. Tax Authorities through 2002.:

f. Imputation credit account ("ICA") and creditable ratio

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
ICA	$ 164,494	$ 128,970	$ 3,908
Tax credit ratio:			
Distribution of cash dividend	0.68%	0.69%	
Distribution of stock dividend	0.84%	0.72%	
Estimated tax credit ratio		0.39%	

g. Unappropriated retained earnings (including special reserve) were as follows:

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
1997 and before	$ 11,494,119	$ 11,494,119	$ 348,307
1998 and after	29,893,605	40,403,599	1,224,351
Total	$ 41,387,724	$ 51,897,718	$ 1,572,658

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According to the R.O.C Income Tax Law, non-resident foreign investors and the companies without fixed residence in R.O.C. are not eligible to use the imputation tax credits on net income of dividends and earnings originated from any R.O.C. companies. However, the 10% additional tax on all unappropriated earnings is applicable.

(14) Basic earning per share ("EPS")

The Company's earning per share is calculated based on the weighted-average outstanding number of shares during the period and is adjusted retroactively to reflect to effect of the increase in issued common stock resulting from declaration of stock dividends. The EPS's contents were as follows:

	New Taiwan Dollars 2003				
	Net income		Weighted average outstanding shares of common stock	EPS	
	Before taxes	After taxes		Before taxes	After taxes
Basic earnings per share:					
Before retroactively net income belongs to common stockholders	$ 4,137,837	$ 3,384,101	4,180,552	$ 0.99	$ 0.81
Retroactively net income belongs to common stockholders	$ 4,137,837	$ 3,384,101	4,514,996	$ 0.92	$ 0.75

	New Taiwan Dollars 2004				
	Net income		Weighted average outstanding shares of common stock	EPS	
	Before taxes	After taxes		Before taxes	After taxes
Basic earnings per share:					
Net income belongs to common stockholders	$ 7,908,373	$ 7,414,491	4,514,996	$ 1.75	$ 1.64

	US Dollars 2004				
	Net income		Weighted average outstanding shares of common stock	EPS	
	Before taxes	After taxes		Before taxes	After taxes
Basic earnings per share:					
Net income belongs to common stockholders	$ 239,648	$ 224,682	4,514,996	$ 0.05	$ 0.05

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(15) Treasury stocks

The Company's subsidiary company-Tah Shin Spinning Corp. held 1,968 shares of the Company on March 31, 2003. The book value of the stocks was NT$32 thousand and market value was NT$71 thousand. The Company recognized treasury stock of NT$23 thousand based on its holding percentage on March 31, 2003.

The Company's subsidiary company-Tah Shin Spinning Corp. held 2,125 shares of the Company on March 31, 2004. The book value of the stocks was NT$32 thousand and market value was NT$112 thousand. The Company recognized treasury stock of NT$27 thousand based on its holding percentage on March 31, 2004.

4. RELATED PARTY TRANSACTIONS

(1) Names and relationship with related parties

Name of related party	Relationship with the Company
Tah Shin Spinning Corp.	Investee accounted for using the equity method
Formosa Taffeta Co.	Same as the above
Formosa plastics Transportation Corp.	Same as the above
Formosa Heavy Industries Corp.	Same as the above
Formosa Petrochemical Corp.	Same as the above
Mai-Liao Power Corp.	Same as the above
Formosa Idemitsu Petrochemical Corp.	Same as the above
Formosa BP Chemicals Corp.	Same as the above
Formosa Industries Corp.	Same as the above
Formosa Plastics Corp.	Same President
Nan Ya Plastics Corp.	Same President
Chang Gung Memorial Hospital	Same President
Ming Ghi Institute of Technology	Same President
Nan Ya Technology Corp.	Same President
Mai-Liao Harbor Administration Corp.	Same President
Formosa Chemicals & Fibre Corp., America	Investee accounted for using the equity method
FCFC Investment Corp.(Cayman)	Investee accounted for using the equity method
Formosa Biomedical Technology Corp.	Investee accounted for using the equity method
Formosa ABS Plastic (Ningbo) Limited Co.	Indirectly investment accounted for using equity method
Formosa Power (Ningbo) Limited Co.	Indirectly investment accounted for using equity method
Formosa Chemical Industries (Ningbo) Limited Co.	Indirectly investment accounted for using equity method
Formosa PS (Ningbo) Limited Co.	Indirectly investment accounted for using equity method

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(2) Significant transactions with related parties

a. *Purchases and Sales*

Purchases from related parities in the first quarter of 2003 and 2004 were as follows:

	New Taiwan Dollars				US Dollars
	2003		2004		2004
	Amount	% of net purchase	Amount	% of net purchase	Amount
Formosa Plastics Corp.	$ 775,130	3.47	$ 969,927	3.53	$ 29,392
Nan Ya Plastics Corp.	217,137	0.97	613,030	2.23	18,576
Formosa Petrochemical Corp.	7,887,541	35.36	10,839,538	39.50	328,471
Tah Shin Spinning Corp.	40,839	0.19	13,633	0.05	413
	$ 8,920,647	39.99	$ 12,436,128	45.31	$ 376,852

The Company purchased Polyester from Nan Ya Plastics Corp., and the purchase prices were ranged from NT$32 to NT$42 per kilogram, and from NT$40 to NT$45 per kilogram in the first quarter of 2003 and 2004, respectively. The Company purchased Polypropylene from Formosa Plastics Corp., and the purchase prices ranged from NT$45.5 to NT$47 per kilogram and from NT$46.1 to NT$50.1 per kilogram in the first quarter of 2003 and 2004, respectively. The Company purchased Acylic from Formosa Plastics Corp., and the purchase prices ranged from NT$29.42 to NT$31.60 per kilogram, and from NT$28.31 to NT$34.22 per kilogram in the first quarter of 2003 and 2004, respectively. The Company purchased Rayon cotton from Tah Shin Spinning Corp; and the purchase prices ranged from NT$9,133 per piece, and from NT$9,750 per piece in the first quarter of 2003 and 2004, respectively. The Company purchased power of steam from Formosa Petrochemical Corp., and the purchase prices ranged from NT$327.97 per ton and NT$326.14 per ton in the first quarter of 2003 and 2004, respectively. The Company purchased Naphtha from Formosa Petrochemical Corp., and the purchase prices ranged from NT$10,360 to NT$12,431 per ton, and from NT$11,184 to NT$11,526 per ton in the first quarter of 2003 and 2004, respectively. The Company purchased Ethylene from Formosa Petrochemical Corp., and the purchase prices ranged from NT$19,757 to NT$22,437 per kilogram, and from NT$22,173 to NT$23,260 per ton in the first quarter of 2003 and 2004, respectively. The Company purchased By-Gas from Formosa Petrochemical Corp., and the purchase prices ranged from NT$10,724 to NT$12,917 per ton, and from NT$11,598 to NT$12,237 per ton in the first quarter of 2003 and 2004, respectively. The purchase price and payment terms with related parties are not different from those with non-related parties.

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Sales to related parties in the first quarter of 2003 and 2004 were as follows:

	New Taiwan Dollars				US Dollars
	2003		2004		2004
	Amount	% of net sales	Amount	% of net sales	Amount
Formosa Taffeta Corp.	$ 677,087	2.61	$ 1,099,257	3.63	$ 33,311
Nan Ya Plastics Corp.	5,479,262	21.10	6,153,906	20.35	186,482
Formosa Petrochemical Corp.	961,591	3.70	1,109,321	3.67	33,616
Formosa Plastics Corp.	203,559	0.78	388,730	1.28	11,780
Formosa Idemitsu Petrochemical Corp.	118,806	0.46	840,879	2.78	25,481
Others	25,736	0.10	62,803	0.21	1,903
	$ 7,466,041	28.75	$ 9,654,896	31.92	$ 292,573

The accounts receivable due from Formosa Taffeta Corp. is collected in the following month of delivery by 60-day notes issued by Formosa Taffeta Corp. The selling prices and collection terms of sales to other related parties are the same as those for non-related clients, that is, collections are made in the end of the month of delivery by 30-day notes.

b. ***Receivables and payables (excluding financing)***

The balances of receivables and payables, excluding financing transactions, as of March 31, 2003 and 2004, consisted of the following:

	New Taiwan Dollars				US Dollars
	March 31				March 31
	2003		2004		2004
	Amount	%	Amount	%	Amount
Accounts receivable:					
Formosa Plastics Corp.	$ 69,528	0.98	$ 156,803	1.90	$ 4,751
Nan Ya Plastics Corp.	2,195,172	30.98	2,293,333	27.71	69,495
Formosa Taffeta Corp.	352,351	4.97	307,125	3.71	9,307
Formosa Petrochemical Corp.	255,966	3.61	372,666	4.50	11,293
Formosa Idemitsu Petrochemical Corp.	38,290	0.54	783,483	9.47	23,742
Others	3,233	0.05	17,614	0.21	534
	2,914,540	41.13	3,931,024	47.50	119,122
Less: allowance for bad debts	—	—	—	—	—
Net accounts receivable:	$ 2,914,540	41.13	$ 3,931,024	47.50	$ 119,122
Notes receivables:					
Formosa Taffeta Corp.	166,572	18.76	$ 210,856	25.29	$ 6,390
Less: allowance for bad debts	—	—	—	—	—
Net notes receivable:	$ 166,572	18.76	$ 210,856	25.29	$ 6,390
Accounts payables:					
Formosa Plastics Corp.	$ 292,332	6.26	$ 374,939	6.38	$ 11,362
Nan Ya Plastics Corp.	107,731	2.30	367,497	6.25	11,136
Formosa Petrochemical Corp.	2,589,505	55.41	3,484,134	59.26	105,580
Tah Shin Spinning Corp.	3,305	0.07	1,450	0.02	44
	$ 2,992,873	64.04	$ 4,228,020	71.91	$ 128,122

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c. *Acquisitions and disposals of property, plant and equipment*

(a) The Company purchased machinery from related parties and the ending balances of the construction contracts payables were as follow:

	New Taiwan Dollars		US Dollars
	2003	2004	2004
Purchased machinery			
Formosa Heavy Industries Corp.	$ 58,545	$ 83,984	$ 2,545
Nan Ya Plastics Corp.	21,106	49,905	1,512
Total	$ 79,651	$ 133,889	$ 4,057
Construction contracts payable			
Formosa Heavy Industries Corp.	$ 23,271	$ 780	$ 24
Nan Ya Plastics Corp.	17,483	42,094	1,275
Total	$ 40,754	$ 42,874	$ 1,299

The terms of delivery and payment were according to the contract and the prices had been referred to the market price.

(b) The Company has signed contract with Nan Ya Technology Corp. to sell land located in Lin-Ko industrial area on November 6, 2000. The total contract price amounted to NT$896,600 thousand, which was based on the value appraised by a professional appraisal company “China Credit Reference Agency”. The gain resulted from the transaction, excluding 45% of land without ownership, transfer amounted to NT$361,950 thousand, which was equal to the contract price deducting the cost of land and related taxes. The receivables resulted from the above transaction amounted to NT$896,600 thousand, has been collected. The contract price of land without ownership transfer amounted to NT$322,505 thousand was recorded as “Advance receipt” under other liabilities as of March 31, 2004.

(c) The Company has signed contract with Formosa Petrochemical Corp. to sell land located in Tong Sam village on August 8, 2000. The total contract price amounted to NT$127,190 thousand, which was based on the value appraised by a professional appraised company. The Company transferred ownership of land on August 14, 2002 except 7%. The gain resulted from the transaction excluding the land without ownership, transfer amounted to NT$85,876 thousand, which equals the contract price deducting the cost of land and related taxes. The contract price for non-transferring ownership was NT$9,282 thousand, and was recorded as “Advance receipt” under other liabilities as of March 31, 2004.

(d) The Company sold machinery and equipments to Formosa BP Chemicals Corp. in December 2002. The contract price was US$22,821 thousand (equivalent to NT$784,228 thousand). According to the contract, the machinery and equipments should be transferred to Formosa BP Chemicals in three months after the contract date. Formosa BP Chemicals Corp. paid all amount according to the contract in July 2003.

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(e) The Company sold machinery and equipments to Formosa Industries Co. in 2003. The contract price was NT$120,167 thousand. Formosa Industries Corp. had paid off according to the contract as of December 31, 2003. The Company sold supplies to Formosa Industries Co. in 2003. The total selling price was NT$168,510 thousand, and the Company had not received any payment at the end of March 2004.

(f) The Company has signed contract with Nan Ya plastics Corp. to sell land located in Lin-Ko industrial area on December 3, 2003. The total contract price amounted to NT$5,261 thousand and the gain resulted from the transaction amounted to NT$3,553 thousand, which equals the contract price deducting the cost of land and related taxes. Nan Ya Plastics Corp. had paid all amount according to the contract as of January 31, 2003. And the Company transferred ownership of land at the same time.

(g) The Company sold three parcels of land to Chang Gung Memorial Hospital located in Tao-yuan County on December 16, 2003. The total contract price amounted to NT$17,872 thousand and the gain resulted from the transaction amounted to NT$1,533 thousand, which equals the contract price deducting the cost of land and related taxes. The Company had collected NT$17,872 thousand in January 2004.

d. ***Financing***

The details of the Company's financing with related parties in the first quarter of 2003 and 2004 were as follows:

	New Taiwan Dollars				
	2003				
	Date of maximum balance	Maximum balance	Ending balance	Interest rates (%)	Amount of interest
Due from:					
Nan Ya Plastics Corp.	Feb. 19	$ 2,457,000	$ 1,177,800	3.44–3.43	$ 2,240
Formosa Petrochemical Corp.	Mar. 07	1,846,200	1,419,200	3.43–3.66	7,743
Mai-Liao Power Corp.	Feb. 25	1,867,800	—	3.43–3.66	6,569
Total			$ 2,597,000		$ 16,552
Due to:					
Tah Shin Spinning Corp.	Jan. 01	$ 57,800	$ 57,800	3.43–3.66	$ 501
Formosa Petrochemical Corp.	Feb. 07	18,500	—	3.43	5
Total			$ 57,800		$ 506

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	New Taiwan Dollars				
	2004				
	Date of maximum balance	Maximum balance	Ending balance	Interest rates (%)	Amount of interest
Due from:					
Formosa Petrochemical Corp. . .	Jan. 02	$ 2,714,700	$ —	2.54–2.85	$ 2,444
Mai-Liao Power Corp.	Jan. 20	1,026,200	495,400	2.54–2.85	1,954
Formosa Idemitsu Petrochemical Corp	Feb. 16	237,900	—	2.54–2.85	273
Formosa BP Chemicals Corp. . .	Mar. 31	96,200	96,200	2.54–2.85	246
			$ 591,600		$ 4,917
Due to:					
Tah Shin Spinning Corp.	Jan. 01	$ 57,500	$ 57,500	2.54–2.85	$ 385
Formosa Plastics Corp.	Feb. 04	363,100	—	2.66–2.85	30
Nan Ya Plastics Corp..	Feb. 09	620,800	—	2.54–2.66	745
Total			$ 57,500		$ 1,160

	US Dollars				
	2004				
	Date of maximum balance	Maximum balance	Ending balance	Interest rates (%)	Amount of interest
Due from:					
Formosa Petrochemical Corp. . .	Jan. 02	$ 82,264	$ —	2.54–2.85	$ 74
Mai-Liao Power Corp.	Jan. 20	31,097	15,012	2.54–2.85	59
Formosa Idemitsu Petrochemical Corp	Feb. 16	7,209	—	2.54–2.85	8
Formosa BP Chemicals Corp. . .	Mar. 31	2,915	2,915	2.54–2.85	7
			$ 17,927		$ 148
Due to:					
Tah Shin Spinning Corp.	Jan. 01	$ 1,742	$ 1,742	2.54–2.85	$ 12
Formosa Plastics Corp.	Feb. 04	11,003	—	2.66–2.85	1
Nan Ya Plastics Corp..	Feb. 09	18,812	—	2.54–2.66	22
Total			$ 1,742		$ 35

e. ***Endorsements and guarantees***

The Company's endorsements of the notes and guarantees of the loans for March 31, 2003 and 2004 were as follows:

	New Taiwan Dollars		US Dollars
	March 31		March 31
	2003	2004	2004
Formosa BP Chemicals Corp.	$ —	$ 2,205,566	$ 66,835
Mai-Liao Power Corp.	7,422,500	7,422,500	224,924
Mai-Liao Harbor Administration Corp.	2,098,426	2,098,426	63,589
Formosa Industries Co.	—	2,792,940	84,635
	$ 9,520,926	$ 14,519,432	$ 439,983

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f. *Rental income*

The rental income from related parties in the first quarter of 2003 and 2004 were as follows:

	New Taiwan Dollars		US Dollars
	2003	2004	2004
Nan Ya Plastics Corp.	$ 4,628	$ 4,535	$ 138
Chang Gung Memorial Hospital	2,203	4,262	129
Formosa BP Chemicals Corp.	4,758	5,295	160
Formosa Petrochemical Corp.	10,008	6,157	187
Others	6,223	5,787	175
	$ 27,820	$ 26,036	$ 789

5. MORTGAGED AND PLEDGED ASSETS

As of March 31, 2003 and 2004, the net book values of mortgaged and pledged assets provided to financial institutions as the collateral for loan were as follows:

	New Taiwan Dollars		US Dollars
	2003	2004	2004
Other financial assets — current	$ 148,966	$ 174,486	$ 5,287
Long-term equity investment	25,655,405	15,726,468	476,560
Property, plant and equipment, net	43,903,563	44,919,055	1,361,183
Other financial assets — non-current	325,493	340,359	10,314
	$ 70,033,427	$ 61,160,368	$ 1,853,344

6. COMMITMENTS AND CONTINGENCIES

Summaries of commitments and contingencies as of March 31, 2003 and 2004 were as follows:

(1) The outstanding letters of credit for the major raw materials amounted to NT$437,603 thousand and NT$733,634 thousand as of March 31, 2003 and 2004, respectively.

(2) Endorsements for related-parties were described in Note 4.

(3) Formosa ABS Plastic (Ningbo) Limited Co. and Formosa Power (Ningbo) Limited Co. borrowed seven years long-term loan from Citibank, which was the arranger, for US$79,000 thousand and US$47,000 thousand on May 26, 2003, respectively. The Company made a promise to Citibank to support the borrowers in completing the building of factories and to help them in settling the loans.

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7. OTHERS

(1) Derivatives financial instrument and disclosure of financial instrument

a. *Derivatives financial instruments*

The Company undertakes Interest Rate Swap (hereafter named IRS) Cross Currency Swap (hereafter named CCS) and Foreign Exchange Forward (hereafter named DF) contracts for hedging purposes. The Company were entered into the contracts for the purposes of hedging the fluctuation on floating interest rates and exchange rates for the sixth Naphtha Cracker Project syndicate loan, and the fifth, the sixth and the first of 2003 corporate bonds payable.:

(a) *Contract amount and credit risk*

As of March 31, 2003 and 2004, the detail of unexpired IRS, CCS and DF contracts were summarized as follows:

	2003		2004	
Financial commodities	**Contract amount (Nominal amount)**	**Credit risks**	**Contract amount (Nominal amount)**	**Credit risks**
IRS	US$ 70,000	—	US$ —	—
IRS	NT$ 14,557,692	—	NT$ 31,773,077	—
CCS	US$ 87,692	—	US$ 70,154	—
DF	US$ 5,000	—	US$ 12,000	—

The Company believes that the possibility of loss incurred from breaches of contracts is minimal due to the fact that all the contracted foreign banks have good reputations.

(b) *Risk of market price*

The risk of market price is not material because the gain and loss due from the fluctuation of interest rate and exchange rates of the contracts will be offset by the gain and loss due from the hedged items.

(c) *Risk of liquidation and cash flow. The demand of cash, timing and uncertainty in the future*

Because of the CCS and DF contracts, the Company proposes to have cash inflow of US$9,269 thousand and cash outflow of NT$303,888 semi-annually starting from March 2002, and cash inflow of NT$267,288 thousand and cash outflow of US$8,000,000 thousand in June 2004. The Company's working capital is sufficiency to afford that cash outflow, therefore it has no risk on financing. Also the interest rate of IRS and CCS contracts are confirmed, and there will not be material risk for cash flow.

(d) *The types of derivatives financial instruments the Company holds, the purpose of holding them and the strategy to accomplish the goal.*

(a) As of March 31, 2004, the Company had un-expired interest rate swap contracts with a total principle amount of US$0, which was due on September 23, 2003 and NT$18,023,077 thousand due on December 27, 2008. The Company entered into the contract for the purposes of hedging the fluctuation on floating interest rates for the sixth Naphtha Cracker Project syndicate loan. According to the contract, with a principal amount of NT$18,023,077 thousand, the Company paid interests to the counter parties based on a rate ranging from 1.12%~3.69% and collected interests from the counter parties based on the floating rates of each contract in every three month. The nominal amount of NT$2,500,000 thousand shall be decrease in every six month with an amount of NT$192,308 thousand from January 10, 2002 to December 27, 2008.

(b) As of March 31,2003, the Company had un-expired interest rate swap contracts with a total principal amount of NT$13,750,000 thousand from July 2002 to July 2009. The Company entered into the contracts for the purposes of hedging the fluctuation on floating interest rates for the fifth, sixth and the first of 2003 corporate bonds payable. According to the contract, the Company paid interests to the counter parties based on a fixed rate ranging from 1.58% to 3.99%, and collected interests from the counter parties based on floating rate of each contracts in every six-months.

(c) As of March 31, 2004, the Company had un-expired cross currency swap contracts with a total principal amount of US$70,154 thousand from May 2001 to March 2008. The Company entered into the contracts for the purposes of hedging the fluctuation on floating interest rates and exchange rates for the sixth Naphtha Cracker Project syndicate loan. According to the contract, the Company paid interests and principle to the counter parties based on a fixed interest rate of 5% and fixed exchange rate of US dollars, and collected interests and principal from the counter parties based on a flexible Singapore inter-bank offered rate (SIBOR) and floating exchange rate every six months from March 2002 to March 2008.

(d) As of March 31, 2003, the Company had un-expired foreign exchange forward cross contracts with a total principal amount of US$4,500 thousand, due from July 2001 to March 2008. The contracts were entered into for the purposes of hedging the fluctuation on exchange rates for the sixth Naphtha Cracker Project syndicate loan. According to the contract, the Company paid fixed principal of NT$16,190 thousand to the counter parties, and collected US$500 thousand from the counter parties every six months from March 2002 to March 2008.

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

(e) The Company's goal for its hedging strategy is to hedge most of the market price risk. The Company chooses the financial derivatives, which have high non-relation with the change in fair value of hedged items, as hedging instrument, and performs evaluation periodically.:

(e) *The presentation method of derivatives financial instruments in preparing financial statements*

The net balances of forward exchange contracts receivables and forward exchange contracts payments, which were due from CCS contracts and DF contracts, are booked as non-current asset or non-current liability. The exchange loss or gain of forward exchange contracts receivables that is valued by spot exchange rate on balance date is accounted for non-operating income or non-operating expense in the year. Premium or discount of forward exchange contracts is amortized over the contract period as non-operating income in the year. The ending balance on premium or discount of forward exchange contract is adjusted to the net amount of forward exchange contract receivables and payments. As of March 31, 2003 and 2004, the net amounts of forward exchange receivable were NT$182,178 thousand and NT$23,520 thousand, respectively. As of March 31, 2003 and 2004, the amounts of discount of forward exchange contracts were NT$85,456 thousand and NT$55,010 thousand respectively. As of March 31, 2003 and 2004, the net assets (liability) of forward exchange contracts were NT$96,722 thousand and NT$(31,490) thousand, respectively. At the periods ended of March 31, 2003 and 2004, net exchange (loss) gain due from the valuation of forward exchange contracts were NT$278 thousand and NT$(72,155) thousand respectively. At the periods ends March 31, 2003 and 2004, the amounts of non-operating income-others due from amortized discount of forward exchange contracts were NT$13,094 thousand and NT$10,797 thousand, respectively.

The interest income and interest expenses due from CCS and IRS transactions in the first quarter of 2003 and 2004 were as follows:

	2003	
Financial commodities	**Interest income**	**Interest expenses**
CCS	NT$ 14,735 (US$ 424)	NT$ 38,701
IRS	NT$ —	NT$ 13,310

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

	2004	
Financial commodities	**Interest income**	**Interest expenses**
CCS	NT$ 7,712 (US$ 231)	NT$ 31,883
IRS	NT$ 9,426	NT$ —

As of March 31, 2003, the nominal amount of CCS and DF contracts was US$92,692 thousand, equal to the original nominal amount of US$101,961 thousand deducting US$9,269 thousand. According to the CCS and DF contracts, the Company paid the counter parties NT$303,888 thousand and received US$18,538 thousand (equivalent NT$322,458 thousand) from the counter parties, the net cash inflow from the transaction was NT$18,570 thousand for the period ended March 31, 2003.

As of March 31, 2004, the nominal amount of CCS and DF contracts was US$74,154 thousand, was equal to the original nominal amount of US$83,423 thousand deducting US$9,269 thousand. According to the CCS and DF contracts, the Company paid the counter parties NT$303,888 thousand and received US$18,538 thousand (equivalent NT$308,526 thousand) from the counter parties; the net cash inflow from the transaction was NT$4,683 thousand for the year ended March 31, 2004.

b. ***Fair value of financial instruments***

The methods and assumption that the Company used to estimate the fair value of financial instruments are summarized as follows:

(a) Because the maturity dates of short-term financial instruments are within one year from the balance sheet date, their book value is equal to their fair value. The Company used its book value to evaluate the fair value of short-term financial instruments including cash and cash equivalents, notes and accounts receivable or payable, due to banks, other short-term loans, current portions of long-term banks loans, bonds payable and long-term notes payable, accrued expenses, other receivable/payable, guarantee deposited paid or received and dues from or to related parties.

(b) The market price is the fair value of marketable securities if an open market exists whereas other financial methodologies are used in estimating the fair value of securities without an existing trading market.

(c) The discounted present value of anticipated cash flows is the fair value of long-term bank loans, long-term notes payable and corporate bonds payable. The applied discounting rates are based on the proposed interest rates of the assumed long-term loans with terms similar to those of the Company's existing long-term liabilities. But if the interest rates of loans are floating, their book value is equal to their fair value.

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

(d) The fair value of derivative financial instruments is the anticipated cash payment or received amount assumed the Company obeys terms of the contract to close the contracts on balance sheet date. If the Company closes the contract, then they should resign contract to make sure the amount they can receive and pay. But the Company will not close contract, thus the fair value of derivative financial instruments is the book value.

As of March 31, 2003, the fair values of non-derivative financial instruments approximated to their book values, except that the fair values of short-term investments (book value of NT$8,358,223 thousand), other financial assets — current (book value of NT$174,486 thousand), long-term investments (book value of NT$72,658,333 thousand) and other financial assets — non-current (book value of NT$340,359 thousand) were estimated to be NT$27,169,807 thousand, NT$1,068,231 thousand, NT$72,900,587 thousand and NT$2,176,480 thousand, respectively.

c. ***Off-balance risk of non-derivative financial instruments:*** none.

d. Non-derivative financial instruments with highly concentration on credit risk were as follows:

The individual balances of notes receivable and accounts receivables are over five percent of the respective balances as of March 31, 2003 and 2004 were as follows:

	March 31, 2003		March 31, 2004	
	Amount	%	Amount	%
Notes receivable	$ 246,414	28	$ 369,872	42
Accounts receivable	2,195,172	31	3,176,673	45

(2) Reclassifications

Certain items in the 2003 financial statements have been reclassified in conformity with the 2004 financial presentation. The reclassifications have no material effect on the financial statement.

<u>English Translation of a Report Originally Issued in Chinese</u>

REPORT OF INDEPENDENT AUDITORS

February 27, 2004

To the Board of Directors and Stockholders of
Formosa Chemicals & Fibre Corporation

We have audited the accompanying balance sheets of Formosa Chemicals & Fibre Corporation ("the Company") as of December 31, 2001, 2002 and 2003, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 the other auditors provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, the financial position of the Company as of December 31, 2001, 2002 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in Republic of China.

The accompanying financial statements as of and for the year ended December 31, 2003, have been translated into United States dollars solely for the convenience of the readers. We have reviewed the translation, and in our opinion, the financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in Note 2. (14) to the financial statements.

Diwan, Ernst & Young
Taipei, Taiwan
Republic of China

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 on Taiwan 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 on Taiwan

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA CHEMICALS & FIBRE CORPORATION

BALANCE SHEETS
DECEMBER 31, 2001, 2002 AND 2003
(Expressed in thousands of dollars)

ASSETS	Notes	New Taiwan Dollars 2001	New Taiwan Dollars 2002	New Taiwan Dollars 2003	US Dollars 2003 (unaudited & Note 2)
CURRENT ASSETS:					
Cash and cash equivalents		$ 137,243	$ 605,684	$ 472,268	$ 13,894
Short-term investments	4.(1)	3,574,330	9,772,034	6,678,689	196,490
Notes receivable, net	4.(2)	525,713	620,910	673,758	19,822
Notes receivable — related parties, net	5	121,614	232,092	260,975	7,678
Accounts receivable, net	4.(2)	2,837,902	3,781,435	3,694,327	108,689
Accounts receivable — related parties, net	5	1,765,374	3,137,074	3,542,475	104,221
Other receivables, net	4.(2)	848,990	681,181	1,471,528	43,293
Other receivables — related parties	5	4,000,000	1,018,500	3,143,400	92,480
Other financial assets — current	4.(1) & 6	159,324	148,918	140,544	4,135
Inventories, net	4.(3)	20,422,212	16,733,888	16,852,511	495,808
Other prepayments		1,044,700	189,816	1,926,774	56,687
Deferred income tax assets	4.(14)	1,840,000	1,789,721	1,808,380	53,203
Other current assets		118,984	229,487	369,001	10,856
Total current assets		37,396,386	38,940,740	41,034,630	1,207,256
LONG-TERM INVESTMENTS	4.(4) & 6				
Long-term investments accounted by equity method		52,991,031	58,770,313	65,678,188	1,932,280
Long-term investments accounted by cost method		3,562,738	3,624,626	3,642,161	107,154
		56,553,769	62,394,939	69,320,349	2,039,434
OTHER FINANCIAL ASSETS — NON-CURRENT	4.(4) & 6	347,525	325,525	306,450	9,016
PROPERTY, PLANT AND EQUIPMENT	4.(5), 5 & 6				
Cost:					
Land		1,928,426	2,059,716	2,071,285	60,938
Buildings and structures		9,825,148	10,920,257	11,926,268	350,876
Machinery and equipment		94,818,972	105,030,160	108,171,943	3,182,463
Transportation equipment		495,923	490,070	525,245	15,453
Machinery and equipment — revaluation increment		204,514	204,514	204,514	6,017
		107,272,983	118,704,717	122,899,255	3,615,747
Less: Accumulated depreciation		(49,340,258)	(54,662,334)	(58,807,792)	(1,730,150)
Construction in process and prepayments for equipments		19,024,022	11,016,941	6,545,145	192,561
Net property, plant and equipment		76,956,747	75,059,324	70,636,608	2,078,158
INTANGIBLE ASSETS:					
Deferred pension cost	4.(11)	1,286,544	197,709	705,361	20,752
OTHER ASSETS:					
Deferred charges		2,672,440	2,787,954	2,839,721	83,546
Deferred income tax assets, net	4.(14)	5,920,730	4,432,383	1,462,669	43,032
Other miscellaneous assets	4.(6) & 8	877,921	909,357	703,477	20,697
Total other assets		9,471,091	8,129,694	5,005,867	147,275
TOTAL ASSETS		$ 182,012,062	$ 185,047,931	$ 187,009,265	$ 5,501,891

(Continued on next page)

The accompanying notes are an integral part of financial statements.

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA CHEMICALS & FIBRE CORPORATION

BALANCE SHEETS — (Continued)
December 31, 2001, 2002 AND 2003
(Expressed in thousands of dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	Notes	New Taiwan Dollars 2001	New Taiwan Dollars 2002	New Taiwan Dollars 2003	US Dollars 2003 (unaudited & Note 2)
CURRENT LIABILITIES:					
Due to banks	4.(7)	$ 6,031,967	$ 325,764	$ 348,138	$ 10,242
Other short-term borrowings	4.(7)	416,105	267,550	368,739	10,848
Short-term bills payable	4.(8)	2,116,061	—	—	—
Other notes payable		—	—	179,181	5,272
Accounts payable		1,782,128	1,418,258	2,231,726	65,658
Accounts payable — related parties	5	2,010,099	2,985,997	4,288,623	126,173
Accrued expenses		2,950,721	3,607,639	3,495,618	102,843
Other payables — related parties	5	456,100	57,800	57,500	1,692
Current portion of bonds payable	4.(9)	1,500,000	4,000,000	3,000,000	88,261
Current portion of long-term bank loans	4.(10)	1,726,304	5,633,544	2,430,686	71,512
Current portion of long-term notes payable	4.(10)	19,300	19,300	1,306,300	38,432
Other current liabilities	5	1,205,185	842,320	818,464	24,080
Total current liabilities		20,213,970	19,158,172	18,524,975	545,013
LONG-TERM LIABILITIES:					
Bonds payable	4.(9)	9,500,000	19,250,000	21,250,000	625,184
Long-term bank loans	4.(10) & 6	58,065,814	44,516,137	24,034,064	707,092
Long-term notes payable	4.(10)	154,400	135,100	9,568,800	281,518
Total long-term liabilities		67,720,214	63,901,237	54,852,864	1,613,794
OTHER LIABILITIES:					
Accrued pension liability	4.(11)	4,587,712	3,933,518	4,850,784	142,712
Guarantee deposits received		42,481	36,683	39,189	1,153
Other liabilities		404,595	311,086	266,494	7,840
		5,034,788	4,281,287	5,156,467	151,705
Total liabilities		92,968,972	87,340,696	78,534,306	2,310,512
STOCKHOLDERS' EQUITY:	4.(12)				
Capital stock — common stock		39,439,172	41,805,522	45,149,964	1,328,331
Capital surplus:					
Additional paid-in capital — common stock		2,710,554	2,710,554	2,710,554	79,746
Additional paid-in capital — bond conversion		5,514,032	5,514,032	5,514,032	162,225
Long-term equity investments		396,908	188,420	186,250	5,480
Gain on sale of fixed assets		10,199,106	—	—	—
Others		202,442	204,224	204,224	6,008
		19,023,042	8,617,230	8,615,060	253,459
Retained earnings:					
Legal reserve		7,609,576	9,084,341	10,181,619	299,548
Special reserve		17,341,303	18,470,044	18,170,988	534,598
Unappropriated retained earnings		5,500,373	19,533,579	26,312,239	774,117
		30,451,252	47,087,964	54,664,846	1,608,263
Unrealized valuation losses on long-term equity investments	4.(4)	(145,283)	(61,429)	(55,085)	(1,621)
Cumulative translation adjustments	4.(4)	274,907	257,971	116,627	3,431
Net loss not recognized as pension cost	4.(4)	—	—	(16,426)	(483)
Treasury stock	4.(16)	—	(23)	(27)	(1)
Total stockholders' equity		89,043,090	97,707,235	108,474,959	3,191,379
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		$ 182,012,062	$ 185,047,931	$ 187,009,265	$ 5,501,891

The accompanying notes are an integral part of financial statements.

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA CHEMICALS & FIBRE CORPORATION

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(Expressed in thousands of dollars, except for earnings per share)

		New Taiwan Dollars			US Dollars
	Notes	2001	2002	2003	2003
OPERATING REVENUES:					
Sales	5	$ 67,838,973	$ 87,127,928	$ 106,733,114	$ 3,140,133
Service revenue		191,904	168,525	134,594	3,960
Other operating revenue		98,539	97,858	111,473	3,279
		68,129,416	87,394,311	106,979,181	3,147,372
Less: Sales returns, discounts and allowances		592,640	521,262	557,810	16,411
NET OPERATING REVENUE		67,536,776	86,873,049	106,421,371	3,130,961
OPERATING COSTS	4.(13) & 5	58,482,228	72,748,120	87,396,849	2,571,252
GROSS PROFIT FROM OPERATIONS		9,054,548	14,124,929	19,024,522	559,709
OPERATING EXPENSES:	4.(13) & 5				
Selling expenses		2,448,756	2,654,167	2,713,624	79,836
General and administrative expenses		2,348,001	2,198,849	2,387,782	70,249
Research and development expenses		429,301	422,091	400,062	11,770
Total operating expenses		5,226,058	5,275,107	5,501,468	161,855
OPERATING INCOME		3,828,490	8,849,822	13,523,054	397,854
NON-OPERATING INCOME:					
Interest income	5&8	275,923	171,150	164,992	4,854
Investment income on equity method	4.(4)	2,361,088	4,443,986	6,671,364	196,275
Dividends income		479,887	448,269	692,860	20,384
Gain on disposal of investments	4.(1) & 4.(4)	483,233	680,273	1,100,023	32,363
Gains on disposal of fixed assets	4.(5), 4.(6) & 5	13,511	144,944	302,861	8,910
Foreign exchange gain, net	8	—	117,420	17,900	527
Rental income	5	175,088	153,619	147,593	4,342
Other income	8	676,576	315,788	350,209	10,302
Total non-operating income		4,465,306	6,475,449	9,447,802	277,957
NON-OPERATING EXPENSE:					
Interest expense	4.(5), 5 & 8	3,035,696	2,766,640	2,248,033	66,138
Loss on disposal of fixed assets		10,388	758	22,490	661
Loss on foreign exchange, net		591,782	—	—	—
Other expenses		46,309	46,463	52,595	1,547
Total non-operating expense		3,684,175	2,813,861	2,323,118	68,346
INCOME BEFORE INCOME TAXES		4,609,621	12,511,410	20,647,738	607,465
INCOME TAX EXPENSE	4.(14)	—	1,538,626	2,951,209	86,826
NET INCOME		$ 4,609,621	$ 10,972,784	$ 17,696,529	$ 520,639
Earnings per share before income taxes	4.(15)	$ 1.02	$ 2.77	$ 4.57	$ 0.13
Earnings per share after income taxes	4.(15)	$ 1.02	$ 2.43	$ 3.92	$ 0.12

The accompanying notes are an integral part of financial statements.

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN CHINESE

FORMOSA CHEMICALS & FIBRE CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(Expressed in thousands of dollars)

New Taiwan Dollars	Common stock	Capital surplus	Retained earnings: Legal reserve	Retained earnings: Special reserve	Retained earnings: Unappropriated retained earnings	Unrealized valuation losses on long-term equity investments	Cumulative translation adjustments	Treasury stock	Total
Balance as of December 31, 2000	$ 36,517,751	20,822,484	6,344,806	10,051,783	13,533,741	(160,647)	197,624	—	87,307,542
Appropriation and distribution of earnings:									
Legal reserve	—	—	1,264,770	—	(1,264,770)	—	—	—	—
Special reserve	—	—	—	7,390,106	(7,390,106)	—	—	—	—
Cash dividends	—	—	—	—	(2,921,420)	—	—	—	(2,921,420)
Stock dividends	2,921,421	(1,825,887)	—	—	(1,095,534)	—	—	—	—
Directors' and supervisors' remuneration and employees' bonus	—	—	—	—	(9,726)	—	—	—	(9,726)
Transfer of unpaid cash dividend outstanding for over five years to capital surplus	—	2,111	—	—	—	—	—	—	2,111
Transfer of special reserve to unappropriated retained earnings (note 14)	—	—	—	(99,643)	99,643	—	—	—	—
Change in cumulative translation adjustments	—	—	—	—	—	—	77,283	—	77,283
Recognition of investees' LCM on long-term investments	—	—	—	—	—	39,725	—	—	39,725
Effects of non-subscription to investees' newly issued shares in accordance with holding percentage	—	(37,583)	—	—	—	—	—	—	(37,583)
Correspondent adjustments to comply with investees' adjustment accounted by equity method	—	61,917	—	(943)	(61,076)	—	—	—	(102)
Net income for 2001	—	—	—	—	4,609,621	—	—	—	4,609,621
Unrealized LCM loss on long-term investments	—	—	—	—	—	(24,361)	—	—	(24,361)

The accompanying notes are an integral part of financial statements.

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN CHINESE

FORMOSA CHEMICALS & FIBRE CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(Expressed in thousands of dollars)

			Retained earnings						
New Taiwan Dollars	**Common stock**	**Capital surplus**	**Legal reserve**	**Special reserve**	**Unappropriated retained earnings**	**Unrealized valuation losses on long-term equity investments**	**Cumulative translation adjustments**	**Treasury stock**	**Total**
Balance as of December 31, 2001	39,439,172	19,023,042	7,609,576	17,341,303	5,500,373	(145,283)	274,907	—	89,043,090
Appropriation and distribution of earnings:									
Transfer of capital surplus-gain on sale of fixed assets to unappropriated retained earnings	—	(10,199,106)	—	—	10,199,106	—	—	—	—
Legal reserve	—	—	1,474,765	—	(1,474,765)	—	—	—	—
Special reserve	—	—	—	931,222	(931,222)	—	—	—	—
Cash dividends	—	—	—	—	(2,366,350)	—	—	—	(2,366,350)
Stock dividends	2,366,350	—	—	—	(2,366,350)	—	—	—	—
Transfer of unpaid cash dividend outstanding for over five years to capital surplus	—	1,793	—	—	—	—	—	—	1,793
Disbursement of unpaid cash dividend which had already been transferred to capital surplus	—	(11)	—	—	—	—	—	—	(11)
Change in cumulative translation adjustments from long-term equity investments	—	—	—	—	—	—	(16,936)	—	(16,936)
Adjustments of the sale of long-term investment	—	(15)	—	—	3	—	—	—	(12)
Recognition of investees' LCM loss on long-term investments	—	—	—	—	—	24,405	—	—	24,405
Correspondent adjustments to comply with investees' adjustment (note15)	—	(208,473)	—	197,519	—	—	—	—	(10,954)
Net income for 2002	—	—	—	—	10,972,784	—	—	—	10,972,784
Unrealized LCM loss on long-term investments	—	—	—	—	—	59,449	—	—	59,449
Treasury stocks — subsidiary holding stocks of parent company	—	—	—	—	—	—	—	(23)	(23)
Balance as of December 31, 2002	$ 41,805,522	8,617,230	9,084,341	18,470,044	19,533,579	(61,429)	257,971	(23)	97,707,235

(Continued on next page)

The accompanying notes are an integral part of financial statements.

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN CHINESE

FORMOSA CHEMICALS & FIBRE CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(Expressed in thousands of dollars)

New Taiwan Dollars	Common stock	Capital surplus	Retained earnings: Legal reserve	Retained earnings: Special reserve	Retained earnings: Unappropriated retained earnings	Unrealized valuation losses on long-term equity investments	Cumulative translation adjustments	Net loss not recognized as pension cost	Treasury stock	Total
Balance as of December 31, 2002	$ 41,805,522	8,617,230	9,084,341	18,470,044	19,533,579	(61,429)	257,971	—	(23)	97,707,235
Appropriation and distribution of earnings:										
Legal reserve	—	—	1,097,278	—	(1,097,278)	—	—	—	—	—
Special reserve	—	—	—	1,360,177	(1,360,177)	—	—	—	—	—
Cash dividends	—	—	—	(1,538,626)	(5,150,258)	—	—	—	—	(6,688,884)
Stock dividends	3,344,442	—	—	—	(3,344,442)	—	—	—	—	—
Directors' and supervisors' remuneration and employees' bonus	—	—	—	—	(86,696)	—	—	—	—	(86,696)
Adjustments of the sale of long-term investment	—	(2,170)	—	(120,592)	120,982	—	—	—	—	(1,780)
Correspondent adjustments to comply with investees' adjustment accounted by equity method	—	—	—	(15)	—	—	—	(16,426)	—	(16,441)
Change in cumulative translation adjustments	—	—	—	—	—	—	(141,344)	—	—	(141,344)
Recognition of investees' LCM loss on long-term investments	—	—	—	—	—	6,344	—	—	—	6,344
Treasury stocks — subsidiary holding stocks of parent company	—	—	—	—	—	—	—	—	(4)	(4)
Net income for 2003	—	—	—	—	17,696,529	—	—	—	—	17,696,529
Balance as of December 31, 2003	$ 45,149,964	8,615,060	10,181,619	18,170,988	26,312,239	(55,085)	116,627	(16,426)	(27)	108,474,959

The accompanying notes are an integral part of financial statements.

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN CHINESE

FORMOSA CHEMICALS & FIBRE CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(Expressed in thousands of dollars)

US Dollars (Unaudited and Note 2)	Common stock	Capital surplus	Retained earnings: Legal reserve	Retained earnings: Special reserve	Retained earnings: Unappropriated retained earnings	Unrealized valuation losses on long-term equity investments	Cumulative translation adjustments	Net loss not recognized as pension cost	Treasury stock	Total
Balance as of December 31, 2002 . .	$ 1,229,936	253,523	267,265	543,396	574,686	(1,807)	7,590	—	(1)	2,874,588
Appropriation and distribution of earnings:										
Legal reserve	—	—	32,283	—	(32,283)	—	—	—	—	—
Special reserve	—	—	—	40,017	(40,017)	—	—	—	—	—
Cash dividends.	—	—	—	(45,267)	(151,523)	—	—	—	—	(196,790)
Stock dividends	98,395	—	—	—	(98,395)	—	—	—	—	—
Directors' and supervisors' remuneration and employees' bonus	—	—	—	—	(2,550)	—	—	—	—	(2,550)
Adjustments of the sale of long-term investment	—	(64)	—	(3,548)	3,560	—	—	—	—	(52)
Correspondent adjustments to comply with investees' adjustment accounted by equity method	—	—	—	—	—	—	—	(483)	—	(483)
Change in cumulative translation adjustments	—	—	—	—	—	—	(4,159)	—	—	(4,159)
Recognition of investees' LCM loss on long-term investments	—	—	—	—	—	186	—	—	—	186
Treasury stocks — subsidiary holding stocks of parent company	—	—	—	—	—	—	—	—	—	—
Net income for 2003	—	—	—	—	520,639	—	—	—	—	520,639
Balance as of December, 31, 2003. .	$ 1,328,331	253,459	299,548	534,598	774,117	(1,621)	3,431	(483)	(1)	3,191,379

The accompanying notes are an integral part of financial statements.

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA CHEMICALS & FIBRE CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(Expressed in thousands of dollars)

	New Taiwan Dollars			US Dollars
	2001	2002	2003	2003
Cash flows from operating activities:				
Net income	$ 4,609,621	$ 10,972,784	$ 17,696,529	$ 520,639
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	5,404,805	5,619,700	5,962,747	175,427
Amortization	414,265	498,376	617,069	18,154
Amortization of premium on forward exchange contract	(12,047)	(39,433)	(32,934)	(969)
Loss (gain) on disposal of forward exchange contract	—	(12,133)	7,805	230
Investment income on equity method	(2,361,088)	(4,443,986)	(6,671,364)	(196,274)
Cash dividends received from long-term equity investments	912,228	724,848	3,274,075	96,325
Gain on disposal of long-term investment	—	(1,855)	(1,092,208)	(32,133)
Liquidated dividends received from long-term investment	—	4,078	—	—
Gain on disposal of property, plant, equipment and other assets	(237,385)	(144,186)	(280,371)	(8,249)
Decrease (increase) in notes receivable	261,167	(110,885)	(52,848)	(1,555)
Decrease (increase) in accounts receivable	(548,922)	(969,315)	89,894	2,645
Decrease (increase) in notes receivable — related parties	234,931	(109,602)	(28,883)	(850)
Increase in accounts receivable — related parties	(84,016)	(1,359,877)	(405,401)	(11,927)
Increase in other receivables	(86,471)	(122,865)	(573,811)	(16,882)
Decrease (increase) in inventories	(563,831)	3,688,324	(118,623)	(3,490)
Decrease (increase) in prepayment and other current assets	29,021	744,381	(1,876,472)	(55,206)
Increase in notes payable	—	—	179,181	5,272
Increase (decrease) in accounts payable	(1,011,378)	(363,870)	813,468	23,932
Increase (decrease) in accounts payable — related parties	(102,975)	975,898	1,302,626	38,324
Increase (decrease) in accrued expenses	(1,021,230)	657,752	(112,021)	(3,296)
Decrease in other current liabilities	(339,576)	(15,847)	(18,473)	(544)
Decrease (increase) in deferred debit — loss on inter-affiliate accounts	—	(49,512)	49,512	1,457
Increase (decrease) in deferred credit — gain on inter-affiliate accounts	(427)	(9,797)	16,932	498
Decrease in deferred income tax assets	—	1,538,626	2,951,055	86,821
Increase in deferred pension cost and accrued pension liability	370,551	434,641	409,614	12,051
Net cash provided by operating activities	5,875,883	18,106,245	22,107,098	650,400
Cash flows from investing activities:				
Increase in long-term investments	(8,175,706)	(2,073,142)	(4,449,483)	(130,906)
Decrease (increase) in short-term investments	587,270	(6,165,298)	3,120,794	91,815
Proceeds from sales of long-term investments	—	4,816	1,860,344	54,732
Purchases of property, plant and equipment	(14,265,425)	(4,085,962)	(2,426,313)	(71,383)
Proceeds from sales of property, plant, equipment and other assets	1,612,185	452,106	962,690	28,323
Increase in deferred charges	(810,373)	(613,890)	(668,835)	(19,678)
Decrease (increase) in other receivables-related parties	1,000,000	2,981,500	(2,124,900)	(62,515)
Decrease in accounts receivable from forward exchange contract	—	—	27,380	806
Decrease (increase) in other assets	(32,666)	(3,680)	49,058	1,443
Net cash used in investing activities	(20,084,715)	(9,503,550)	(3,649,265)	(107,363)

(Continued on next page)

The accompanying notes are an integral part of financial statements.

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA CHEMICALS & FIBRE CORPORATION

STATEMENTS OF CASH FLOWS — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(Expressed in thousands of dollars)

	New Taiwan Dollars			US Dollars
	2001	2002	2003	2003
Cash flows from financing activities:				
Increase (decrease) in short-term bills payable	1,267,561	(2,116,061)	—	—
Increase (decrease) in other accounts payable — related parties	403,100	(398,300)	(300)	(9)
Increase (decrease) in due to banks	(6,553,550)	(5,645,488)	23,579	694
Increase (decrease) in other short-term borrowings	(525,075)	(148,555)	101,189	2,977
Increase (decrease) in other liabilities	44,981	(46,256)	(61,524)	(1,810)
Increase (decrease) in guarantee deposits received	(16,949)	(5,798)	2,506	74
Increase in long-term bank loans	24,740,687	24,257,700	19,557,782	575,398
Increase in bonds payable	—	13,750,000	5,000,000	147,102
Payments of cash dividends	(2,921,432)	(2,365,776)	(6,690,339)	(196,832)
Payments of directors' and supervisors' remuneration and employees' bonuses	(9,726)	—	(64,098)	(1,886)
Repayments of bonds payable	(1,500,000)	(1,500,000)	(4,000,000)	(117,682)
Repayments of long-term loans	(2,067,179)	(33,882,403)	(32,435,810)	(954,275)
Net cash provided (used) in financing activities	12,862,418	(8,100,937)	(18,567,015)	(546,249)
Effect of foreign exchange translations	222,089	(33,317)	(24,234)	(713)
Increase (decrease) in cash and cash equivalents	(1,124,325)	468,441	(133,416)	(3,925)
Cash and cash equivalents at beginning of year	1,261,568	137,243	605,684	17,819
Cash and cash equivalents at end of year	$ 137,243	$ 605,684	472,268	$ 13,894
Supplemental information of cash flow:				
Interest paid (excluding interest capitalized)	$ 3,181,452	$ 2,600,926	$ 2,303,641	$ 67,774
Income taxes paid	$ 26,333	$ 5,526	$ 12,229	$ 360
Non-cash investing and financing activities:				
Current portion of long-term loans and bonds payable	$ 3,245,604	$ 9,652,844	$ 6,736,986	$ 198,205
Proceeds from sale of property, plant, equipment and other assets this year	$ 375,217	$ 159,488	$ 1,179,226	$ 34,693
Beginning receivable from sale of property, plant, equipment and other assets	1,538,444	301,476	8,858	261
Ending receivable from sale of property, plant, equipment and other assets	(301,476)	(8,858)	(225,394)	(6,631)
Proceeds from sale of property, plant, equipment and other assets	$ 1,612,185	$ 452,106	$ 962,690	$ 28,323

The accompanying notes are an integral part of financial statements.

FORMOSA CHEMICALS & FIBRE CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

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.

1. DESCRIPTION OF BUSINESS

Formosa Chemicals & Fibre Co., Ltd. ("the Company") was incorporated on March 5, 1965. The Company now has seven business divisions: First Chemical Division, Petrochemicals Division, Third Chemical Division, Plastics Division, Textile Division, Nylon Division, and Engineering & Construction Division, as well as a carpet project team. The major operating activity of the Company are production and sales of petrochemical products, including PTA, PS, AN, Butadiene, SM polymer, SM, benzene, toulene, p-xylene (PX) and o-xylene (OX), as well as nylon fiber, and rayon staple fiber. We also engage in spinning, weaving, dyeing and finishing.

As of December 31, 2003, the Company had 6,544 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared based on "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in Republic of China. Summary of significant accounting policies and measurement bases were as follows:

(1) Current and non-current assets and liabilities

Current assets are assets that are related to the regular business cycle, and are expected to be turned into cash within one year after the balance sheet date, or to be sold or consumed in the normal business processes. Current liabilities are liabilities to be repaid within one year after the balance sheet date, or liabilities that occurred from the company's business operation, and were planned to pay off under the normal business cycle. Those assets and liabilities are considered as non-current assets and liabilities other than the current assets and liabilities.

(2) Short-term investments

Short-term investments are stated at the lower of aggregate cost or market value. Market value is determined by the average closing price of the last month of the accounting period.

The market value of open-ended mutual funds is measured by the net asset value of the mutual funds on the balance sheet date.

Stock dividends are not recognized as income, although an increase of shares is noted. The cost of short-term investments sold is calculated based on the weighted-average method.

(3) Allowance for doubtful accounts

Allowance for doubtful accounts is determined based on the collectibility of the accounts.

(4) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by using the monthly weighted average method. Market value represents replacement cost or net realizable value.

(5) Long-term investments

Long-term investments in listed equity securities that represent less than 20% of the investee's common stock ownership and where the Company and its subsidiaries do not have significant influence over the investees are stated at the lower of cost or market value. Unrealized loss thereon is recorded as a reduction in stockholders' equity. However, long-term investments in non-listed equity securities are stated at cost. When there is evidence showing that a decline in the market value of such investment is other than temporary and the probability of recovery is considered remote, the carrying value of the investment is reduced to reflect the market value and the resulting loss is recognized in the period of such reduction. Stock dividends are not recognized as investment income but recorded as an increase in the number of shares held. The cost of long-term equity investment sold is calculated based on the weighted-average method.

Investments where the percentage of ownership exceeds 20%, or where the Company and its subsidiaries have significant influence on the operating and financial policies of the investee companies are accounted for by the equity method. The difference between cost of investment and the amount of underlying equity in net assets of an investee is amortized as investment gain or loss by using the straight-line method over five years.

When the Company holds more than 50% of an investee company's common stock, the investee company is treated as a subsidiary and included in consolidated financial statements at the end of accounting period except when the nature of operation of subsidiaries is different from the company's or both the subsidiary's total assets and operating revenue are below 10% of the Company's respective account balances. Nevertheless, if the total assets and operating revenues of all unconsolidated subsidiaries are over 30% of the Company's respective account balances, consolidation is still required for any subsidiaries whose total assets and operating revenue are more than 3% of the Company's respective account balances. Such subsidiaries are included in the consolidated financial statements until the percentage decreases to 20% of less.

Gains or losses on disposal of long-term equity investments are recognized as investment income or loss. The unrealized gains or losses resulted from transactions between the Company and investees or subsidiaries are deferred. For the unrealized gains or losses resulting from depreciable or amortizable assets, the gains or losses will be recognized yearly over the respective useful lives of the assets. However, the gains or losses will be recognized in the year of realization if the unrealized gains or losses result from other assets.

(6) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation. Major renewals, improvements and additions are recorded as capital expenditures. Interest expense on the acquisition of assets is capitalized and classified under appropriate categories of property and equipment. Gains (losses) on the disposal of property and equipment are recorded as non-operating incomes (expenses).

Depreciation of property, plant and equipment, is calculated by using the fixed-percentage decline method and straight-line method basis over estimated useful lives of the assets.

(7) Deferred charges

Deferred charges principally represent technical assistance costs and issuing fees of corporate bonds. The deferred technical assistance costs are amortized over five years, but the deferred technical assistance costs of PC plant are amortized over ten years. The deferred issuing fees of corporate bonds are amortized from the issuance date to the end redemption period if the bond is redeemable, or amortized on a straight-line basis over the issued period, if the bond is not redeemable.

(8) Retirement benefits

In compliance with the Labor Law of the Republic of China ("R.O.C."), the Company has an employee retirement plan for its regular employees. Provision and funding of the pension are based on 2% of total salaries and wages. The fund is deposited with the Central Trust of China, a government entity. After working for certain years, upon reaching a certain age, or when disable, employees may apply for retirement benefits to be paid by the Company according to the base calculated by the number of years of service as well as the average salaries of the last six months before retirement. For the first fifteen years, each employee gets two credits for each year service of from year one to year fifteen. Starting from the sixteenth year, one credit is rewarded for each additional year of service. A lump sum retirement benefit will be paid through the retirement fund. If the fund is insufficient, the remaining balance will be charged to current operations.

The Company has applied the R.O.C. Statements of Financial Accounting Standards ("SFAS") No. 18, "Accounting for Pensions," since 1995. SFAS No. 18 requires that the actuarial pension liability be calculated using the balance sheet date as the measurement date, and the excess amount of accumulated benefit obligation over fair value of pension plan assets recognized as minimum pension liability. In addition, in compliance with the rules issued by Securities and Futures Commission ("SFC") of R.O.C., the amortization of net periodic pension cost has been recognized. The net periodic pension cost consists of service cost, amortization of unrecognized prior service cost, amortization of unrecognized gain or loss and amortization of unrecognized transitional net assets. The amortization is on the straight-line method over seventeen years and is the expected future average remaining service years of the employees.

(9) Income taxes

The Company adopted the R.O.C. SFAS No. 22, "Accounting for Income Taxes," in preparing annual financial statements. Deferred income tax assets and liabilities are recognized based on the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis amount, net loss carryforwards and unused tax credits. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary timing differences are expected to reverse or settle. The effect of the change in income tax rates on deferred income tax assets and liabilities is recognized in the year of enactment. The Company also evaluates the possibility of the realization of deferred income tax assets, and recognizes a valuation allowance account if necessary. Deferred income tax assets and liabilities are classified as current or non-current according to the assets or liabilities accounts from which they are derived, or according to the years of reversal if they are not related to specific assets or liabilities.

Effective in year 1998, any tax-adjusted retained earnings, which have not been distributed in the next year, should be subject to an additional tax of 10% under the Integrated Income Tax System. The tax levied should be recorded as income tax expense in the year when the non-distribution resolution is made by the shareholders' meeting.

The adjustment of the tax expense levied in the prior years should be recorded as current income tax expense.

(10) Treasury stocks

The Company adopted the R.O.C. SFAS No. 30, "Accounting for Treasury Stocks," in preparing annual financial statements. The stock shares of the Company hold by its subsidiary is accounted for treasury stocks according to the holding percentage.

(11) Basic earnings per share

Basic earnings per share is calculated based on the weighted-average outstanding number of shares during the period and is adjusted retroactively to reflect the effect of the increase in issued common stock resulting from the declaration of stock dividends.

(12) Foreign-currency transactions and translation of financial statements in foreign currencies

The Company maintains its financial records in New Taiwan dollars. Foreign currency transactions entered into during the year are translated at the rates prevailing at the transaction dates. Assets and liabilities denominated in foreign currencies as of the balance sheet date were converted into New Taiwan dollars at the exchange rate prevailing on that date. The resulting realized and unrealized gains or losses are recognized as non-operating income or expenses. Exchange differences of the Company's long-term investments are included in the stockholders' equity as translation adjustments.

Foreign currency financial statements of foreign affiliates accounted for under the equity method where the local currency is the functional currency are translated into New Taiwan dollars at the exchange rate on the balance sheet date, except for stockholders' equity accounts, which are translated at historical exchange rates, revenues and expenses, which are translated at the weighted average exchange rates during the reporting period, and stock dividends, which are translated at the exchange rate on the declaration date.

For hedge of a net asset or liability position, foreign currency transactions are measured and recorded at the spot rate in effect at the transaction date. A change in the exchange rate between the date of the transaction and the settlement date results in an exchange gain or loss that is reflected in income for the period. At the balance sheet date, any remaining balances that are denominated in a currency other than the functional currency are adjusted to reflect the current exchange rate, and the gain or loss is charged to income. For the swap forward contract, premiums and discounts may be amortized to income over the term of the forward contract. For hedge of a net investment in a foreign entity, exchange gains and losses are recognized as equity adjustments and will offset equity adjustments recorded in the net investment.

(13) Financial instruments

Derivatives financial instruments are stated at cost, and evaluated based on the fair market value on the balance sheet date. The resulting differences are accounted for as periodic income or expense.

Non-derivative financial instruments are recognized and valued under the accounting policies above and generally accepted accounting principles in the R.O.C..

(14) Convenience translation into US dollars

The financial statements are stated in New Taiwan dollars. Translations of the 2003 New Taiwan dollar amounts into US dollar amounts are included solely for the convenience of the readers, using the noon buying rate from the Federal Reserve Bank of New York on December 31, 2003, of NT$33.99 to US$1. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be converted into US dollars at this rate or any other rate of exchange.

3. THE REASON AND EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

According to the "Guidelines Governing the Preparation of Financial Reports by Securities Insurers" and the R.O.C. SFAS No. 23 "Interim Financial Reporting and Disclosures", the equity method is not required when first and third quarter interim financial statements are prepared for a holding interest of between 20% and 50%. But for the requirement of management and fairly presenting the effect on investment in preparing financial statement, the Company decided to use long-term equity investments accounting on the percentage of ownership between 20% and 50% in preparing interim financial statement. The Board of Director has resolved the above accounting change on November 22, 2002. The Company applied this change of accounting principles to SFC, Ministry of Finance of R.O.C. on December 3, 2002, and has been approved on January 2, 2003.

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

4. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Short-term investments and other financial assets-current

Short-term investments and other financial assets-current as of December 31, 2001, 2002 and 2003 were as follows:

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Listed securities	$ 3,574,330	$ 3,050,034	$ 3,078,689	$ 90,576
Open-ended mutual funds	—	6,722,000	3,600,000	105,914
	$ 3,574,330	$ 9,772,034	$ 6,678,689	$ 196,490
Market value				
Listed securities	$ 11,837,984	$ 15,387,625	$ 22,636,970	$ 665,989
Open-ended mutual funds	—	6,724,015	3,615,997	106,384
	$ 11,837,984	$ 22,111,640	$ 26,252,967	$ 772,373
Other financial assets — current:				
Stocks pledged as collateral for due to banks	$ 159,324	$ 148,918	$ 140,544	$ 4,135
Market value	$ 638,228	$ 887,148	$ 1,101,119	$ 32,395

The Company sold 32,000,000 shares of the Nan Ya Technology Crop. in January 2002. The total selling price was NT$1,239,698 thousand, and gain on disposal of short-term investment described above amounted to NT$678,418 thousand.

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

Other financial assets — current pledged to bank or courts as collateral for loans and lawsuits are described in Note 6.

(2) Notes receivable, accounts receivable and other receivables

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Notes receivable	$ 529,729	$ 639,006	$ 690,318	$ 20,309
Less: allowance for bad debts	(4,016)	(18,096)	(16,560)	(487)
Notes receivable, net	$ 525,713	$ 620,910	$ 673,758	$ 19,822
Accounts receivable	$ 2,859,576	$ 3,794,693	$ 3,707,760	$ 109,084
Less: allowance for bad debts	(21,674)	(13,258)	(13,433)	(395)
Account receivable, net	$ 2,837,902	$ 3,781,435	$ 3,694,327	$ 108,689
Other receivables	$ 852,682	$ 681,181	$ 1,501,978	$ 44,189
Less: allowance for bad debts	(3,692)	—	(30,450)	(896)
Other receivables, net	$ 848,990	$ 681,181	$ 1,471,528	$ 43,293

(3) Inventories

Inventories as of December 31, 2001, 2002 and 2003 consisted of the following:

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Finished goods	$ 10,099,281	$ 6,814,880	$ 6,549,184	$ 192,680
Work in process	1,326,400	1,528,878	1,607,753	47,301
Raw materials	6,913,481	5,752,708	5,515,985	162,283
Supplies	1,195,322	1,650,164	2,634,794	77,517
Consigned out raw materials	54,108	254,097	197,055	5,797
Consigned out finished goods	19,887	18,258	9,032	266
Goods in transit	808,469	706,810	332,403	9,779
Other inventories	5,264	8,093	6,305	185
	20,422,212	16,733,888	16,852,511	495,808
Less: allowance for inventory valuation loss	—	—	—	—
	$ 20,422,212	$ 16,733,888	$ 16,852,511	$ 495,808

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

(4) Long-term investments and other financial assets — non-current

Long-term investments as of December 31, 2001, 2002 and 2003 consisted of the following:

	New Taiwan Dollars			
	Dec. 31, 2001		Dec. 31, 2002	
Investee	Carrying amount/ original cost	Percentage of ownership	Carrying amount/ original cost	Percentage of ownership
Equity method:				
Formosa Chemicals & Fibre Corp., America	$ 439,587	100.00	$ 182,002	100.00
FCFC Investment Corp. (Cayman)	305,494	100.00	1,695,334	100.00
Formosa Idemitsu Petrochemical Corp.	298,449	49.99	267,167	50.00
Tah Shin Spinning Corp.	164,446	71.10	163,879	71.10
Formosa Taffeta Co., Ltd.	7,320,643	37.40	7,726,761	37.40
Formosa Fairway Corp.	91,010	33.32	97,179	33.32
Formosa Plastics Group Management Consultants Corp.	558	33.30	567	33.30
Formosa Plastics Transportation Corp.	391,832	33.28	435,965	33.33
Formosa Heavy industries Corp.	2,781,937	32.91	2,896,030	32.91
Hwa Ya Science Park Management Consulting Co. Ltd.	631	32.00	670	33.00
Chia-Nan Enterprise Corporation	77,581	29.98	130,226	30.00
Formosa Petrochemical Corp.	33,148,319	28.13	36,359,785	28.12
Su-Hau Transport Corporation	50,000	25.00	49,285	25.00
Mai Liao Power Corp.	7,988,843	24.94	8,224,192	24.94
Formosa Industries Corp.	—	—	520,720	42.50
Formosa BP Chemicals Corp.	—	—	64,445	50.00
	53,059,330		58,814,207	
Less: allowance for valuation losses in long-term investments	(68,299)		(43,894)	
	52,991,031		58,770,313	
Lower of cost or market value method:				
Formosa Union Chemical Corp	23,909	4.25	23,909	4.24
Fuh-Hwa Financial Holding Co., Ltd.	4,165	0.01	4,166	0.01
Ours Commercial Banking Corp.	333,330	3.15	333,330	2.35
	361,404		361,405	
Less: allowance for valuation losses in long-term investments	(76,984)		(17,535)	
	284,420		343,870	

(All amounts expressed in thousands of dollars
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Investee	New Taiwan Dollars Dec. 31, 2001 Carrying amount/ original cost	New Taiwan Dollars Dec. 31, 2001 Percentage of ownership	New Taiwan Dollars Dec. 31, 2002 Carrying amount/ original cost	New Taiwan Dollars Dec. 31, 2002 Percentage of ownership
Cost method:				
Formosa Plastics Development Co.	$ 90,000	18.00	$ 90,010	18.00
Ampere Industrial Co., Ltd.	30,246	18.00	30,246	18.00
Mai Liao harbor administration Corp.	539,245	17.98	539,260	17.98
Formosa Ocean Group Marine Investment Corp.	856,948	19.00	856,948	19.00
Gala TV Corp.	95,960	6.00	91,162	6.25
Formosa Plastics Marine Corp.	15,000	15.00	15,000	15.00
Asia Pacific Investment Corp.	725,839	14.97	725,839	14.97
Formosa Network Technology Corp.	6,250	12.50	13,331	12.50
Formosa Plastics Corp., U.S.A.	818,316	3.51	818,316	3.51
Taiwan Stock Exchange Corp.	1,800	2.00	1,800	2.00
Yi-Jih Development Co.	3,000	1.51	3,000	1.51
China Television Service	38,419	1.20	38,419	1.20
Central Leasing International Corp.	14,425	1.07	14,425	1.07
Taiwan Aerospace Corp.	41,250	0.79	41,250	0.79
Formosa Plastics Marine Co.	1,620	18.00	1,750	18.22
	3,278,318		3,280,756	
Net Amount	$ 56,553,769		$ 62,394,939	

Investee	New Taiwan Dollars Dec. 31, 2003 Carrying amount/ original cost	New Taiwan Dollars Dec. 31, 2003 Percentage of ownership	US Dollars Dec. 31, 2003 Carrying amount/ original cost
Equity method:			
Formosa Chemicals & Fibre Corp., America	$ 182,366	100.00	$ 5,365
FCFC Investment Corp. (Cayman)	3,759,538	100.00	110,607
Formosa BP Chemicals Corp.	473,674	50.00	13,936
Tah Shin Spinning Corp.	193,934	84.10	5,706
Formosa Idemitsu Petrochemical Corp.	249,650	50.00	7,345
Formosa Biomedical Technology Corp.	199,820	99.99	5,879
Formosa Industries Corp.	1,750,255	42.50	51,493
Formosa Taffeta Co., Ltd.	7,887,826	37.40	232,063
Formosa Fairway Corp.	89,391	33.33	2,630
Formosa Plastics Group Management Consultants Corp.	572	33.30	17
Formosa Plastics Transportation Corp.	491,163	33.33	14,450
Formosa Heavy industries Corp.	2,967,624	32.91	87,309
Hwa Ya Science Park Management Consulting Co. Ltd.	686	33.00	20
Chia-Nan Enterprise Corporation	170,435	30.00	5,014
Formosa Petrochemical Corp.	38,427,760	27.57	1,130,561
Su-Hau Transport Corporation	51,558	25.00	1,517
Mai Liao Power Corp.	8,598,654	24.94	252,976
Formosa Environmental Technology Corp.	238,367	24.34	7,013
	65,733,273		1,933,901

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	New Taiwan Dollars		US Dollars
	Dec. 31, 2003		Dec. 31, 2003
Investee	Carrying amount/ original cost	Percentage of ownership	Carrying amount/ original cost
Less: allowance for valuation losses in long-term investments	$ (55,085)		$ (1,621)
	65,678,188		1,932,280
Lower of cost or market value method:			
Formosa Union Chemical Corp	23,909	4.24	703
Fuh-Hwa Financial Holding Co., Ltd.	4,166	0.01	123
Ours Commercial Banking Corp.	333,330	3.15	9,807
	361,405		10,633
Less: allowance for valuation losses in long-term investments	—		—
	361,405		10,633
Cost method:			
Formosa Plastics Development Co.	90,010	18.00	2,648
Ampere Industrial Co., Ltd	30,246	18.00	890
Mai Liao Harbor Administration Corp.	539,260	17.98	15,865
Formosa Ocean Group Marine Investment Corp.	856,948	19.00	25,213
Gala TV Corp.	91,162	6.25	2,682
Formosa Plastics Marine Corp.	15,000	15.00	441
Asia Pacific Investment Corp.	725,839	14.97	21,355
Formosa Network Technology Corp.	13,331	12.50	392
Formosa Plastics Corp., U.S.A.	818,316	3.51	24,075
Taiwan Stock Exchange Corp.	1,800	2.00	53
Yi-Jih Development Co.	3,000	1.51	88
China Television Service	38,419	1.20	1,130
Central Leasing International Corp.	14,425	1.07	424
Taiwan Aerospace Corp.	41,250	0.79	1,214
Formosa Plastics Marine Co.	1,750	18.22	51
	3,280,756		96,521
Net Amount	$ 69,320,349		$ 2,039,434

Other financial assets — non-current

	New Taiwan Dollars			US Dollars
	2001	2002	2003	2003
	Carrying amount/ original cost	Carrying amount/ original cost	Carrying amount/ original cost	Carrying amount/ original cost
Formosa Plastics Corp.	$ 131,380	$ 122,803	$ 115,880	$ 3,409
Nan Ya Plastics Corp.	216,145	202,722	190,570	5,607
Stocks pledged as collateral for long-term loans	$ 347,525	$ 325,525	$ 306,450	$ 9,016
Market price	$ 1,263,640	$ 1,647,346	$ 2,269,482	$ 66,769

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A. The investment income (loss) and original costs of long-term investments evaluated by the equity method for the years ended of December 31, 2001, 2002 and 2003 were as follows:

	New Taiwan Dollars			
	2001		2002	
Investee	Original cost	Investment income (loss)	Original cost	Investment income (loss)
Formosa Chemicals & Fibre Corp., America	$ 296,654	$ 4,209	$ 296,654	$ (253,084)
FCFC Investment Corp. (Cayman)	288,823	(6,503)	1,720,443	(37,236)
Tah Shin Spinning Corp.	49,775	(4,238)	49,775	(544)
Formosa Taffeta Co., Ltd.	719,003	378,233	719,003	644,648
Formosa Fairway Corp.	33,320	4,719	33,320	10,485
Formosa Plastics Group Management Consultants Corp.	333	16	333	10
Formosa Plastics Transportation Corp.	16,582	38,758	17,255	43,459
Formosa Heavy Industries Corp.	2,497,719	73,394	2,497,721	113,699
Hwa Ya Science Park Management Consulting Co. Ltd.	320	96	340	19
Chia-Nan Enterprise Corp.	77,091	441	119,134	10,603
Formosa Petrochemical Corp.	29,442,523	1,088,548	29,440,116	3,214,450
Mai Liao Power Corp.	5,985,515	784,916	5,985,531	734,175
Formosa Idemitsu Petrochemical Corp.	299,950	(1,501)	299,999	(31,331)
Su-Hau Transport Corp.	50,000	—	50,000	(715)
Formosa Industries Corp.	—	—	527,201	(4,097)
Formosa BP Chemicals Corp.	—	—	65,000	(555)
Total	$ 39,757,608	$ 2,361,088	$ 41,821,826	$ 4,443,986

	New Taiwan Dollars		US Dollars	
	2003		2003	
Investee	Original cost	Investment income (loss)	Original cost	Investment income (loss)
Formosa Chemicals & Fibre Corp., America	$ 296,654	$ 4,468	$ 8,728	$ 132
FCFC Investment Corp. (Cayman)	3,907,901	(61,622)	114,972	(1,813)
Tah Shin Spinning Corp.	79,785	49	2,347	1
Formosa Taffeta Co., Ltd.	719,003	600,139	21,153	17,656
Formosa Fairway Corp.	33,320	1,492	980	44
Formosa Plastics Group Management Consultants Corp.	333	4	10	—
Formosa Plastics Transportation Corp.	17,255	55,281	508	1,626
Formosa Heavy Industries Corp.	2,497,721	73,524	73,484	2,163
Hwa Ya Science Park Management Consulting Co. Ltd.	340	16	10	1
Chia-Nan Enterprise Corp.	161,134	(1,791)	4,741	(53)
Formosa Petrochemical Corp.	28,670,200	5,200,384	843,489	152,998
Mai Liao Power Corp.	5,985,531	873,304	176,097	25,693
Formosa Idemitsu Petrochemical Corp.	299,999	(17,517)	8,826	(515)
Su-Hau Transport Corp.	50,000	2,274	1,471	67
Formosa Industries Corp.	1,837,352	(26,193)	54,056	(771)
Formosa BP Chemicals Corp.	501,500	(27,270)	14,754	(802)
Formosa Environmental Technology Corp.	243,375	(5,008)	7,160	(147)
Formosa Biomedical Technology Corp.	199,990	(170)	5,884	(5)
Total	$ 45,501,393	$ 6,671,364	$ 1,338,670	$ 196,275

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The Company's long-term investments carried on the equity method have been recognized based on the audited financial statements.

B. The investees, Formosa Chemicals & Fibre Corp., America, FCFC Investment Corp. (Cayman), Tah Shin Spinning Corp., Formosa Idemitsu Petrochemical Corp., Formosa BP Chemicals Corp., Formosa Biomedical Technology Corp. are treated as subsidiaries because the Company owns more than 50% of their voting stocks. As a result, they should be included in the consolidated financial statements. However, since both the total assets and operating revenue of each subsidiary are below 10% of the Company's respective account balances, and the total assets and operating revenue of all above subsidiaries are not more than 30% of the Company's respective account balances, consolidated financial statements are not required.

C. The Company incorporated 100% owned companies in Ningbo of China indirectly invested by FCFC Investment Corp. (Cayman) to produce and sell petrochemical product. As of December 31, 2003 those investments which have be approved by the Investment Commission, Ministry of Economic Affairs were described below:

		Investment Commission of Ministry of Economic Affairs			Amount has been invested	
Investee	Date of the Board meeting	Approved date	Approved issue number	Approved investment amount	USD	NTD equivalent amount
Formosa ABS Plastic (Ningbo) Limited Co.	May 25, 2001	Sep. 4, 2001	90021130	US$48,120	48,120	1,656,425
Formosa Power (Ningbo) Limited Co.	May 25, 2001	Jun. 20, 2002	90021131	US$49,830	35,000	1,204,844
Formosa Chemical Industries (Ningbo) Limited Co.	Aug. 1, 2002	Nov. 21, 2002	0910024074	US$49,000	21,000	717,568
Formosa PS (Ningbo) Limited Co.	May 5, 2003	Jul. 24, 2003	092016052	US$17,000	2,550	86,769

D. The Company, Nan Ya Plastics Corp., Formosa Taffeta Corp., and Kingcar Corp. invested Formosa Industries Corp. in Vietnam in February 2002. The registered capital of Formosa Industries Corp. is US$108,000 thousand, but the Board of the Directors of Formosa Industries Corp. resolved to increase capital US$85,000 thousand on August 28, 2003. As the result of capital increasing, the registered capital of Formosa Industries Corp. increased to US$193,000 thousand. The Company proposed to invest US$36,125 thousand, based on its original holding percentage of 42.5%. The Company has invested US$53,125 thousand, (about NT$1,837,351 thousand,) at the end of December 31, 2003 for the holding percentage of 42.5%.

E. The Company subscribed 2,499 new shares of Formosa plastics Corp., U.S.A for NT$401,511 thousand based on its original holding percentage in March 2001.

F. The Company subscribed 2,622 new shares of Formosa Ocean Group Marine Investment Corporation for NT$856,948 thousand in March 2001.

G. The Company subscribed 29,995,000 new issue shares of Formosa Idemitsu Petrochemical Corporation for NT$299,950 thousand in 2001. The Company purchased 5,000 shares of the Formosa Idemitsu Petrochemical Corporation for the amount of NT$49 thousand in 2002, and the Company's holding percentage has increased to 50%.

H. The Company purchased 2,996,000 shares of Formosa Taffeta Co., Ltd. for NT$25,734 thousand from security market in 2001, and the Company's holding percentage has increased to 37.4%.

I. In December 2001, the Company subscribed 5,000,000 new shares of Su-Hau Transport Corp. for NT$50,000 thousand and the Company's holding percentage was 25%.

J. In January 2002, the Company subscribed 2,399,000 shares of the Gala TV Corp. for NT$95,960 thousand, and the Company's holding percentage was 6.25%. The Company received NT$4,798 thousand liquid dividend accounted for minus of long-term investment in 2002.

K. Because Fuh-Hwa Securities, the investee of the Company, was merged by Fuh-Hwa Financial Holding Co., Ltd. in February 2002, the shares owned by the Company increased 2,950 shares due to the stocks exchange, and the holding percentage was still 0.01%.

L. The Company subscribed 625,000 new shares of Formosa Network Technology Corp. for NT$7,081 thousand, based on its original holding percentage in October 2002.

M. The Company had joint venture with BP Global Investments Limited to establish Formosa BP Chemicals Corp. for producing and selling acetic acid. The capital of Formosa BP Chemicals Corp. is NT$1,710,000 thousand, and the actual received capital was NT$1,003,000 thousand, on December 31, 2003. The Company subscribed 50,150,000 shares for NT$501,500 thousand, and the holding percentage was 50%.

N. The Company subscribed 24,337,500 new shares of Formosa Environmental Technology Corp. for NT$243,375 thousand for the holding percentage of 24.34% in August 2003.

O. In October 2003, the Company purchased 2,778,696 shares of Tah Shin Spining Corp. for NT$30,010 thousand and the Company's holding percentage has increased to 84.10%.

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P. The Company subscribed 19,999,000 new shares of Formosa Biomedical Technology Corp. for NT$199,999 thousand for the holding percentage of 99.99% in November 2003.

Q. Chia-Nan Enterprise Corporation issued new shares in December 2003. The Company subscribed 2,100,000 new shares for NT$42,000 thousand based on its original holding percentage.

R. Formosa Petrochemical Corp., an investee accounted for under the equity method, issued new shares in September 2001. The Company subscribed 291,413,710 new shares for NT$5,828,274 thousand. Since the Company did not subscribe these new shares based on its original holding percentage, the resulting increase of equity amounted to NT$37,583 thousand was recorded as capital surplus. The Company sold 161,000 shares of the Formosa Petrochemical Corp. in the fourth quarter of 2002. The total selling price was NT$4,816 thousand, and gain on disposal of shares amounted to NT$1,855 thousand. The Company sold another 43,394,000 shares in December 2003. The total selling price was NT$1,860,344 thousand, and gain on disposal of shares amounted to NT$1,092,208 thousand.

S. The Company recognized NT$16,426 thousand and NT$0 based on its holding percentage from Formosa Taffeta Corporation's net loss not recognized as pension cost on December 31, 2003 and 2002, respectively.

T. The market values of long-term equity investments accounted for using the lower of cost or market value method as of December 31, 2001, 2002 and 2003, were as follows:

	New Taiwan Dollars			US Dollars
	December 31			December 31
Name of investee	2001	2002	2003	2003
Formosa Union Chemical Corp.	$ 92,074	$ 133,235	$ 143,233	$ 4,214
Fuh Hwa Financial Holding Co., Ltd.	2,364	1,654	1,900	56
Our Commercial Banking Corp.	189,982	208,981	373,125	10,977
	$ 284,420	$ 343,870	$ 518,258	$ 15,247
Losses of valuation	$ —	$ 17,535	$ —	$ —

The Company recognized NT$68,299 thousand, NT$43,894 thousand and NT$55,085 thousand losses of valuation from Formosa Taffeta Corp. accounted for using equity method according to holding percentage on December 31, 2001, 2002 and 2003, respectively.

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

U. The cumulative translation adjustments of long-term investments accounted for using equity method as of December 31, 2001, 2002 and 2003, were as follows:

	New Taiwan Dollars			US Dollars
	December 31			December 31
Name of investee	2001	2002	2003	2003
Formosa Chemical & Fibre Corp., America	$ 111,727	$ 107,225	$ 103,121	$ 3,034
FCFC Investment Corp. (Cayman)	75,343	70,799	9,166	270
Formosa Taffeta Co., Ltd.	85,410	79,512	60,339	1,775
Formosa Heavy Industries Corp.	2,427	2,819	889	26
Formosa Industries Corp.	—	(2,384)	(56,806)	(1,671)
Formosa Plastics Transportation Corp.	—	—	(82)	(3)
Total	$ 274,907	$ 257,971	$ 116,627	$ 3,431

V. Long-term equity investments pledged to banks or courts as collateral for loans and lawsuits were described in Note 6.

(5) Property, plant and equipment

A. Machinery and equipment was reappraised on December 31, 1974. The balances of the reappraisal increments were NT$204,514 thousand, as of December 31, 2001, 2002 and 2003.

B. Property, plant and equipment pledged to secure bank loans were described in Note 6.

C. Advance payments for property, plant and equipment included compensation payments to the affected fishermen in Mai-Lia area, where the Sixth Naphtha Cracker and Six Naphtha Expansion Project were located. As of December 31, 2001, 2002 and 2003, the compensation payments amounted to NT$357,884 thousand, NT$357,884 thousand, and NT$209,711 thousand, respectively and were reclassified as part of the cost of the industrial land which was acquired from the government.

D. Interests before capitalized interests were NT$3,932,003 thousand, NT$3,368,734 thousand, and NT$2,505,652 thousand for 2001, 2002 and 2003, respectively. The capitalized interests were parts of cost for purchase or construction of property, plant and equipment amounted to NTNT896,307 thousand, NT$602,094 thousand, and NT$257,619 thousand in 2001,2002 and 2003, respectively. The capitalized interest rates were 3.45%~6.68%, 3.85%~4.34% and 3.30%~3.87% for 2001, 2002 and 2003, respectively.

E. The property transactions between the Company and related parties were described in Note 5.

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

(6) Other miscellaneous assets

As of December 31, 2001, 2002 and 2003, other miscellaneous assets consisted of the following:

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Land	$ 293,385	$ 291,630	$ 287,218	$ 8,450
Buildings	347,239	327,012	318,924	9,383
Less: accumulated depreciation	(233,439)	(227,213)	(225,783)	(6,643)
Rental assets	407,185	391,429	380,359	11,190
Guarantee deposits paid	112,672	154,925	108,900	3,204
Forward exchange contract receivables-net (Note 8)	128,853	102,152	33,942	999
Land-Ling-Co industry area	144,637	134,178	132,494	3,898
Deferred debits — losses on inter-affiliate accounts	—	49,512	—	—
Overdue receivables	48,729	61,168	29,120	857
Less: allowance for bed debts	(48,729)	(61,168)	(29,120)	(857)
Other	84,574	77,161	47,782	1,406
Total	$ 877,921	$ 909,357	$ 703,477	$ 20,697

A. The Company signed contract with CMC Magnetic Corp. to sell the 587.42 square meters land of the Company, located in Taoyuan in 1999. The total contract price amounted to NT$18,884 thousand. The Company completed the procedure of transfer ownership on February 2002. The gain resulting from the transaction amounted to NT$12,234 thousand, which equaled the contract price deducting the cost of the land and related taxes. The receivable deducting collection in advance of NT$3,789 thousand has been collected.

The Company sold the land located in Taoyuan to Infodisc Corp., Quauta Computer Corp., Mitac Corp. etc. in 2001. The total selling area of the land was 11,457.57 square meters with the contract price of NT$363,415,564.The gain resulting from the above transaction amounted to NT$234,261,589, which was equaled to the contract price deducting the cost of the land and the related taxes. The total receivable has been received as of June 30, 2002.

B. There were NT$62,622 thousand, NT$65,492 thousand and NT$39,146 thousand of "Other miscellaneous assets" represented parcels of land, located in Shin-Kong county and Lin-Kou county, etc, for 2001, 2002 and 2003, respectively. The ownership of the land has not been deeded to the Company due to the restriction of existing laws. The land is presently registered under the name of nominal trustees and mortgaged to the Company to secure the Company's title to the land.

C. The property transactions between the Company and related parties were described in Note 5.

(All amounts expressed in thousands of dollars
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(7) Due to banks and other short-term borrowings

Short-term loans from banks and loans from employees as of December 31, 2001, 2002 and 2003 consisted of the following:

	New Taiwan Dollars			US Dollars	
	December 31			December 31	Mortgaged and pledged
	2001	2002	2003	2003	
Usance letters of credit	$ 4,915,467	$ 325,764	$ 348,138	$ 10,242	Note 6
Secured loans	230,000	—	—	—	Note 6
Credit loans	886,500	—	—	—	—
Total due to banks	$ 6,031,967	$ 325,764	$ 348,138	$ 10,242	
Loans from employees	$ 416,105	$ 267,550	$ 368,739	$ 10,848	
Interest rate (%)	2.57~7.45	1.99~2.69	0.97~1.94	2.57~7.45	

(8) Short-term bills payable

Short-term bills payables as of December 31, 2001, 2002 and 2003 were comprised of the following:

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Short-term bank acceptance notes	$ 2,120,000	$ —	$ —	$ —
Less: discount	3,939	—	—	—
	$ 2,116,061	$ —	$ —	$ —
Interest rate (%)	1.87~3.56	—	—	—

(9) Bonds payable

Bonds payable as of December 31, 2001, 2002 and 2003 were comprised of the following:

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Domestic unsecured nonconvertible corporate bonds	$ 11,000,000	$ 23,250,000	$ 24,250,000	$ 713,445
Less: current portion of bonds payable	(1,500,500)	(4,000,000)	(3,000,000)	(88,261)
Total	$ 9,500,000	19,250,000	21,250,000	625,184

(All amounts expressed in thousands of dollars
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The Company issued nonconvertible corporate bonds with a total face value of NT$312.5 billion. All bonds were issued at principal amounts. The terms of nonconvertible corporate bonds were as follows:

		Issuance date	Maturity date	Yield rate (%)	Issued principal amount	Balance as of Dec. 31, 2003	Note
Unsecured bonds No. 1	A	Dec. 10, 1996	Dec. 10, 2001	6.59%	$ 1,500,000	—	Term bonds
	B	Dec. 10, 1996	Dec. 10, 2002	6.65%	1,500,000	—	"
	C	Dec. 10, 1996	Dec. 10, 2003	6.70%	1,500,000	—	"
Unsecured bonds No. 2	A	Jun. 24, 1998	Jun. 24, 2005	7.61%	2,500,000	2,500,000	"
	B	Jun. 24, 1998	Jun. 24, 2003	7.345%	400,000	—	"
	C	Jun. 24, 1998	Jun. 24, 2003	7.48%	400,000	—	"
	D	Jun. 25, 1998	Jun. 25, 2003	7.345%	400,000	—	"
	E	Jun. 25, 1998	Jun. 25, 2003	7.48%	400,000	—	"
	F	Jun. 26, 1998	Jun. 26, 2003	7.345%	400,000	—	"
	G	Jun. 26, 1998	Jun. 26, 2003	7.48%	500,000	—	"
Unsecured bonds No. 3	A	Jan. 28, 1999	Jan. 28, 2004	6.70%	500,000	500,000	"
	B	Jan. 28, 1999	Jan. 28, 2004	6.595%	100,000	100,000	"
	C	Jan. 28, 1999	Jan. 28, 2004	6.60%	800,000	800,000	"
	D	Jan. 27, 1999	Jan. 27, 2004	6.595%	300,000	3,000,000	"
	E	Jan. 27, 1999	Jan. 27, 2004	6.60%	300,000	3,000,000	"
	F	Jan. 27, 1999	Jan. 27, 2004	6.70%	200,000	2,000,000	"
	G	Jan. 27, 1999	Jan. 26, 2004	6.60%	200,000	200,000	"
	H	Jan. 26, 1999	Jan. 26, 2004	6.595%	100,000	100,000	"
	I	Jan. 26, 1999	Jan. 26, 2004	6.495%	200,000	200,000	"
	J	Jan. 26, 1999	Jan. 26, 2004	6.70%	300,000	300,000	"
Unsecured bonds No. 4	A	Feb. 19, 2002 ~ Mar. 8, 2002	Feb. 19, 2005 ~ Mar. 8, 2005	3.00%	2,600,000	2,600,000	Serial bonds, be settled 33% of principle as of first repayment.
			Feb. 19, 2006 ~ Mar. 8, 2006				Be settled 34% of principle as of second repayment.
			Feb. 19, 2007 ~ Mar. 8, 2007				Be settled 34% of principle as of third repayment.
	B	Feb. 19, 2002 ~ Mar.7, 2002	Feb. 19, 2005 ~ Mar. 8, 2005	2.9778%	2,400,000	2,400,000	"
			Feb. 19, 2006 ~ Mar. 8, 2006				"
			Feb. 19, 2007 ~ Mar. 8, 2007				"

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		Issuance date	Maturity date	Yield rate (%)	Issued principal amount	Balance as of Dec. 31, 2003	Note
Unsecured bonds No. 5	A	Jul. 5, 2002	Jul. 5, 2005	5.40 *(Note)*	$ 300,000	300,000	Serial bonds, be settled 33% of principle as of first repayment.
			Jul. 5, 2006				Be settled 34% of principle as of second repayment.
			Jul. 5, 2007				Be settled 34% of principle as of third repayment.
	B	Jul. 5, 2002	Jul. 5, 2005	5.999 *(Note)*	200,000	200,000	"
			Jul. 5, 2006				"
			Jul. 5, 2007				"
	C	Jul. 5, 2002	Jul. 5, 2005	5.749 *(Note)*	200,000	200,000	"
			Jul. 5, 2006				"
			Jul. 5, 2007				"
	D	Jul. 5, 2002	Jul. 5, 2005	6.129 *(Note)*	300,000	300,000	"
			Jul. 5, 2006				"
			Jul. 5, 2007				"
	E	Jul. 5, 2002	Jul. 5, 2005	6.109 *(Note)*	300,000	300,000	"
			Jul. 5, 2006				"
			Jul. 5, 2007				"
	F	Jul. 5, 2002	Jul. 5, 2005	6.119 *(Note)*	250,000	250,000	"
			Jul. 5, 2006				"
			Jul. 5, 2007				"
	G, H	Jul. 5, and Jul. 8, 2002	Jul. 5, 2005	4.15 *(Note)*	450,000	450,000	"
			Jul.5, 2006				"
			Jul.5, 2007				"
	I, M	Jul. 5, 2002 ~ Jul. 11, 2002	Jul. 5, 2005	5.675 *(Note)*	1,750,000	1,750,000	"
			Jul.5, 2006				"
			Jul.5, 2007				"
Unsecured bonds No. 6		Dec. 2, 2002 ~ Dec. 23, 2002	Dec. 2 ~ Dec. 23, 2007	4.41125 *(Note)*	5,000,000	5,000,000	Term bonds
Unsecured bonds No. 1 of 2003	A	Jul. 7 ~ Jul. 16, 2003	Jul. 16 ~ Jul. 17, 2009	3.15 *(Note)*	1,800,000	1,800,000	"
	B, C	Jul. 7 ~ Jul. 16, 2003	Jul. 16 ~ Jul. 17, 2009	3.00 *(Note)*	1,200,000	1,200,000	"
	D	Jul. 7 ~ Jul. 8, 2003	Jul. 8 ~ Jul. 17, 2009	2.85 *(Note)*	400,000	400,000	"

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		Issuance date	Maturity date	Yield rate (%)	Issued principal amount	Balance as of Dec. 31, 2003	Note
Unsecured bonds No. 1 of 2003	E	Jul. 7 ~ Jul. 8, 2003	Jul. 8 ~ Jul. 17, 2009	2.80 *(Note)*	$ 500,000	500,000	Term bonds
	F	Jul. 7 ~ Jul. 9, 2003	Jul. 9 ~ Jul. 17, 2009	2.98 *(Note)*	600,000	600,000	"
	G	Jul. 7 ~ Jul. 8, 2003	Jul. 8 ~ Jul. 17, 2009	2.00 *(Note)*	500,000	500,000	"
Subtotal					$ 31,250,000	24,250,000	
Less: Current portion of bonds payable						(3,000,000)	
Bonds payable						$ 21,250,000	

(Note) The yield rate was the floating rate used to calculate interest of which the Company should pay on December 31, 2003.

(10) Long-term bank loans and long-term notes payable

Long-term bank loans and long-term notes payable as of December 31, 2001, 2002 and 2003 consisted of the following:

				New Taiwan Dollars			US Dollars
				December 31			December 31
Creditors	Repayment period	Collateral	Interest rate (%)	2001	2002	2003	2003
Bank of communication and other banks (Sixth naphtha cracker project syndicate loan-item A)	November 2002 ~ November 2012 in 21 semi-annual installments.	Land acquired in the project	2.53	$ 920,000	$ 874,000	$ 786,000	$ 23,124
Bank of communication and other banks (Sixth naphtha cracker project syndicate loan-item A-II)	December 2004 ~ December 2011 in 15 semi-annual installments.	Buildings and factories acquired in the project	2.62	760,000	760,000	760,000	22,360
Bank of communication and other banks (Sixth naphtha cracker project syndicate loan-item B)	December 2002 ~ December 2012 in 21 semi-annual installments.	Buildings and factories acquired in the project	2.53	1,259,000	1,192,200	1,058,880	31,153

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				New Taiwan Dollars			US Dollars
				December 31			December 31
Creditors	Repayment period	Collateral	Interest rate (%)	2001	2002	2003	2003
Bank of communication and other banks (Sixth naphtha cracker project syndicate loan-item B-II)	June 2004 ~ June 2011 in 15 semi-annual installments.	Machinery and equipments acquired in the project	2.62	$ 4,300,000	$ 4,816,000	$ 4,816,000	$ 141,689
Bank of communication and other banks (Sixth naphtha cracker project syndicate loan-item C)	December 2001 ~ December 2011 in 21 semi-annual installments.	Machinery and equipments acquired in the project	2.53	3,324,000	3,348,000	2,976,000	87,555
Bank of communication and other banks (Sixth naphtha cracker project syndicate loan-item C-II)	December 2004 ~ December 2011 in 15 semi-annual installments.	Machinery and equipments acquired in the project	4.16	$ 281,000	$ 281,000	$ 281,000	$ 8,267
Bank of communication and other banks (Sixth naphtha cracker project syndicate loan-item D)	March 2002 ~ March 2012 in 21 semi-annual installments.	Machinery and equipments acquired in the project	1.94	9,099,740 (USD 260,000)	8,121,776 (USD 233,700)	7,104,800 (USD 209,100)	209,026
Bank of communication and other banks (Sixth naphtha cracker project syndicate loan-item E)	January 2001 ~ October 2010 in 40-quarter installments.	Machinery and equipments acquired in the project	4.16	173,700	154,400	135,100	3,975
Bank of communication and other banks (Sixth naphtha cracker project syndicate loan-item F).	Mach 2004 ~ March 2014 in 21 semi-annual installments	Machinery and equipments acquired in the project	2.53	2,320,000	2,667,000	2,667,000	78,464

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				New Taiwan Dollars			US Dollars
				December 31			December 31
Creditors	Repayment period	Collateral	Interest rate (%)	2001	2002	2003	2003
Taiwan Cooperative Bank	Interest paid monthly in 24 installments starting from December 2002; principal paid at maturity. Be early settled in 2003	Credit loan	3.10	$ 4,000,000	$ 3,000,000	$ —	$ —
Taiwan Cooperative Bank	Interest paid monthly in 24 installments starting from December 2002; principal paid at maturity. Be early settled in 2003	Stock pledged	3.10	1,300,000	1,300,000	—	—
The Hua Nan Bank	Interest paid monthly in 24 installments starting from December 2002; principal paid at maturity. Be early settled in 2003	Other	3.15	3,200,000	1,000,000	—	—
China Development Industrial Bank	Interest paid monthly in 60 installments starting from September 1999; principal paid from September 2003 at three times. Be early settled in 2003	Stock pledged	3.05	1,500,000	1,500,000	—	—
China Development Industrial Bank	December 2002 ~ June 2007; interest paid monthly, principal paid at semi-annual.	Machinery and equipments acquired in the project	2.80	4,130,000	5,400,000	4,200,000	123,566

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				New Taiwan Dollars			US Dollars
				December 31			December 31
Creditors	Repayment period	Collateral	Interest rate (%)	2001	2002	2003	2003
The Taishin Bank	Interest paid monthly in 42 installments starting from December 2001; principal paid at maturity	Stock pledged	1.79	$ 1,330,000	$ 1,330,000	$ 1,330,000	$ 39,129
Chang Hwa Bank	December 2003 ~ December 2006; interest paid monthly; principal paid at maturity.	Land and factories pledged	2.63	6,300,000	6,300,000	5,000,000	147,102
Chang Hwa Bank	December 2002 ~ December 2004; interest paid monthly; principal paid at maturity. And anticipate in 2003	Other	3.27	2,900,000	2,840,000	—	—
The Taipei Bank.	Interest paid monthly in 36 installments starting from December 2000; principal paid at maturity.	Land and factories pledged	2.75	4,000,000	4,000,000	4,000,000	117,682
ICBC.	Had been early settled in 2002.	Credit loan	—	550,000	—	—	—
ICBC.	Had been early settled in 2002.	Usance letters of credit	—	126,354 (USD 3,646)	—	—	—
Ministry of Economy	October 2000 ~ July 2002 in 8-quarters installments	Strategically inspiring products development subsidizing loan	—	10,500	—	—	—
The first bank. . .	Had been early settled in 2002	Other	—	2,800,000	—	—	—
The International Bank of Taipei	Interest paid monthly in 24 installments starting from December 2001; principal paid at maturity; extended to December 2005.	Other	1.80	1,000,000	1,000,000	1,000,000	29,420
Sub-total				55,584,294	49,884,376	36,114,780	1,062,512

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				New Taiwan Dollars			US Dollars
				December 31			December 31
Creditors	Repayment period	Collateral	Interest rate (%)	2001	2002	2003	2003
Idemitsu Petrochemical Corp. Ltd.	Interest paid in semi-annual from October 2001 to December 2013; principal paid in 10 installments annually from 2004.	Other	0.82	$ 381,524 (JPY 1,430,000)	$ 419,705 (JPY 1,430,000)	$ 1,225,070 (JPY 3,850,000)	$ 36,042
Nan Ya Plastics Corp.	Had been early settled in 2002.	Other	—	4,000,000	—	—	—
Sub-total of non-financial institution				4,381,524	419,705	1,225,070	36,042
				59,965,818	50,304,081	37,339,850	1,098,554
Less: Current portion of long-term bank loans				(1,726,304)	(5,633,544)	(2,430,686)	(71,512)
Current portion of long-term notes payable				(19,300)	(19,300)	(1,306,300)	(38,432)
Long-term notes payable				(154,400)	(135,100)	(9,568,800)	(281,518)
				$ 58,065,814	$ 44,516,137	$ 24,034,064	$ 707,092

A. The collateral for long-term bank loans was described in Note 6.

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B. Long-term bank loans and long-term notes payable as of December 31, 2003 will be repaid in the following periods:

Periods	Total long-term bank loans and long-term notes payable amounts (including USD currency loans)
2004.1.1 ~ 2004.12.31	$ 3,736,986
2005.1.1 ~ 2005.12.31	10,135,852
2006.1.1 ~ 2006.12.31	8,805,852
2007.1.1 ~ 2007.12.31	3,205,852
After 2008.1.1	11,455,308
	$ 37,339,850

C. In order to finance the construction of the Sixth Naphtha Cracker project and the related factories, the Company entered into a long-term loan agreement with 32 banks on April 28, 1994. The Bank of Communication was the manager bank for the syndicate loan. Because the six Naphtha Cracker project expanded, the Company re-entered into the long-term loan agreement with the banks on May 6, 1999 and on December 6, 2000. The details were as follows:

(A) Total credit line: included NT$16,235,000 thousand and US$260,000 thousand.

(B) Interest rate: Based on the agreement with the banks.

(C) Period: 10~15 years.

(D) Collateral: The property, plant and equipment acquired by using the proceeds of the loan were pledged as the collateral.

As of December 31, 2001, 2002 and 2003, approximately NT$14,802,000 thousand, US$260,000 thousand, NT$14,802,000 thousand, US$260,000 thousand and NT$14,802,000 thousand, US$260,000 thousand of the loans had been disbursed, respectively.

According to the long-term loan agreement, the Company should settle that loans by issuing notes. As of December 31, 2003, the Company had issued notes of NT$10,875,100 thousand, and NT$1,306,300 thousand recorded as current portion of long-term notes payable, and NT$9,568,800 thousand recorded as long-term notes payable.

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D. In order to rebuild the factory buildings and buy the equipment for generating electric power, the Company entered into a long-term loan agreement with banks on December 23, 1999, and the China Development Industrial Bank was the manager bank for the syndicate loan. The details were as follows:

(A) Total credit line: NT$6,000,000 thousand.

(B) Interest rate : Base on reference interest rate markup 1.4% annual, floating spread.

(C) Period: Seven years after the Company first withdraw from the loan.

(D) Collateral: The property, plant and equipment acquired by using the proceeds of the loan were pledged as the collateral.

As of December 31, 2001, 2002 and 2003, approximately NT$4,130,000 thousand, NT$6,000,000 thousand and NT$6,000,000 thousand of the above credit lines had been used, respectively.

(11) Accrued pension liability

The Company adopted SFAS No. 18, “Accounting for Pension”. The Company calculates actuarial present value of pension liability using the balance sheet date as the measurement date. The following table sets forth the details of funded status and its reconciliation between the accrued pension liability recognized in the Company’s balance sheets as of December 31, 2001, 2002 and 2003:

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Benefit obligation:				
Vested benefit obligation	$ (2,056,824)	$ (1,997,735)	$ (2,150,174)	$ (63,259)
Non-vested benefit obligation	(2,537,736)	(1,945,450)	(2,707,346)	(79,651)
Accumulated benefit obligation	(4,594,560)	(3,943,185)	(4,857,520)	(142,910)
Projected compensation increases	(2,172,623)	(2,455,060)	(2,070,495)	(60,915)
Projected benefit obligation	(6,767,183)	(6,398,245)	(6,928,015)	(203,825)
Fair value of plan assets	6,848	9,667	6,736	198
Funded status	(6,760,335)	(6,388,578)	(6,921,279)	(203,825)
Unrecognized transitional net obligation	1,959,396	1,781,268	1,603,140	47,165
Unrecognized net pension gain	1,499,771	871,501	1,172,716	34,502
Accrual of insufficiency	(1,286,544)	(197,709)	(705,361)	(20,752)
Accrued pension liability	$ (4,587,712)	$ (3,933,518)	$ (4,850,784)	$ (142,712)

The employees’ vested benefits included in the Company’s retirement plan amounted to NT$2,872,448 thousand, NT$2,596,079 thousand and NT$2,696,740 thousand as of December 31,2001, 2002 and 2003, respectively.

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The components of the net periodic pension cost for the years 2001, 2002 and 2003 were summarized as follows:

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Service cost				
Interest cost	$ 227,293	$ 278,744	$ 259,214	$ 7,626
Actual return on plan assets	368,782	336,343	254,362	7,483
Return loss on plan assets	(634)	(131)	(99)	(3)
Amounts of amortizations and deferrals	368	183	(18)	(1)
Net periodic pension cost	219,307	232,998	191,756	5,642
	$ 815,116	$ 848,137	$ 705,215	$ 20,747

Major assumptions used to determine the above information were as follows:

	2001	2002	2003
Discount rate	5.0%	4%	3%
Rate of increase in compensation	4.5%	4%	3%
Expected rate of return on plan assets	5.0%	4%	3%

The balance of the pension fund that the Company deposited with Central Trust of China as of December 31, 2001, 2002 and 2003 amounted to NT$6,848 thousand, NT$9,667 thousand, and NT$$6,736 thousand, respectively. In 2001, 2002 and 2003, the actual pension payments amounted to NT$428,110 thousand, NT410,808 thousand and NT$$298,631 thousand, respectively.

(12) Stockholders' equity

A. *Capital stock*

(A) The Company's 2001 general stockholders' meeting resolved to transfer unappropriated retained earnings of NT$1,095,533 thousand and additional paid in capital of NT$1,825,888 thousand to capital by issuing stock dividends with a par value of NT$10 per share. The shares increases referred to above were approved and registered with the related government authorities on July 20, 2001.

(B) The Company's 2002 general stockholders' meeting resolved to transfer unappropriated retained earnings of NT$2,366,350 thousand to capital by issuing stock dividends with a par value of NT$10 per share. The shares increases referred to above were approved and registered with the related government authorities on September 24, 2002.

(C) The Company's 2003 general stockholders' meeting resolved to transfer unappropriated retained earnings of NT$3,344,442 thousand to capital by issuing stock dividends with a par value of NT$10 per share. The shares increased referred to above were approved and registered with the related government authorities on August 11, 2003.

B. *Capital surplus and restrictions on appropriations and distributions of retained earnings*

(A) *Capital surplus*

According to R.O.C. Company Law, capital surplus can only be used to offset a deficit or increase share capital, and can not be distributed as cash dividends. According to regulations of SFC, capital surplus should be used to offset a deficit before being transferred to capital. The amount transferred to capital can not be over 10% of the total capital each year. A capital increase that is conducted by transferring paid-in capital in excess of par value can be done only once a year and only in years other than the year in which such excess arose.

(B) *Legal reserves*

According to R.O.C. Company Law, the Company should appropriate 10% of the net income as the legal reserve until the legal reserve reach the capital. Legal reserve can only be used to offset a deficit, and can not be distributed as cash dividends. When the legal reserve reach 50% of the capital, the shareholders could declare to transfer the legal reserves, no more than half of the reserves, to capital. According to the regulations of SFC, the legal reserves should first be used to offset deficit before transferring to capital.

(C) *Special reserve and earnings distribution*

According to the Company's articles of incorporation, the Company's earnings are being appropriated and distributed in the following orders:

(1) Pay income taxes;

(2) Offset prior year's deficit, if any;

(3) 10% is to be set aside as legal reserve;

(4) After setting aside the legal reserve, NT$1 per share is to be distributed to shareholders as dividend.

(5) The remaining balance, if any, the Company shall allocate 1% of the amount declared as employee bonus, and 1% as directors' and supervisors' remuneration, respectively.

(6) If the Company's current year earning is not enough to distribute NT$1 per share to shareholders, then the Company can not allocate employee bonus and directors' and supervisors' remuneration. But the Company can use the accumulated unappropriated retained earnings to distribute bonus to shareholders according to the general stockholders' meeting.

When the legal reserve equals the Company's total paid-in capital, the Company may stop the appropriation.

If the Company's income includes investment income recognized using equity method and unused tax credits, a special reserve is appropriated before distribution dividends. When the investment income is realized, this special reserve will be reversed back to retained earnings.

According to the rule number 100116 issued by SFC of R.O.C. in 2000, amount recorded as deduction of stockholders' equity should be reserved the same amounts from the net incomes to "special reserve" account. According to the rule described above, the Company transferred NT$99,643 thousands of year 2000 net incomes to special reserve in the Company's earnings appropriation of 2001. Since this situation did not exist on December 31, 2001, the Company transferred NT$99,643 thousands back to unappropriated retained earnings at the end of 2001.

C. *Dividend policy*

The Company is in the mature stage and the profit is stable. The Board of Directors established the cash dividend or stock dividend percentage. The dividend will be distributed at least 50% of the distributable earnings after deduction of the legal reserves, directors' and supervisors' remuneration, employee bonus and special reserves. The Company would prefer cash dividend. If important investment measures are taken or financial structure need to be improved, part of the dividend would be paid with stock not to exceed 50% of the dividends.

Please refer to Taiwan Sock Exchange's "Market Observation Post System" for annual dividend declaration by the shareholders' meeting and the Board of Directors' meeting. The annual dividend of 2003 by the Board of Directors' meeting does not be declared up to February 27, 2004.

The Board of the Directors and the general stockholders' meeting of 2003 resolved to allocate earnings of 2002 to employee and directors and supervisors of NT$43,348 thousand and NT$43,348 thousand, respectively. The primary earnings per share of 2002 was $2.62.

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(13) Personnel expense, depreciation expense and amortization

The Company' personnel expense, depreciation expense and amortization for the year ended December 31, 2002 and 2003 were summarized as follows:

	2002			2003		
	Operation cost	Operation expense	Total	Operation cost	Operation expense	Total
Personnel expense:						
Salary expense	NT$3,660,617	NT$1,392,820	NT$5,053,437	NT$3,837,321	NT$1,443,428	NT$5,280,749
Insurance expense	208,710	91,958	300,668	214,182	95,311	309,493
Pension expense	622,001	226,136	848,137	495,116	210,099	705,215
Other personnel expense	212,432	53,429	265,861	219,507	57,128	276,635
Depreciation expense	NT$5,390,441	NT$229,259	NT$5,619,700	NT$5,747,550	NT$215,197	NT$5,962,747
Depletion expense	—	—	—	—	—	—
Amortization expense	NT$484,116	NT$14,260	NT$498,376	NT$602,981	NT$14,088	NT$617,069

	2003		
	Operation cost	Operation expense	Total
Personnel expense:			
Salary expense	US$112,896	US$42,466	US$155,362
Insurance expense	6,301	2,804	9,105
Pension expense	14,567	6,181	20,748
Other personnel expense	6,458	1,681	8,139
Depreciation expense	US$169,096	US$6,331	US$175,427
Depletion expense	US$—	US$—	US$—
Amortization expense	US$17,740	US$414	US$18,154

(14) Income taxes

A. The Company is subject to a corporate income tax rate of 25%. The Company adopted SFAS No 22, "Accounting for Income Taxes". The income tax expenses for 2001, 2002 and 2003 were composed of the following:

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Current income tax expense	$ —	$ —	$ 154	$ 5
Deferred income tax expense	—	1,538,626	2,951,055	86,821
Income tax expense	$ —	$ 1,538,626	$ 2,951,209	$ 86,826

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B. The reconciliations between the income tax expense for income tax return purposes and the income tax expense for financial reporting purposes for 2001, 2002 and 2003 were as follows:

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Income tax at statutory rate	$ 1,152,395	$ 3,127,843	$ 5,161,925	$ 151,866
Tax exempted gain from sale of land retained earnings	(60,070)	(25,931)	(77,640)	(2,284)
20% preferential taxes on certain interest income	—	—	154	5
10% additional tax of tax — adjusted	252,715	—	—	—
Tax exempted income — gain on sale of securities	(120,808)	(170,230)	(275,006)	(8,091)
Tax exempted income — investment income of long-term equity	(590,846)	(1,184,601)	(1,688,677)	(49,682)
Tax exempted cash dividends	(119,972)	(111,905)	(173,215)	5,906
Investment tax credits	(8,252,515)	(796,547)	—	—
Change in estimated income tax of prior years	611,498	(107,774)	(18,060)	(531)
Provision for valuation allowance for deferred income tax asset	7,124,531	796,547	—	—
Others	3,071	11,224	21,728	638
Income tax expense	$ —	$ 1,538,626	$ 2,951,209	$ 86,826

C. The balance of income tax receivable as of December 31, 2001, 2002 and 2003 consisted of the following:

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Prepaid tax expense in 2001, 2002 and 2003, respectively	$ 26,333	$ 5,526	$ 12,075	$ 355
Prepaid tax expense before 2001, 2002 and 2003, respectively	38,598	26,340	5,543	163
Booked on other receivable	$ 64,931	$ 31,866	$ 17,618	$ 518

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D. The deferred income tax assets and liabilities on December 31, 2001, 2002 and 2003 were as follows:

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Current:				
Deferred income tax assets	$ 1,840,000	$ 1,802,099	$ 2,673,025	$ 78,641
Valuation allowance for deferred income tax assets	—	—	(864,645)	(25,438)
	1,840,000	1,802,099	1,808,380	53,203
Deferred income tax liabilities	—	(12,378)	—	—
Total current deferred income tax assets	$ 1,840,000	$ 1,789,721	$ 1,808,380	$ 53,203
Non-current:				
Deferred income tax assets	$ 13,045,261	$ 12,353,462	$ 8,519,103	$ 250,635
Valuation allowance for deferred income tax assets	(7,124,531)	(7,921,079)	(7,056,434)	(207,603)
Non-current deferred income tax assets	$ 5,920,730	$ 4,432,383	$ 1,462,669	$ 43,032
Total deferred income tax assets	$ 14,885,261	$ 14,155,561	$ 11,192,128	$ 329,276
Total deferred income tax liabilities	$ —	$ 12,378	$ —	$ —
Total valuation allowance for deferred income tax assets	$ (7,124,531)	$ (7,921,079)	$ (7,921,079)	$ (233,041)

The tax effects of timing differences for deferred income tax assets and liabilities as of December 31, 2001, 2002 and 2003, were presented as follows:

	New Taiwan Dollars			
	December 31			
	2001		2002	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets:				
Current:				
Income tax credit	$ 1,823,205	$ 1,823,205	$ 1,800,000	$ 1,800,000
Unrealized exchange loss	46,764	11,691	4,224	1,056
Others	20,417	5,104	4,170	1,043
		1,840,000		1,802,099
Non-current:				
Income tax credit	$ 12,006,829	$ 12,006,829	$ 11,168,957	$ 11,168,957
Unrealized exchange loss	848,249	212,062	741,748	185,437
Pension expenses in excess of tax deductible limit	3,248,046	812,012	3,674,387	918,597
Unrealized investment losses by equity method	27,469	6,867	321,886	80,471
Others	29,965	7,491	—	—
		$ 13,045,261		$ 12,353,462
Total deferred income tax assets		$ 14,885,261		$ 14,155,560
Deferred income tax liabilities				
Current:				
Unrealized investment loss on affiliated companies	$ —	$ —	$ 49,511	$ 12,378

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	New Taiwan Dollars		US Dollars	
	December 31		December 31	
	2003		2003	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets:				
Current:				
Income tax credit	$ —	$ 2,664,648	$ —	$ 78,395
Unrealized loss from affiliated companies transactions	16,932	4,233	498	124
Unrealized exchange loss	2,9,43	736	87	22
Others	13,646	3,411	401	100
Total deferred income tax assets — current		2,673,025		78,641
Non-current:				
Income tax credit	—	7,231,962	—	212,767
Unrealized exchange loss	651,031	162,758	19,154	4,788
Pension expenses in excess of tax deductible limit	4,092,301	1,023,075	120,397	30,099
Unrealized investment losses by equity method	405,232	101,308	11,922	2,981
Total deferred income tax assets — non current		8,519,103		250,635
Total deferred income tax assets		$ 11,192,128		$ 329,276
Deferred income tax liabilities				
Current:				
Unrealized investment loss on affiliated companies	$ —	$ —	$ —	$ —

As of December 31, 2003, the unused income tax credits, according to the statute for Upgrading Industry, were as follows:

Description	Amount	Expired year
Income tax credit for investing in remote areas	$ 2,664,645	2004
	4,921,736	2005
	317,474	2006
	7,903,855	
Income tax credit for investing in important industries	1,992,752	2005
Total	$ 9,896,607	

The income tax credits are available to offset income tax payable in the current year, and the unused balances can be used to offset the income tax payable in the subsequent four years. The offsetting amounts is limited to 50% of the offsetting year's income tax payable but is not subject to the 50% limitation in the final year of offset. There are no limitations imposed on the offsetting amount if the offsetting credits are derived from investments in desolate areas.

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E. The Company's income tax returns have been assessed by the R.O.C. Tax Authorities through 2002.

F. Imputation credit account (ICA) and creditable ratio

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Imputation tax credit account	$ 125,144	$ 164,494	$ 128,940	$ 3,793
Tax credit ratio:				
Distribution of cash dividend	0.52%	0.68%	0.69%	
Distribution of stock dividend	0.85%	0.84%	0.72%	
Estimated tax credit ratio			0.39%	

G. Unappropriated retained earnings (including special reserve) were as follows:

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
1997 and before	$ 6,930,573	$ 11,494,119	$ 11,494,119	$ 338,162
1998 and after	15,911,103	26,509,504	32,989,108	970,553
Total	$ 22,841,676	$ 38,003,623	$ 44,483,227	$ 1,308,715

The general stockholders' meeting of the Company held on June 7, 2002 resolved to transfer the capital surplus-gain on sale of fixed assets before 2000 to retained earnings amounted to NT$10,199,106 thousand, that included NT$4,973,745 thousand, for years 1997 and before and NT$5,225,361 thousand for the years 1998 and after.

The investees accounted for using equity method have transferred capital surplus-gain on sale of fixed assets to retained earnings in 2001. The Company has transferred from capital surplus-long-term equity investment to special reserve according to the percentage of ownership with a total amount NT$197,090 thousand that included NT$87,176 thousand for years 1997 and before and NT$109,914 thousand for years 1998 and after.

According to the R.O.C. Income Tax Law, non-resident foreign investors and the companies without fixed residence in R.O.C. are not eligible to use the imputation tax credits on net income of dividends and earnings originated from any R.O.C. companies. However, the 10% additional tax on all unappropriated earnings is applicable.

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(15) Basic earning per share ("EPS")

The Company's earning per share is calculated based on the weighted-average outstanding number of shares during the period and is adjusted retroactively to reflect to effect of the increase in issued common stock resulting from declaration of stock dividends. The EPS's contents were as follows:

	New Taiwan Dollars 2001				
	Net income		Weighted average outstanding shares of common stock	EPS	
	Before taxes	After taxes		Before taxes	After taxes
Basic earnings per share:					
Before retroactively net income belongs to common stockholders	$ 4,609,621	$ 4,609,621	3,943,917	$ 1.17	$ 1.17
Retroactively net income belongs to common stockholders	$ 4,609,621	$ 4,609,621	4,514,996	$ 1.02	$ 1.02

	New Taiwan Dollars 2002				
	Net income		Weighted average outstanding shares of common stock	EPS	
	Before taxes	After taxes		Before taxes	After taxes
Basic earnings per share:					
Before retroactively net income belongs to common stockholders	$ 12,511,410	$ 10,972,784	4,180,552	$ 2.99	$ 2.62
Retroactively net income belongs to common stockholders	$ 12,511,410	$ 10,972,784	4,514,996	$ 2.77	$ 2.43

	New Taiwan Dollars 2003				
	Net income		Weighted average outstanding shares of common stock	EPS	
	Before taxes	After taxes		Before taxes	After taxes
Basic earnings per share:					
Net income belongs to common stockholders	$ 20,647,738	$ 17,696,529	4,514,996	$ 4.57	$ 3.92

	US Dollars 2003				
	Net income		Weighted average outstanding shares of common stock	EPS	
	Before taxes	After taxes		Before taxes	After taxes
Basic earnings per share:					
Net income belongs to common stockholders	$ 607,465	$ 520,639	4,514,996	$ 0.13	$ 0.12

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(16) Treasury stocks

The Company's subsidiary company — Tah Shin Spinning Corp. held 1,857 shares of the Company on December 31, 2002. The book value of the stocks was NT$32 thousand and market value was NT$47 thousand. The Company recognized treasury stock of NT$23 thousand based on its holding percentage on December 31, 2002.

The Company's subsidiary company — Tah Shin Spinning Corp. held 2,125 shares of the Company on December 31, 2003. The book value of the stocks was NT$32 thousand and market value was NT$117 thousand. The Company recognized treasury stock of NT$27 thousand based on its holding percentage on December 31, 2003.

5. RELATED PARTY TRANSACTIONS

(1) Names and relationship with related parties

Name of related party	Relationship with the Company
Tah Shin Spinning Corp.	Investee accounted for using the equity method
Formosa Taffeta Co.	Same as the above
Formosa plastics Transportation Corp.	Same as the above
Formosa Heavy Industries Corp.	Same as the above
Formosa Petrochemical Corp.	Same as the above
Mai-Liao Power Corp.	Same as the above
Formosa Idemitsu Petrochemical Corp.	Same as the above
Formosa BP Chemicals Corp.	Same as the above
Formosa Industries Corp.	Same as the above
Formosa Plastics Corp.	Same President
Nan Ya Plastics Corp.	Same President
Chang Gung Memorial Hospital	Same President
Hwa Ya Power Corp.	Same President
Chang Gung College.	Same President
Ming Ghi Institute of Technology	Same President
Nan Ya Technology Corp.	Same President
Asia Pacific Development Corp.	Same President
Mai-Liao Harbor Administration Corp.	Same President
Ming De Foundation	Same President
First International Computer Corp.	The President is a relative of the company's president
Asia Pacific Investment Corp.	Same President
Formosa Chemicals & Fibre (Nan Tong) Corp.	The investee Company accounted for using the cost method

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(2) Significant transactions with related parties

A. *Purchases and Sales*

Purchases from related parities in 2001, 2002 and 2003 were as follows:

	New Taiwan Dollars						US Dollars
	2001		2002		2003		
	Amount	% of net purchase	Amount	% of net purchase	Amount	% of net purchase	Amount
Formosa Plastics Corp.	$ 2,153,476	3.67	$ 2,529,157	3.87	$ 3,546,295	3.88	$ 104,333
Nan Ya Plastics Corp.	812,975	1.39	1,025,507	1.57	2,768,474	3.03	81,450
Formosa Petrochemical Corp.	21,164,251	36.08	25,875,419	39.56	34,948,954	38.26	1,028,212
Tah Shin Spinning Corp.	58,418	0.10	40,839	0.06	58,690	0.06	1,727
	$24,189,120	41.24	$29,470,922	45.06	$41,322,413	45.23	$ 1,215,722

The Company purchased Polyester from Nan Ya Plastics Corp., and the purchase prices were ranged from NT$31.5 to NT$32.5 per kilogram, from NT$31 to NT$36.5 per kilogram and from NT$32 to NT$43 per kilogram in 2001, 2002 and 2003, respectively. The Company purchased Polypropylene from Formosa Plastics Corp., and the purchase prices ranged from NT$38.5 to NT$46.4 per kilogram and from NT$45.5 to NT$47 per kilogram in 2002 and 2003, respectively. The Company purchased Acylic from Formosa Plastics Corp., and the purchase prices ranged from NT$18.38 to NT$44 per kilogram, from NT$17.23 to NT$31.93 per kilogram, and from NT$25.42 to NT$32.38 per kilogram in 2001, 2002 and 2003, respectively. The Company purchased Rayon cotton from Tah Shin Spinning Corp; and the purchase prices ranged from NT$9,260 per piece, from NT$8,679 per piece, and from NT$8,200 to NT$9,750 per piece in 2001, 2002 and 2003, respectively. The Company purchased power of steam from Formosa Petrochemical Corp., and the purchase prices ranged from NT$328 per ton, from NT$326.46 per ton and from NT$317.83 to NT$326.38 per ton in 2001, 2002 and 2003, respectively. The Company purchased Naphtha from Formosa Petrochemical Corp., and the purchase prices ranged from NT$5.99 to NT$9.25 per kilogram, from NT$6.12 to NT$9.16 per kilogram and from NT$7.95 to NT$12.43 per kilogram in 2001, 2002 and 2003, respectively. The Company purchased Ethylene from Formosa Petrochemical Corp., and the purchase prices ranged from NT$10.99 to NT$17.53 per kilogram, from NT$11.28 to NT$17.12 per kilogram, and from NT$16.32 to NT$22.44 per kilogram in 2001, 2002 and 2003, respectively. The Company purchased By-Gas from Formosa Petrochemical Corp., and that the purchase prices ranged from NT$6.19 to NT$9.45 per kilogram, from NT$6.33 to NT$9.41 per kilogram, and from NT$8.37 to NT$12.92 per kilogram in 2001, 2002 and 2003, respectively. The purchase price and payment terms with related parties are not different from those with non-related parties.

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Sales to related parties in 2001, 2002 and 2003 were as follows:

	New Taiwan Dollars						US Dollars
	2001		2002		2003		
	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales	Amount
Formosa Taffeta Corp.	$ 2,364,917	3.50	$ 2,701,127	3.11	$ 3,066,466	2.88	$ 90,217
Nan Ya Plastics Corp.	12,675,586	18.77	16,679,466	19.20	20,227,966	19.00	595,115
Formosa Petrochemical Corp.	3,025,197	4.49	2,945,308	3.39	3,943,239	3.71	116,012
Tah Shin Spinning Corp.	55,395	0.08	53,553	0.06	56,718	0.05	1,669
Formosa Plastics Corp.	330,959	0.49	682,652	0.79	1,157,931	1.09	34,067
Formosa Idemitsu Petrochemical Corp.	—	—	822,745	0.95	4,019,710	3.78	118,261
Others	28,725	0.03	72,268	0.08	138,576	0.13	4,077
	$18,480,779	27.36	$23,957,119	27.58	$32,610,606	30.64	$ 959,418

The accounts receivable due from Formosa Taffeta Corp. is collected in the following month of delivery by 60-day notes issued by Formosa Taffeta Corp. The selling prices and collection terms of sales to other related parties are the same as those for non-related clients, that is, collections are made in the end of the month of delivery by 30-day notes.

B. *Receivables and payables (excluding financing)*

The balance of receivables and payables, excluding financing transactions, as of December 31, 2001, 2002 and 2003, consisted of the following:

	New Taiwan Dollars						US Dollars
	2001		2002		2003		
	Amount	%	Amount	%	Amount	%	Amount
Accounts receivables:							
Nan Ya Plastics Corp.	$ 908,887	19.59	$1,792,720	25.86	$1,635,415	22.56	$ 48,115
Formosa Petrochemical Corp.	233,502	5.03	361,175	5.21	450,698	6.22	13,260
Formosa Taffeta Corp.	590,853	12.74	414,206	5.98	279,780	3.86	8,231
Formosa Plastics Corp.	36,934	0.80	87,012	1.25	134,129	1.85	3,946
Formosa Idemitsu Petrochemical Corp.	—	—	473,829	6.84	1,028,306	14.18	30,253
Others	8,682	0.19	8,132	0.12	14,147	0.20	416
	1,778,858	38.35	3,137,074	45.26	3,542,475	48.87	104,221
Less: allowance for bad debts	(13,484)	—	—	—	—	—	—
	$1,765,374	38.35	$3,137,074	45.26	$3,542,475	48.87	$ 104,221
Notes receivables:							
Formosa Taffeta Corp.	$ 122,542	18.79	$ 232,912	26.64	$ 260,975	27.43	$ 7,678
Less: allowance for bad debt	(928)	—	—	—	—	—	—
	$ 121,674	18.79	$ 232,092	26.64	$ 260,975	27.43	$ 7,678
Accounts payables:							
Formosa Petrochemical Corp.	$1,767,157	46.60	$2,564,731	58.23	$3,540,253	54.29	$ 104,156
Formosa Plastics Corp.	196,501	5.18	264,969	6.02	376,059	5.77	11,064
Nan Ya Plastics Corp.	44,870	1.18	152,992	3.47	370,954	5.69	10,913
Tah Shin Spinning Corp.	1,571	0.04	3,305	0.08	1,357	0.02	40
	$2,010,099	53.00	$2,985,997	67.80	$4,288,623	65.77	$ 126,173

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C. ***Financing***

The details of the Company's financing with related parties in 2001, 2002 and 2003 were as follows:

	New Taiwan Dollars				
	2001				
	Maximum balance	Date of maximum balance	Ending balance	Interest rates %	Amount of interest
Due from:					
Nan Ya Plastics Corp.	$ 4,000,000	Dec. 31	$ 4,000,000	5.34~6.61	$ 30,441
Due to:					
Tah Shin Spinning Corp.	$ 53,000	Jan. 1	$ 53,000	4.66~6.61	$ 3,072
Formosa Petrochemical Corp.	5,249,400	Apr. 16	403,100	4.66~6.61	127,543
Total			$ 456,100		$ 130,615

	New Taiwan Dollars				
	2002				
	Maximum balance	Date of maximum balance	Ending balance	Interest rates %	Amount of interest
Due from:					
Nan Ya Plastics Corp.	$ 994,000	Apr. 19	$ —	4.056~4.588	$ 4,282
Formosa Plastics Corp.	255,200	Nov. 27	—	3.891~4.056	52
Formosa Petrochemical Corp.	2,368,100	Dec. 17	—	3.891~4.588	8,708
Mai-Liao Power Corp.	2,500,000	Sep. 30	1,018,500	3.891~4.588	10,763
Total			$ 1,018,500		$ 23,805
Due to:					
Tah Shin Spinning Corp.	$ 57,800	May 31	$ 57,800	3.891~4.588	$ 2,352
Formosa Petrochemical Corp.	567,300	Feb. 7	—	4.434~4.588	835
Formosa Plastics Corp.	901,500	Feb. 8	—	3.902~4.344	1,565
Nan Ya Plastics Corp.	7,000	Dec. 2	—	3.902	—
Mai-Liao Power Corp.	2,000,000	Sep. 30	—	4.199	460
Total			$ 57,800		$ 5,212

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	New Taiwan Dollars				
	2003				
	Date of Maximum balance	Maximum balance	Ending balance	Interest rates %	Amount of interest
Due from:					
Nan Ya Plastics Corp.	May 22	$ 2,423,700	$ 135,900	3.05~3.44	$ 8,756
Formosa Heavy Industries Corp.	Oct. 28	2,162,200	—	3.05~3.14	17,650
Formosa Petrochemical Corp.	Jul. 16	8,113,800	1,954,700	3.05~3.66	31,990
Mai-Liao Power Corp.	May 2	2,832,800	1,023,200	3.05~3.66	33,759
Asia Pacific Development Corp.	May 26	2,000,000	—	3.10~3.32	25,772
Nan Ya Technology Corp.	May 14	643,200	—	3.10~3.32	577
Hwa Ya Power Corp.	Oct. 16	147,800	—	3.10~3.33	375
Formosa Idemitsu Petrochemical Corp	Dec. 15	117,200	—	3.05~3.30	77
Formosa BP Chemicals Corp.	Oct. 29	68,300	29,600	3.05~3.30	40
Asia Pacific Investment Corp.	Nov. 13	36,300	—	3.21	479
			$ 3,143,400		$ 119,475
Due to:					
Tah Shin Spinning Corp.	Jan. 31	$ 57,800	$ 57,500	3.05~3.66	$ 1,890
Formosa Plastics Corp.	Jul. 1	1,182,400	—	3.10~3.43	204
Nan Ya Plastics Corp.	Jun. 26	2,242,400	—	3.14~3.27	795
Total			$ 57,500		$ 2,889

	US Dollars				
	2003				
	Date of Maximum balance	Maximum balance	Ending balance	Interest rates %	Amount of interest
Due from:					
Nan Ya Plastics Corp.	May 22	$ 71,306	$ 3,998	3.05~3.44	$ 258
Formosa Heavy Industries Corp.	Oct. 28	63,613	—	3.05~3.14	519
Formosa Petrochemical Corp.	Jul. 16	238,711	57,508	3.05~3.66	941
Mai-Liao Power Corp.	May 2	83,342	30,103	3.05~3.66	994
Asia Pacific Development Corp.	May 26	58,841	—	3.10~3.32	758
Nan Ya Technology Corp.	May 14	18,923	—	3.10~3.32	17
Hwa Ya Power Corp.	Oct. 16	4,348	—	3.10~3.33	11
Formosa Idemitsu Petrochemical Corp	Dec. 15	3,448	—	3.05~3.30	2
Formosa BP Chemicals Corp.	Oct. 29	2,119	871	3.05~3.30	1
Asia Pacific Investment Corp.	Nov. 13	1,068	—	3.21	14
			$ 92,480		$ 3,515
Due to:					
Tah Shin Spinning Corp.	Jan. 31	$ 1,701	$ 1,692	3.05~3.66	$ 56
Formosa Plastics Corp.	Jul. 1	34,787	—	3.10~3.43	6
Nan Ya Plastics Corp.	Jun. 26	65,972	—	3.14~3.27	23
Total			$ 1,692		$ 85

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D. *Acquisitions and disposals of property, plant and equipment*

(a) The Company purchased machinery from related parties and the ending balances of the construction contracts payables were as follow:

	New Taiwan Dollars			US Dollars
	2001	2002	2003	2003
Purchased machinery				
Formosa Heavy Industries Corp.	$ 1,227,348	$ 412,830	$ 546,762	$ 16,086
Nan Ya Plastics Corp.	311,923	65,246	86,096	2,533
Total	$ 1,539,271	$ 478,076	$ 632,858	$ 18,619
Construction contracts payable				
Formosa Heavy Industries Corp.	$ 286,762	$ 24,783	$ 17,034	$ 501
Nan Ya Plastics Corp.	70,981	8,762	33,661	990
Total	$ 357,743	$ 33,545	$ 50,695	$ 1,491

According to "The procedure for acquisition and disposal of assets" of the Company, the machinery that purchased for production in 2001, 2002 and 2003 has been reported on the public system amounted to NT$1,567,436 thousand, NT$412,830 thousand and NT$546,762 thousand, respectively. The terms of delivery and payment were according to the contracts and there is no material difference between the contract price and market price.

(b) The Company has signed contract with Nan Ya Technology Corp. to sell land located in Lin-Ko industrial area on November 6, 2000. The total contract price amounted to NT$896,600,000, which was based on the value appraised by a professional appraisal company "China Credit Reference Agency". The gain resulted from the transaction excluding 45% of land without transferring ownership amounted to NT$361,950 thousand, which was equal to the contract price deducting the cost of land and related taxes. The receivables resulted from the above transaction amounted to NT$896,600 thousand has been collected. The contract price of land without ownership transfer amounted to NT$322,505 thousand, was recorded as "Advance receipt" under other liabilities as of December 31, 2003.

(c) The Company has signed contract with Formosa Petrochemical Corp. to sell land located in Tong Sam village on August 8, 2000. The total contract price amounted to NT$127,190 thousand, which was based on the value appraised by a professional appraised company. The Company transferred ownership of land on August 14, 2002 except 7%. The gain resulted from the transaction excluding the land without ownership transfer amounted to NT$85,876 thousand, which equals the contract price deducting the cost of land and related taxes. The contract price for non-transferring ownership was NT$9,282 thousand recorded as "Advance receipt" under other liabilities as of December 31, 2003.

(d) The Company, Formosa Plastics Corp. and Nan Ya Plastics Corp. (each company has one-third for ownership for the building) had signed a contract with LEO computer on June 26, 2002 to purchase the buildings and land of Formosa Plastic building (201-17, 21, 24, 26, 28, 30, 32, 34, 36, 6F Formosa Plastic building). The total contract price amounted to NT$478,698 thousand, which was based on the value appraised by a professional appraised company, and the Company should pay NT$159,566 thousand. The ownership of the buildings and land has been transferred to the Company on August 20, 2002. The Company had paid off the amount according to the contract.

(e) The Company sold machinery and equipments to Formosa BP Chemicals Corp. in December 2002. The contract price was US$22,821 thousand (equivalent to NT$784,228 thousand). According to the contract, the machinery and equipments should be transferred to Formosa BP Chemicals in three months after the contract date. Formosa BP Chemicals Corp. paid all amount according to the contract in July 2003.

(f) The Company sold machinery and equipments to Formosa Industries Co. in 2003. The contract price was NT$120,167 thousand. Formosa Industries Corp. had paid off according to the contract as of December 31, 2003. The Company sold supplies to Formosa Industries Co. in 2003. The total selling price was NT$465,439 thousand, and the Company had not received any payment at the end of December 2003.

(g) The Company has signed a contract with Nan Ya plastics Corp. to sell land located in Lin-Ko industrial area on December 3, 2003. The total contract price amounted to NT$5,261 thousand and the gain resulted from the transaction amounted to NT$3,553 thousand, which equals the contract price deducting the cost of land and related taxes. According to the contract, the Company had received NT$3,680 thousand, and the remaining amount equivalent to NT$1,581 thousand had not been collected at the end of December 31, 2003.

(h) The Company sold land three parcels of to Chang Gung Memorial Hospital located in Tao-yuan County on December 16, 2003. The total contract price amounted to NT$17,872 thousand and the gain resulted from the transaction amounted to NT$1,533 thousand, which equals the contract price deducting the cost of land and related taxes. The balance of NT$17,872 thousand was still outstanding as of December 31, 2003 and recorded as “Other receivable”.

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F. *Endorsements and guarantees*

The Company's endorsements of the notes and guarantees of the loans for December 31, 2001, 2002 and 2003 were as follows:

	New Taiwan Dollars			US Dollars
	2001	2002	2003	2003
Formosa Chemicals & Fibre (Nan Tong) Corp.	$ 97,312	$ —	$ —	$ —
Formosa BP Chemicals Corp.	—	—	2,205,566	64,889
Mai-Liao Power Corp.	6,172,500	7,422,500	7,422,500	218,373
Mai-Liao Harbor Administration Corp.	2,098,426	2,098,426	2,098,426	61,736
Formosa Industries Co.	—	—	2,792,940	82,169
	$ 8,368,238	$ 9,520,926	$ 14,519,432	$ 427,167

G. *Donations*

The donations made by the Company to related parties in 2001, 2002 and 2003 were as follows:

	New Taiwan Dollars			US Dollars
	2001	2002	2003	2003
Ming-Chi Institute of Technology	$ 3,001	$ 2,492	$ 1,889	$ 56
Ming De Foundation	8,414	2,910	—	—
Chang Gung College	4,736	4,115	—	—
	$ 16,151	$ 9,517	$ 1,889	$ 56

H. *Rental income*

The rental incomes from related parties as of December 31,2001, 2002 and 2003 were as follows:

	New Taiwan Dollars			US Dollars
	2001	2002	2003	2003
Nan Ya Plastics Corp.	$ 40,075	$ 36,417	$ 20,384	$ 600
Formosa plastics Corp.	14,694	—	—	—
Chang Gung Memorial Hospital.	16,477	17,039	16,819	495
Formosa BP Chemicals Corp.	—	—	19,720	580
Formosa Petrochemical Corp.	14,686	44,745	32,439	954
Others	30,679	25,572	23,781	700
	$ 116,611	$ 123,773	$ 113,143	$ 3,329

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

6. MORTGAGED AND PLEDGED ASSETS

As of December 31, 2001, 2002 and 2003, the net book values of mortgaged and pledged assets provided to financial institutions as the collateral for loan were as follows:

	New Taiwan Dollars			US Dollars
	December 31			December 31
	2001	2002	2003	2003
Other financial assets — current	$ 159,324	$ 148,918	$ 140,544	$ 4,135
Long-term equity investment	22,827,956	25,041,615	14,812,277	435,783
Property, plant and equipment, net	36,089,065	44,583,246	45,634,269	1,342,579
Other financial assets — non-current	347,525	325,525	306,450	9,016
	$ 59,423,870	$ 70,099,304	$ 60,893,540	$ 1,791,513

7. COMMITMENTS AND CONTINGENCIES

Summaries of commitments and contingencies as of December 31, 2001, 2002 and 2003 were as follows:

(1) The outstanding letters of credit for the major raw materials amounted to NT$2,376,064 thousand, NT$1,574,499 thousand, and NT$2,083,162 thousand as of December 31, 2001, 2002 and 2003, respectively.

(2) Endorsements for related-parties were described in Note 5.

(3) Formosa ABS Plastic (Ningbo) Limited Co. and Formosa Power (Ningbo) Limited Co. borrowed seven years long-term loan from Citibank, which was the arranger, for US$79,000 thousand and US$47,000 thousand on May 26, 2003, respectively. The Company made a promise to Citibank to support the borrowers in completing the building of factories and to help them in settling the loans.

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

8. OTHERS

A. Derivatives financial instrument and disclosure of financial instrument

(1) *Derivatives financial instruments*

The Company undertakes Interest Rate Swap (hereafter named IRS), BCross Currency Swap (hereafter named CCS) and Foreign Exchange Forward (hereafter named DF) contracts for hedging purposes. The contracts were entered into for the purposes of hedging the fluctuation on floating interest rates and exchange rates for the sixth Naphtha Cracker Project syndicate loan and the fifth, the sixth and the first of 2003 corporate bonds payable.

(a) *Contract amount and credit risk*

As of December 31, 2001, 2002 and 2003, the details of unexpired IRS, CCS and DF contracts were summarized as follows:

	December 31					
	2001		2002		2003	
Financial commodities	Contract amount (Nominal amount)	Credit	Contract amount (Nominal amount)	Credit	Contract amount (Nominal amount)	Credit
IRS	US$ 70,000	—	US$ 70,000	—	US$ —	—
IRS	NT$ —	—	NT$ 14,450,000	—	NT$ 31,773,077	—
CCS	US$ 114,000	—	US$ 96,462	—	US$ 78,923	—
DF	US$ 6,500	—	US$ 5,500	—	US$ 4,500	—

The Company believes that the possibility of loss incurred from breaches of contracts is minimal due to the fact that all the contracted foreign banks have good reputations.

(b) *Risk of market price*

The risk of market price is not material because the gain and loss due from the fluctuation of interest rate and exchange rates of the contracts will be offset by the gain and loss due from the hedged items.

(c) *Risk of liquidation and cash flow. The demand of cash amount, timing and uncertainty in the future.*

Because of the CCS and DF contracts, the Company proposes to have cash inflow of US$9,269 thousand and cash outflow of NT$303,888 thousand semi-annually starting from March 2002. The Company's working capital is sufficiency to afford that cash outflow, therefore it has no risk on financing. Also the interest rate of IRS and CCS contracts are confirmed, and there won't be material risk for cash flow.

(d) *The types of derivatives financial instruments the Company holds, the purpose of holding them and the strategy to accomplish the goal.*

(1) As of December 31, 2003, the Company had unexpired interest rate swap contracts with a total principle amount of US$70,000 thousand and NT$18,023,077 thousand, due on September 23, 2003 and December 27, 2008, respectively. The Company entered into the contracts for the purposes of hedging the fluctuation on floating interest rates for the sixth Naphtha Cracker Project syndicate loan. According to the contract with a principal amount of NT$18,023,077 thousand, the Company paid interests to the counter parties based on a fixed rate ranging from 1.16%~3.69% and collected interests from the counter parties based on the floating rates of each contracts in every three months. The nominal amount of NT$2,500,000 thousand shall be decrease in every six months with an amount of NT$192,308 thousand from January 10, 2002 to December 27, 2008.

(2) As of December 31,2003, the Company had unexpired interest rate swap contracts with a total principal amount of NT$13,750,000 thousand from July 2002 to July 2009. The Company entered into the contracts for the purposes of hedging the fluctuation on floating interest rates for the fifth, sixth and the first of 2003 corporate bonds payable. According to the contract, the Company paid interests to the counter parties based on a fixed rate ranging from 1.58% to 3.99%, and collected interests from the counter parties based on floating rate of each contracts in every six months.

(3) As of December 31,2003, the Company had unexpired cross currency swap contracts with a total principal amount of US$78,923 thousand from May 2001 to March 2008. The Company entered into the contracts for the purposes of hedging the fluctuation on floating interest rates and exchange rates for the sixth Naphtha Cracker Project syndicate loan. According to the contract, the Company paid interests and principle to the counter parties based on a fixed interest rate of 5% and fixed exchange rate of US dollars , and collected interests and principal from the counter parties based on a flexible Singapore inter-bank offered rate (SIBOR) and floating exchange rate every six months from March 2002 to March 2008.

(4) As of December 31, 2003, the Company had unexpired foreign exchange forward cross contracts with a total principal amount of US$4,500 thousand, due from July 2001 to March 2008. The contracts were entered into for the purposes of hedging the fluctuation on exchange rates for the sixth Naphtha Cracker Project syndicate loan. According to the contract, the Company paid fixed principal of NT$16,189 thousand to the counter parties, and collected US$500 thousand from the counter parties every six months from March 2002 to March 2008.

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

(5) The Company's goal for its hedging strategy is to hedge most of the market price risk. The Company chooses the financial derivatives, which have high non-relation with the change in fair value of hedged items, as hedging instrument, and performs evaluation periodically.

(e) *The presentation method of derivatives financial instruments in preparing financial statements*

The net balances of forward exchange contracts receivables and forward exchange contracts payments which were due from CCS contracts and DF contracts are booked as non-current asset or non-current liability. The exchange loss or gain of forward exchange contracts receivables that is valued by spot exchange rate on balance date is accounted for non-operating income or non-operating expense in the year. Premium or discount of forward exchange contracts is amortized over the contract period as non-operating income in the year. The ending balance on premium or discount of forward exchange contract is adjusted to the net amount of forward exchange contract receivables and payments. As of December 31, 2003 and 2002, the net amounts of forward exchange receivable were NT$99,558 thousand and NT$200,702 thousand, respectively. As of December 31, 2003 and 2002, the amounts of discount of forward exchange contracts were NT$65,615 thousand and NT$98,550 thousand, respectively. As of December 31, 2003 and 2002, the net assets of forward exchange contracts were NT$33,942 thousand and NT$102,152 thousand, respectively. At the years ended December 31, 2003 and 2002, net exchange loss due from the valuation of forward exchange contracts were NT$65,960 thousand and NT$38,440 thousands respectively. At the years ended December 31, 2003 and 2002, the amounts of non-operating income-others due from amortized discount of forward exchange contracts were NT$32,934 thousand and NT$39,433 thousand, respectively.

The interest income and interest expenses due from CCS and IRS transactions in year 2002 and 2003 were as follows:

	2002		2003	
Financial commodities	**Interest income**	**Interest expenses**	**Interest income**	**Interest expenses**
CCS	NT$ 108,171 (US$ 3,119)	NT$ 219,084	NT$ 42,282 (US$ 1,226)	NT$ 143,100
IRS	—	NT$ 126,702	—	NT$ 31,218

As of December 31, 2002, the nominal amount of CCS and DF contracts was US$101,962 thousand, was equal to the original nominal amount of US$120,500 thousand deducting US$18,538 thousand. According to the CCS and DF contracts, the Company paid the counter parties NT$607,776 thousand and received US$18,538 thousand (equivalent NT$647,604 thousand) from the counter parties, the net cash inflow from the transaction was NT$39,828 thousand for the year ended December 31, 2002.

As of December 31, 2003, the nominal amount of CCS and DF contracts was US$83,423 thousand, equal to the original nominal amount of US$101,962 thousand deducting US$18,538 thousand. According to the CCS and DF contracts, the Company paid the counter parties NT$607,776 thousand and received US$18,538 thousand (equivalent NT$635,155 thousand) from the counter parties, the net cash inflow from the transaction was NT$27,380 thousand for the year ended December 31, 2003.

(2) ***Fair value of financial instruments***

The methods and assumption that the Company used to estimate the fair value of financial instruments are summarized as follows:

(a) Because the maturity dates of short-term financial instruments are within one year from the balance sheet date, their book value is equal to their fair value. The Company used its book value to evaluate the fair value of short-term financial instruments including cash and cash equivalents, notes and accounts receivable/payable, due to banks, other short-term loans, current portions of long-term banks loans, bonds payable and long-term notes payable, accrued expenses, other receivable/payable, guarantee deposited paid/received and dues from/to related parties.

(b) The market price is the fair value of marketable securities if an open market exists whereas other financial methodologies are used in estimating the fair value of securities without an existing trading market.

(c) The discounted present value of anticipated cash flows is the fair value of long-term bank loans, long-term notes payable and corporate bonds payable. The applied discounting rates are based on the proposed interest rates of the assumed long-term loans with terms similar to those of the Company's existing long-term liabilities. But if the interest rates of loans are floating, their book value is equal to their fair value.

(d) The fair value of derivative financial instruments is the anticipated cash payment/received amount assumed the Company obeys terms of the contract to close the contracts on balance sheet date. If the Company close the contract, then they should resign contract to make sure the amount they can receive and pay. But the Company will not close contract, thus the fair value of derivative financial instruments is the book value.

As of December 31, 2003, the fair values of non-derivative financial instruments approximated to their book values, except that the fair values of short-term investments (book value of NT$6,678,689 thousand), other financial assets-current (book value of NT$140,544 thousand), long-term investments (book value of NT$69,320,349 thousand) and other financial assets-non-current (book value of NT$306,450thousand) were estimated to be NT$26,252,968 thousand, NT$1,101,119 thousand, NT$69,477,203 thousand and NT$2,269,482 thousand, respectively.

(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

(3) ***Off-balance risk of non-derivative financial instruments:*** none.

(4) Non-derivative financial instruments with highly concentration on credit risk were as follows:

The individual balances of notes receivable and accounts receivables are over five percent of the respective balances as of December 31, 2001, 2002 and 2003 were as follows:

	2001		2002		2003	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Notes receivable	$ 220,708	34	$ 385,398	45	$ 487,065	52
Accounts receivable	$ 2,018,369	44	$ 3,323,192	48	$ 4,188,482	58

B. Reclassifications

Certain items in the 2001, 2002 financial statements have been reclassified in conformity with the 2003 financial presentation. The reclassifications have no material effect on the financial statement.

9. INDUSTRY SEGMENTS INFORMATION

A. Information about operations in different industry segments in 2001, 2002 and 2003 were summarized as follows:

	New Taiwan Dollars 2001								
	Chem. 1	**Chem. 2**	**Chem. 3**	**Plastic**	**Textile**	**Nylon**	**Others**	**Adjustments and eliminations**	**Total**
Revenue from outside clients	$5,168,368	12,891,179	13,964,216	14,889,261	5,510,624	9,448,100	5,665,028	—	67,536,776
Inter-segment sales revenue	563,935	14,731,960	6,645	180,380	3,196	1,108,901	3,280,174	(19,875,191)	—
Total revenue	$5,732,303	27,623,139	13,970,861	15,069,641	5,513,820	10,557,001	8,945,202	(19,875,191)	67,536,776
Departmental income	$ 33,154	1,092,556	566,543	370,128	(151,250)	10,620	2,218,931	(298,198)	3,842,484
Investment income									3,324,208
General corporate income									668,395
General corporate expense									(189,770)
Interest expense									(3,035,696)
Income from continuing operations before income taxes									$ 4,609,621
Identifiable assets at the end of the year	$5,217,429	29,121,981	19,638,758	10,205,303	5,718,444	10,819,936	10,917,168	—	91,639,019
Long-term equity investment									56,553,769
Other assets									33,819,274
Total assets at the end of the year									$182,012,062
Depreciation and amortization	$ 231,126	1,796,593	832,203	821,497	263,302	965,468	724,531	184,350	$ 5,819,070
Capital expenditure (addition to fixed assets)	$ 145,465	1,070,132	4,276,639	502,266	—	—	3,845,446	4,425,477	$ 14,765,425

FORMOSA CHEMICALS & FIBRE CORPORATION

NOTES TO FINANCIAL STATEMENTS — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(All amounts expressed in thousands of dollars
except earnings per share information or unless otherwise stated)

	New Taiwan Dollars 2002							
	Chem. 1	Chem. 2	Chem. 3	Plastic	Nylon	Others	Adjustments and eliminations	Total
Revenue from outside clients	$6,651,582	16,427,433	21,565,743	20,143,941	10,804,847	11,279,503	—	86,873,049
Inter-segment sales revenue	516,352	16,690,207	15,665	185,517	958,455	4,294,025	(22,660,221)	—
Total revenue	$7,167,934	33,117,640	21,581,408	20,329,458	11,763,302	15,573,528	(22,660,221)	86,873,049
Departmental income	$ 222,366	2,791,884	2,394,993	1,336,267	491,676	2,135,744	(444,350)	8,928,580
Investment income								5,572,528
General corporate income								788,686
General corporate expense								(11,744)
Interest expense								(2,766,640)
Income from continuing operations before income taxes								$ 12,511,410
Identifiable assets at the end of the year	$3,733,650	29,157,753	19,787,259	16,015,087	8,360,535	14,837,036	—	91,891,320
Long-term equity investment								62,394,939
Other assets								30,761,672
Total assets at the end of the year								$185,047,931
Depreciation and amortization	$ 203,910	1,837,154	1,121,736	917,612	848,589	993,011	196,064	$ 6,118,076
Capital expenditure (addition to fixed assets)	$ —	—		4,967,066	—	—	(881,104)	$ 4,085,962

	New Taiwan Dollars 2003							
	Chem. 1	Chem. 2	Chem. 3	Plastic	Nylon	Others	Adjustments and eliminations	Total
Revenue from outside clients	$7,000,360	21,149,829	26,961,596	28,316,272	12,257,490	10,735,824	—	106,421,371
Inter-segment sales revenue	668,509	25,867,131	16,761	230,519	735,585	4,406,184	(31,924,689)	—
Total revenue	$7,668,869	47,016,960	26,978,357	28,546,791	12,993,075	15,142,008	(31,924,689)	106,421,371
Departmental income	$ 110,875	7,152,961	2,683,754	1,590,046	386,939	2,086,178	(442,583)	13,568,170
Investment income								8,464,247
General corporate income								892,917
General corporate expense								(29,563)
Interest expense								(2,248,033)
Income from continuing operations before income taxes								$ 20,647,738
Identifiable assets at the end of the year	$3,462,400	27,476,360	20,343,515	20,383,545	8,034,874	14,526,532	—	94,227,226
Long-term equity investment								69,320,349
Other assets								23,461,690
Total assets at the end of the year								$187,009,265
Depreciation and amortization	$ 190,381	1,857,152	1,203,601	1,519,421	704,123	909,011	196,127	$ 6,579,816
Capital expenditure (addition to fixed assets)	$ 37,316	—	—	3,351,189	—	—	(962,192)	$ 2,426,313

FORMOSA CHEMICALS & FIBRE CORPORATION

NOTES TO FINANCIAL STATEMENTS — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003
(All amounts expressed in thousands of dollars except earnings per share information or unless otherwise stated)

	US Dollars							
	2003							
	Chem. 1	Chem. 2	Chem. 3	Plastic	Nylon	Others	Adjustments and eliminations	Total
Revenue from outside clients	$ 205,954	622,237	793,221	833,077	360,620	315,852	—	3,131,961
Inter-segment sales revenue	19,668	761,022	493	6,782	21,641	129,632	(939,238)	—
Total revenue	$ 225,621	1,383,259	793,715	839,859	382,262	445,484	(939,238)	3,130,961
Operating income	$ 3,262	210,443	78,957	46,780	11,384	61,376	(13,021)	399,182
Investment income								248,922
General corporate income								26,369
General corporate expense								(870)
Interest expense								(66,138)
Income from continuing operations before income taxes								$ 607,465
Identifiable assets at the end of the year	$ 101,865	808,366	598,515	599,692	236,389	427,377	—	2,772,204
Long-term equity investment								2,039,434
Other assets								690,253
Total assets at the end of the year								$ 5,501,891
Depreciation and amortization	$ 5,601	54,639	35,410	44,702	20,716	26,743	5,770	$ 193,581
Capital expenditure (addition to fixed assets)	$ 1,098	—	—	98,593	—	—	(28,308)	$ 71,383

B. Geographic area information

The Company does not have any overseas branch offices or divisions.

C. Export sales

Export sales for 2001, 2002 and 2003 were summarized as follows:

	New Taiwan Dollars			US Dollars
Geographic area	2001	2002	2003	2003
Asia areas	$ 22,391,382	$ 33,534,018	$ 41,480,795	$ 1,220,382
Other areas	1,311,649	1,331,916	1,451,584	42,706
	$ 23,703,031	$ 34,865,934	$ 42,932,379	$ 1,263,088

D. Major customers

When ten percent or more of the operating revenue of the Company is derived from one customer, such a customer is considered a major customer. The amount generated from the only major customer is Nan Ya Plastics Corp., and the operating revenue derived from the sales to Nan Ya Plastics Corp., amounted to NT$12,675,586 thousand, NT$16,679,466 thousand and NT$20,227,966 thousand for 2001, 2002 and 2003, respectively.

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APPENDIX A — FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC

Foreign Investment and Exchange Controls in the ROC

The information presented in this section has been extracted from publicly available documents, such as statistical data and information published by the ROC SFC and the TSE, which have not been prepared or independently verified by the Issuers, the Purchasers or any of their respective affiliates or advisors in connection with this Offering. The Issuers only accept responsibility for correctly reproducing such information.

Foreign investment

Historically, foreign investment in the ROC securities markets has been restricted. Since 1983, the ROC government has periodically enacted legislation and adopted regulations to permit foreign investment in the ROC securities market.

On September 30, 2003, the Executive Yuan approved the amendment to Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals (the "Regulations"), which took effect on October 2, 2003. According to the Regulations, the ROC SFC abolished the mechanism of the so-called "qualified foreign institutional investors" and "general foreign investors" as stipulated in the Regulations before the amendment.

Under the Regulations, foreign investors are classified as either "onshore foreign investors" and "offshore foreign investors" according to their respective geographical location. Both onshore and offshore foreign investors are allowed to invest in ROC securities after they register with the TSE. The Regulations further classify foreign investors into foreign institutional investors and foreign individual investors. "Foreign institutional investors" refer to those investors incorporated and registered in accordance with foreign laws outside of the ROC (i.e., offshore foreign institutional investors) or their branches set up and recognized within the ROC (i.e., onshore foreign institutional investors). Offshore foreign institutional investors are required to apply for an approval from the CBC, in addition to the registration with the TSE. Offshore overseas Chinese and foreign individual investors are not required to apply for CBC approval, but are subject to a maximum investment ceiling that will be separately determined by the ROC SFC after consultation with the CBC. On the other hand, foreign institutional investors are not subject to any ceiling for investment in the ROC securities market.

Depositary receipts

In April 1992, the ROC SFC enacted regulations permitting ROC companies with securities listed on the TSE, with the prior approval of the ROC SFC, to sponsor the issue and sale to foreign investors of depositary receipts. Depositary receipts represent deposited shares of ROC companies. In December 1994, the Ministry of Finance allowed companies whose shares are traded on the GTSM or listed on the TSE, upon approval of the ROC SFC, to sponsor the issue and sale of depositary receipts.

A holder of depositary receipts (other than citizens of the PRC and entities organized under the laws of the PRC) may withdraw shares and cause the depositary to either sell the underlying shares and distribute the sale proceeds to the holder or to transfer the underlying shares to the holder after the issuance of the depositary receipts representing new shares or previously issued to the extent permitted under the deposit agreement (in practice, typically four to seven business days thereafter).

Under existing laws and regulations relating to foreign exchange control, a depositary or a holder of depositary receipts may, without obtaining further approvals from the CBC or any other governmental authority or agency of the ROC, convert NT Dollars into other currencies, including

U.S. Dollars, in respect of the following: proceeds of the sale of shares represented by depositary receipts, proceeds of the sale of shares received as stock dividends and deposited into the depositary receipt facility and any cash dividends or cash distributions received. In addition, a depositary, also without any of these approvals, may convert inward remittances of payments into NT Dollars for purchases of underlying shares for deposit into the depositary receipt facility against the creation of additional depositary receipts. A depositary may be required to obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT Dollars into other currencies relating to the sale of subscription rights for new shares. Proceeds from the sale of any underlying shares by holders of depositary receipts withdrawn from the depositary receipt facility may be converted into other currencies without obtaining CBC approval. Proceeds from the sale of the underlying shares withdrawn from the depositary receipt facility may be used for reinvestment in the TSE or the GTSM.

Under current ROC laws, a non-ROC holder of depositary receipts, when withdrawing the depositary receipts, will be required to register with the TSE and appoint a local agent (with such qualifications as are set by the ROC SFC) to open a securities trading account with a local brokerage firm, remit funds, exercise rights relating to the securities and perform such other matters as may be designated by such holder of depositary receipts on behalf of and as an agent for such holder of depositary receipts. Any such holder of depositary receipts is also required to appoint a custodian bank to hold the securities and any cash proceeds in safekeeping, to make confirmations, to settle trades and to report all relevant information. In addition, such holder of depositary receipts is required to appoint a tax guarantor for filing tax returns and making tax payments.

Overseas corporate bonds

Since 1989, the ROC SFC has approved a series of overseas bonds issued by ROC companies listed on the TSE in offerings outside the ROC. Under current ROC law, such overseas corporate bonds can be (i) converted by bondholders, other than persons of the PRC, into shares of ROC companies or (ii) subject to ROC SFC approval, may be converted into depositary receipts issued by the same ROC company or by the issuing company of the exchange shares, in the case of exchangeable bonds. The relevant regulations also permit public issuing companies to issue corporate debt in offerings outside the ROC. Proceeds from the sale of the shares converted from overseas convertible bonds may be used for reinvestment in securities listed on the TSE or traded on the GTSM.

Under current ROC law, a non-ROC converting bondholder, when exercising his conversion right to convert bonds into common shares, is required to register with the TSE and appoint a local agent (with such qualifications as are set by the ROC SFC) to open a securities trading account with a local brokerage firm, make confirmations and settlement, remit funds, exercise rights relating to the securities and perform such other matters as may be designated by such converting bondholder on behalf of and as agent for such converting bondholder. Also, any such converting bondholder is also required to appoint a custodian bank to hold the securities and any cash proceeds in safekeeping, to make confirmations, to settle trades and to report all relevant information. In addition, such converting bondholder is required to appoint a tax guarantor for filing tax returns and making tax payments.

Unless otherwise limited by the CBC, an ROC company may, without obtaining further approvals from the CBC or any other government authority of the ROC, convert NT Dollars to other non-ROC currencies, including U.S. Dollars, for making payments in respect of redemption of the bonds or repayment of principal of and interest on the bonds. A non-ROC converting bondholder may, through its local agent and without obtaining prior approval from the CBC, convert into foreign currencies net proceeds realized from the sale of converted entitlement certificates, common shares or any stock dividends relating to such shares, or any cash dividend or other cash distribution in respect of such common shares.

Other foreign investment

In addition to investments permitted under the Regulations, foreign investors (other than foreign investors who have registered with the TSE for making investments in the ROC securities market) who wish to make direct investments in the shares of ROC companies are required to submit a Foreign Investment Approval application to the Investment Commission of the ROC Ministry of Economic Affairs or other government authority. The Investment Commission or such other government authority reviews each Foreign Investment Approval application and approves or disapproves each application after consultation with other governmental agencies (such as the CBC and the ROC SFC).

Under current law, any non-ROC person possessing a Foreign Investment Approval may remit capital for the approved investment and is entitled to repatriate annual net profits, interest and cash dividends attributable to such investment. Dividends attributable to such investment may be repatriated upon submitting certain required documents to the remitting bank, and investment capital and capital gains attributable to such investment may be repatriated after approvals of the Investment Commission or other authorities have been obtained.

In addition to the general restriction against direct investment by non-ROC persons in securities of ROC companies, non-ROC persons (except in certain limited cases) are currently prohibited from investing in certain industries in the ROC pursuant to a Negative List, as amended by the Executive Yuan. The prohibition on foreign investment in the prohibited industries specified in the Negative List is absolute in the absence of specific exemption from the application of the Negative List. Pursuant to the Negative List, certain industries such us are restricted so that non-ROC persons (except in certain limited cases) may invest in such industries only up to a specified level and with the specific approval of the relevant competent authority which is responsible for enforcing the relevant legislation which the Negative List is intended to implement.

Exchange controls

The Foreign Exchange Control Statute and regulations provide that all foreign exchange transactions must be executed by banks designated to handle such business, by the Ministry of Finance and by the CBC. Current regulations favor trade-related foreign exchange transactions and Foreign Investment Approval investments. Consequently, foreign currency earned from exports of merchandise and services may now be retained and used freely by exporters, and all foreign currency needed for the importation of merchandise and services may be purchased freely from the designed foreign exchange banks.

Trade aside, ROC companies and resident individuals may, without foreign exchange approval, remit outside the ROC foreign currency of up to U.S.$50,000,000 (or its equivalent) and U.S.$5,000,000 (or its equivalent) respectively in each calendar year. In addition, ROC companies and resident individuals may, without foreign exchange approval, remit into the ROC foreign currency of up to U.S.$50,000,000 (or its equivalent) and U.S.$5,000,000 (or its equivalent) respectively in each calendar year. Furthermore, any remittance of foreign currency into the ROC by an ROC company or resident individual in a year will be offset by the amount remitted out of the ROC by the company or individual (as applicable) within its annual quota and will not use up its annual inward remittance quota to the extent of such offset. The above limits apply to remittances involving a conversion of NT Dollars to a foreign currency and vice versa. A requirement is also imposed on all enterprises to register medium- and long-term foreign debt with the CBC.

In addition, foreign persons, may, subject to certain requirements, but without foreign exchange approval of the CBC, remit outside and into the ROC foreign currencies of up to U.S.$100,000 (or its equivalent) for each remittance. The above limit applies to remittances involving a conversion of NT Dollars to a foreign currency and vice versa.

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APPENDIX B — THE SECURITIES MARKET IN THE ROC

The information presented in this section has been extracted from publicly available documents, such as statistical data and information published by the ROC SFC and the TSE, which have not been prepared or independently verified by the Issuers, the Purchasers or any of their respective affiliates or advisors in connection with this Offering. The Issuers only accept responsibility for correctly reproducing such information.

The Taiwan Stock Exchange

In 1961, the TSE was established to provide a marketplace for securities trading. The TSE is a corporation owned by government controlled and private banks and enterprises. The TSE is independent of entities transacting business through it, each of which pays a user's fee. Generally, all transactions in listed securities by brokers, traders and integrated securities firms must be made through the TSE.

The TSE commenced operations in 1962. During the early 1980s, the ROC SFC actively encouraged new listings on the TSE and the number of listed companies grew from 119 in 1983 to 672 as of May 30, 2004. As of June 28, 2004, the total market capitalization of all the companies listed on the TSE was approximately NT$12.53 trillion.

Historically, ROC companies have listed only shares and notes on the TSE. However, the ROC SFC has encouraged companies to list other types of securities. In 1988, the ROC SFC permitted the issuance of Taiwan's first convertible notes. Since 1989, there have been offerings of domestic convertible notes and convertible preferred shares. In addition, beneficiary units evidencing beneficiary interests in closed end investment funds and bonds issued by super-national institutions are also listed on the TSE or traded on the Gre Tai Securities Market. The ROC SFC also has regulations which permit foreign issuers to list their equity securities directly on the TSE or through the use of depositary receipts. To date, five foreign issuers have listed their equity securities on the TSE through the use of depositary receipts in accordance with these regulations.

The TSE has established specific requirements for listing based on the number and distribution of a company's stockholders, years in existence, amount of capital, profitability and capital structure. For a company to be listed, it must have been established for at least five fiscal years, have paid-in capital of at least NT$600 million upon the application for listing and have at least 1,000 registered stockholders, including not fewer than 500 stockholders holding between 1,000 and 50,000 shares each. These 500 or more stockholders must together hold either at least 20% of the outstanding shares or at least 10 million shares. The company may not have an accumulated deficit for the previous fiscal year, and the pre-tax net income and the operating income of the company must meet any of the following requirements: (1) having exceeded 6% of paid-in capital for each of the previous two fiscal years or having exceeded 6% in average of the paid-in capital for the previous two fiscal years with the profitability of the most recent fiscal year being higher than that of the preceding fiscal year; or (2) having been no less than 3% of the paid-in capital for each of the previous five fiscal years.

However, special listing criteria apply to technology companies and key businesses engaging in national economic development.

TSE Index

The TSE Index is calculated on the basis of a wide selection of listed shares weighted according to the number of shares outstanding. This weighted average method is also used for the Standard and Poor's Index in the United States and the Nikkei Stock Average in Japan. The TSE Index is compiled by dividing the market value by the base day's total market value for the index shares. The TSE Index is the oldest and most widely quoted market index in Taiwan.

The weighting of shares in the index is fixed as long as the number of shares outstanding remains constant. When the total number of shares outstanding changes, the weight of each stock is adjusted. Stock splits and stock dividends are adjusted automatically. Cash dividends are not included in the calculation.

The following table sets forth, for the periods indicated, information relating to the TSE Index.

Period Ended December 31,	Number of Listed Companies at the Period End	Total Market value at Period End	Trading Index at		
			Index High	Index Low	Period End
		NT$ (in billions)			
1990	199	2,681.9	12,495.34	2,560.47	4,530.16
1991	221	3,284.0	6,305.22	3,316.26	4,600.67
1992	256	2,545.5	5,391.63	3,327.67	3,377.06
1993	285	5,145.4	6,070.56	3,135.56	6,070.56
1994	313	6,504.4	7,183.75	5,194.63	7,124.66
1995	347	5,108.4	7,051.49	4,503.37	5,173.73
1996	382	7,528.9	6,982.81	4,690.22	6,933.94
1997	404	9,696.1	10,116.84	6,820.35	8,187.27
1998	437	8,392.6	9,277.09	6,251.38	6,418.43
1999	462	11,803.5	8,608.91	5,474.79	8,448.84
2000	531	8,191.5	10,202.20	4,614.63	4,739.09
2001	584	10,247.6	6,104.24	3,446.26	5,551.24
2002	638	9,094.9	6,462.30	3,850.04	4,452.45
2003	669	12,869.1	6,142.32	4,139.50	5,890.69
2004 (until June 28, 2004)	672	12,533.0	7,034.10	5,482.96	5,709.84

Source: Taiwan Stock Exchange.

As indicated above, the performance of the TSE has in recent years been characterized by extreme price volatility.

Price Limits, Commissions, Transaction Tax and Other Matters

The TSE has placed limits on block trading and on the range of daily price movements. Fluctuations in the price of securities traded on the TSE is restricted to 7 per cent. above and below the previous day's closing price in the case of equity securities, and 5 per cent. in the case of debt securities. The price limit for movements below the previous day's closing price has been modified from time to time by MOF based on market conditions.

Effective July 1, 2000, brokerage commission can be set at any rate not exceeding 0.1425 per cent. of the transaction price subject to reporting to the TSE.

A securities transaction tax of 0.3 per cent. of the transaction price is payable by the seller of equity securities. These securities transaction taxes are withheld at the time of the transaction. According to the amended ROC Statute of Upgrading Industries, which became effective on February 1, 2002, no securities transaction tax will be imposed on the transfer of corporate notes and financial debentures (including the Notes) until December 31, 2009.

Sales of shares of listed companies on the TSE are generally sold in "round lots" of 1,000 shares. Investors who desire to sell less than 1,000 shares of a listed company occasionally experience delays in making these sales. Transactions that involve 500 trading lots (500,000 shares) or more must be registered and executed in accordance with TSE guidelines.

Regulation and Supervision

The ROC SFC has extensive regulatory authority over public companies. Public companies are generally required to obtain approval from, or registration with, the ROC SFC for all securities offerings. The ROC SFC requires periodic reporting of financial and operating information by all public companies. In addition, the ROC SFC establishes standards for financial reporting and carries out licensing and supervision of participants in the Taiwan securities market.

The ROC SFC has responsibility for implementing the ROC Securities and Exchange Law and for overall administration of governmental policies in the Taiwan securities market. It has extensive regulatory authority over the offering, issuance and trading of securities. In addition, the ROC Securities and Exchange Law specifically empowers the ROC SFC to promulgate necessary rules. The ROC Securities and Exchange Law prohibits market manipulation. For example, it permits an issuer to recover short-term trading profits made through purchases and sales within six months by directors, managerial personnel, supervisors, as well as the spouses, minor children and nominees of these parties, and shareholders who (together with their spouses, minor children and nominees) hold 10 per cent. or more of the shares of the issuer. The ROC Securities and Exchange Law prohibits trading by "insiders" based on non-public information that materially affects share price movement. "Insiders" include:

- directors, supervisors, managers, as well as the spouses, minor children and nominees of these parties, and shareholders (together with their spouses, minor children and nominees) who hold 10 per cent. or more of the issuing company's shares;

- any person who has learned material, non public information due to an occupational or controlling relationship with the issuing company; and

- any person who has learned material, non-public information from any of the above.

- Sanctions include imprisonment. In addition, damages may be awarded to persons injured by the transaction.

The ROC Securities and Exchange Law also imposes criminal liability on certified public accountants and lawyers who make false certifications in their examination and audit of an issuer's contracts, reports and other documents related to securities transactions. The ROC SFC regulations require that financial reports of listed companies be audited by accounting firms consisting of at least three certified public accountants and be signed by at least two certified public accountants.

In addition, the ROC Securities and Exchange Law provides for civil liability for material misstatements or omissions made by issuers and regulation of tender offers.

The ROC SFC does not have criminal or civil enforcement powers under the ROC Securities and Exchange Law. Criminal actions may be pursued only by the government prosecutors. Civil actions may only be brought by plaintiffs who assert that they have suffered damages. The ROC SFC is empowered to curb abuses and violations of laws and regulations only through administrative measures including:

- issuance of warnings;

- temporary suspension of operation;

- imposition of administrative fines; and

- revocation of licenses.

In addition to providing a market for securities trading, the TSE reviews applications by Taiwan issuers to list securities on the TSE. If issuers of listed securities violate laws and regulations or encounter extended or severe negative results of operations, the TSE may, with the approval of the ROC SFC, delist securities of these issuers.

APPENDIX C — THE PETROLEUM REFINING INDUSTRY

Except as otherwise indicated, statistical and certain other information contained in the following description is based on or derived from data from the Energy Information Administration, BP Statistical Review of World Energy 2004 and other various publications. The information has not been independently verified by any of the Issuers or any of the Purchasers or any other person. Much of the available information is based on estimates and should therefore be regarded as indicative only and treated with the appropriate caution.

General Industry Overview

The oil and gas industry consists of upstream exploration and production activities, and downstream refining and distribution, marketing and sale of refined petroleum products. The following discussion focuses on refining segment of the industry. Petroleum refining involves in the separation and processing of crude oil to form various intermediate and finished petroleum products.

Demand for refined petroleum products

The demand for refined products has been rising steadily over the past decade. According to "British Petroleum Statistical Review of World Energy for 2004", a report published by British Petroleum, global consumption (excluding the former Soviet Union) rose approximately 20 per cent. over the course of the last decade from 61,151 thousand barrels per day ("tb/d") in 1994 to 73,161 tb/d in 2003.

The following table sets forth global GDP and GDP growth, global refined petroleum product consumption and consumption growth, and refined petroleum products demand elasticity, from 1994 to 2003.

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Global real GDP (U.S.$ billion)	27,853.87	28,658.81	29,584.07	30,637.07	31,333.08	32,278.61	33,592.45	34,033.67	34,702.68	35,571.65
Global real GDP growth (%)	3.5	2.9	3.3	3.6	2.2	3.1	3.9	1.4	1.9	2.7
Petroleum product consumption										
Gasolines (tb/d)	19,553	20,186	20,656	21,461	21,892	22,457	22,605	22,673	23,271	23,543
Middle distillates (tb/d)	21,595	22,475	23,630	24,274	24,412	25,101	25,556	26,069	26,020	26,612
Fuel oil (tb/d)	10,039	9,831	9,829	9,914	9,837	9,558	9,530	9,207	8,838	9,099
Others (tb/d)	12,147	12,386	12,849	13,201	13,226	13,941	14,334	14,528	15,032	15,333
Global petroleum product consumption(1) (tb/d)	63,334	64,878	66,964	68,849	69,367	71,056	72,024	72,478	73,161	74,587
Global petroleum product consumption(1) growth (%)	3.6	2.4	3.2	2.8	0.8	2.4	1.4	0.6	0.9	1.9
Demand elasticity	1.0	0.8	1.0	0.8	0.4	0.8	0.4	0.4	0.5	0.7

Note:
(1) Excludes the former Soviet Union

Source: GDP figures: Economist Intelligence Unit.
Petroleum product consumption figures: BP Statistical Review of World Energy 2004.

Supply of Refined Petroleum Products

Currently, there are approximately 717 operating petroleum refineries in the world, according to the International Energy Agency Oil Market Report. According to BP Statistical Review of World Energy 2004, total global oil refinery capacity in 2003 was approximately 83,658 tb/d and global refinery throughput for 2003 was approximately 71,091 tb/d.

The following tables set forth aggregate refinery capacity and aggregate actual throughput for different regions for the periods indicated:

Refinery Capacities

Geographic region	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Change 2003 over 2002	2003 share of total
					(tb/d*)						%	
Total North America	18,710	18,569	18,703	18,971	19,554	19,822	19,937	20,183	20,143	20,285	0.7	24.2
Total S. & Cent. America	6,011	6,077	6,091	6,376	6,292	6,432	6,463	6,466	6,601	6,631	0.5	7.9
Total Europe & Eurasia	26,522	25,864	25,756	25,659	25,323	24,911	24,827	24,833	25,147	25,257	0.4	30.2
Total Middle East	5,570	5,686	5,772	5,952	6,087	6,316	6,272	6,572	6,724	6,854	1.9	8.2
Total Africa	2,834	2,914	2,991	2,932	2,885	2,987	3,033	3,197	3,284	3,317	1.0	4.0
Asia Pacific												
Australasia	796	818	848	890	916	919	937	931	945	873	(7.6)	1.0
PRC	3,567	4,014	4,226	4,559	4,592	5,401	5,407	5,643	5,479	5,487	0.1	6.6
India	1,072	1,133	1,210	1,236	1,356	2,190	2,219	2,261	2,289	2,333	1.9	2.8
Indonesia	930	990	990	990	1,025	1,048	1,056	1,056	1,056	1,056	—	1.3
Japan	4,862	5,006	5,006	5,056	5,088	5,109	5,029	4,811	4,721	4,683	(0.8)	5.6
Singapore	1,158	1,273	1,245	1,246	1,246	1,246	1,255	1,255	1,255	1,255	—	1.5
South Korea	1,615	1,727	1,917	2,316	2,316	2,316	2,316	2,316	2,316	2,316	—	2.8
Taiwan	570	732	732	732	732	732	732	874	1,159	1,159	—	1.4
Thailand	445	529	777	824	863	872	872	846	848	860	1.4	1.0
Other Asia Pacific	928	1,070	1,089	1,090	1,154	1,233	1,292	1,386	1,351	1,292	(4.4)	1.5
Total Asia Pacific	15,943	17,292	18,040	18,939	19,288	21,066	21,115	21,379	21,419	21,314	(0.5)	25.5
Total World	75,590	76,402	77,353	78,829	79,429	81,534	81,647	82,630	83,318	83,658	0.4	100.0

Note: For the purposes of this table, annual changes and shares of total are calculated using tb/d figures.

* Atmospheric distillation capacity on a calendar-day basis.

Source: BP Statistical Review of World Energy 2004.

Refinery Throughputs

Geographic region	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Change 2003 over 2002	2003 share of total
					(tb/d)						%	
USA	13,866	13,973	14,195	14,662	14,889	14,804	15,067	15,128	14,947	15,303	2.4	21.5
Canada	1,580	1,569	1,644	1,694	1,709	1,714	1,765	1,812	1,862	1,885	1.2	2.7
Mexico	1,459	1,488	1,491	1,438	1,451	1,389	1,364	1,398	1,387	1,436	3.5	2.0
S. & Cent. America	4,617	4,823	4,848	4,920	5,120	5,188	5,366	5,361	4,933	4,933	—	6.9
Europe & Eurasia	19,290	19,150	19,164	19,402	19,645	19,088	19,340	19,618	19,647	20,071	2.2	28.2
Middle East	4,776	5,130	5,477	5,488	5,659	5,698	5,488	5,807	6,107	5,973	(2.2)	8.4
Africa	2,299	2,375	2,393	2,343	2,412	2,343	2,234	2,411	2,451	2,406	(1.8)	3.4
Australasia	786	807	842	872	866	880	851	847	855	815	(4.7)	1.1
PRC	2,548	2,711	2,850	3,084	3,060	3,686	4,218	4,215	4,395	4,871	10.8	6.9
Japan	4,167	4,169	4,168	4,319	4,212	4,149	4,145	4,107	3,986	4,118	3.3	5.8
Other Asia Pacific	6,314	6,822	7,544	8,183	8,010	8,309	8,914	9,054	8,827	9,280	5.1	13.1
Total world	61,702	63,017	64,616	66,405	67,033	67,248	68,752	69,758	69,397	71,091	2.4	100.0

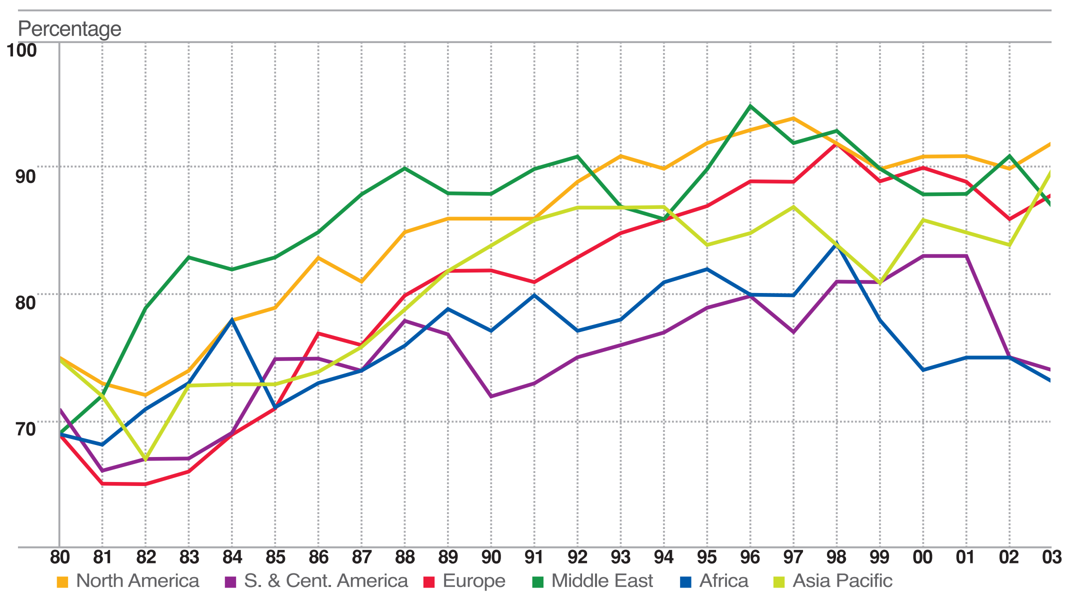
Note: For the purposes of this table, annual changes and shares of total are calculated using tb/d figures.

Source: BP Statistical Review of World Energy 2004.

According to the "Annual Energy Outlook 2004" put out by the U.S. Department of Energy's Energy Information Administration, worldwide refining capacity is expected to increase approximately 53 per cent. from capacity levels in 2002 to more than 125 million barrels per day by 2025. Such report predicts that the Asia Pacific region, which has been the fastest growing region in terms of refining capacity in the past decade, will be the world's largest refining center in 2025.

Refinery Utilization

The graph below sets forth refinery utilization by region for the periods indicated:



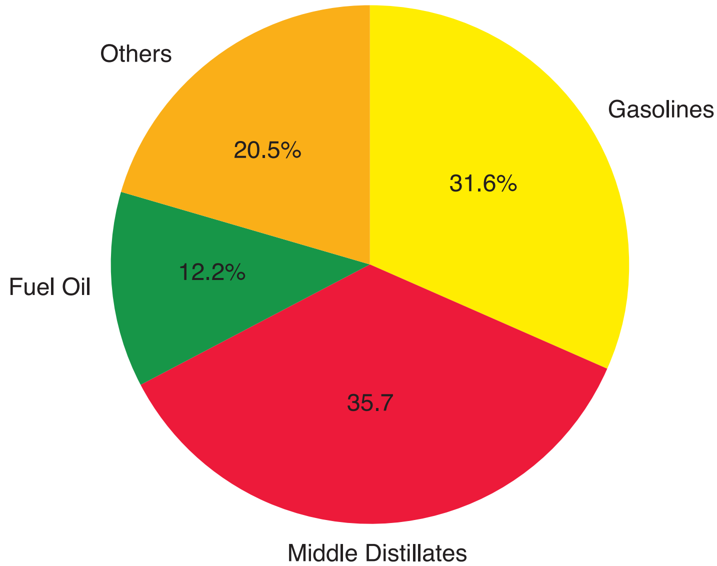
Source: BP Statistical Review of World Energy 2004.

Between 1985 and 2000, average refinery utilization increased from 78.0 per cent. to over 92.0 per cent. Refinery capacity utilization for most regions peaked in the second half of the 1990s. As a result, refiners in Asia were plagued by excess supply. Since then, the refining industry has been undergoing consolidation. Starting in the mid-1990s, the pace of downsizing, restructuring and consolidation accelerated markedly with a wave of mergers, acquisitions, joint venture alliances and selective divestitures aimed at cutting costs. From 1999 to 2002, slower refined petroleum product demand growth resulted in falling utilization rates in most regions. However, in 2003 utilization rates increased in North America, Europe and, in particular Asia Pacific, in which rates reached a new peak.

Refined Petroleum Products

Refined petroleum products include gasolines (such as aviation and motor gasolines and light distillate feedstock), middle distillates (such as of jet, heating kerosenes, gas and diesel oils), fuel oils (such as inland heavy fuel oil, marine bunkers and crude oil used directly as fuel) and certain other products (such as refinery gas, LPG, solvents, petroleum coke, lubricants, bitumen, wax and refinery fuel).

The figure below shows the breakdown of global consumption of refined petroleum products in 2003:



Note: Excludes the former Soviet Union.

Source: BP Statistical Review of World Energy 2004.

Refined Petroleum Product Prices

Refined product prices are a function of a number of factors, including crude oil costs, refining process costs, marketing costs, and taxes. Of these factors, crude oil prices constitute the largest component of refined product prices.

Crude oil prices rose from under U.S.$20 per barrel in the late 1990s to about U.S.$40 per barrel in the second quarter of 2004. According to the Energy Information Administration, such increase was driven in part by concerns about the conflict in Iraq, the situation in Venezuela, greater adherence to export quotas by members of the Organization of Petroleum Exporting Countries (OPEC), and changing views regarding the economics of oil production.

The following table sets forth average spot market prices for different crude oils for the periods indicated.

	Dubai	Brent	Nigerian Forcados	West Texas Intermediate
	U.S.$/bbl	U.S.$/bbl	U.S.$/bbl	U.S.$/bbl(1)
1994	14.74	15.82	16.25	17.21
1995	16.10	17.02	17.26	18.42
1996	18.52	20.67	21.16	22.16
1997	18.23	19.09	19.33	20.61
1998	12.21	12.72	12.62	14.39
1999	17.25	17.97	18.00	19.31
2000	26.20	28.50	28.42	30.37
2001	22.81	24.44	24.23	25.93
2002	23.74	25.02	25.04	26.16
2003	26.78	28.83	28.66	31.06

Note:
(1) Spot WTI (Cushing) prices

Source: BP Statistical Review of World Energy 2004.

Prices for the same refined petroleum product can vary across different jurisdiction. The following table sets forth prices for selected refined petroleum products in different jurisdictions as at the dates indicated:

		Automotive Fuels		Residential Fuels			Industrial Fuels	
Region/Country	Date	Premium Gasoline	Gasoil (Diesel)	Light Fuel Oil	Kerosene	Liquefied Petroleum Gas	Light Fuel Oil	Heavy Fuel Oil
		U.S. Dollars per Gallon					U.S. Dollars per Barrel	
North America								
Canada	1Q/2003	2.24	1.43	1.71	—	—	47.21	36.73
Mexico	1Q/2003	2.31	1.71	—	—	—	42.93	13.77
United States	1Q/2003	1.65	1.49	1.33	1.21	0.57	40.45	31.67
Western Europe								
Austria	1Q/2003	4.05	3.12	1.80	—	—	—	37.09
Belgium	1Q/2003	4.41	3.10	1.43	—	—	49.61	32.33
Denmark	1Q/2003	4.74	3.94	3.34	—	—	76.21	46.56
Finland	1Q/2003	3.56	3.26	2.03	—	—	66.52	44.87
France	1Q/2003	4.74	3.61	1.83	—	—	63.04	44.26
Germany	1Q/2003	4.39	3.46	1.81	—	—	58.16	37.90
Greece	1Q/2003	4.74	3.81	1.65	—	—	59.63	34.63
Ireland	1Q/2003	3.12	2.76	1.51	—	—	53.90	40.97
Italy	1Q/2003	4.41	3.71	3.66	—	—	128.27	41.64
Luxembourg	1Q/2003	3.42	2.76	1.42	—	—	53.35	35.64
Netherlands	1Q/2003	5.04	3.42	2.64	—	—	—	40.91
Norway	1Q/2003	5.33	4.72	3.06	—	—	103.70	78.06
Portugal	1Q/2003	4.14	2.90	—	—	—	—	43.87
Spain	1Q/2003	3.43	2.99	1.76	—	—	63.64	43.69
Sweden	1Q/2003	4.45	3.70	3.25	—	—	56.12	—
Switzerland	1Q/2003	3.86	4.17	1.35	—	—	46.70	34.94
Turkey	1Q/2003	4.18	3.28	3.04	—	—	—	43.52
United Kingdom	1Q/2003	4.95	4.76	1.25	—	—	50.46	39.71
Middle East								
Iran	2002	0.34[(1)]	0.07	0.04	0.07	—	—	—
Kuwait	2002	0.78[(1)]	0.68	0.23	0.68	—	—	—
Qatar	2002	0.70[(1)]	0.62	—	0.42	—	—	—
Saudi Arabia	2002	0.91[(1)]	0.37	0.15	0.44	—	—	—
United Arab Emirates	2002	1.02[(1)]	0.95	0.58	1.05	—	—	—
Africa								
Algeria	2002	0.66[(1)]	0.64	0.47	0.24	—	—	—
Libya	2002	0.56[(1)]	0.50	0.05	0.33	—	—	—
Nigeria	2002	0.82[(1)]	0.82	0.38	0.75	—	—	—
South Africa	2002	1.41	1.25	—	—	—	—	—
Far East & Oceania								
Australia	1Q/2003	1.65	2.18	—	—	—	—	—
China	4Q/2002	1.32	1.21	—	—	—	—	—
Hong Kong	1Q/2003	5.44	3.07	—	2.32	2.62	98.67	—
India	2002	2.50[(1)]	1.72	—	—	—	53.75	37.63
Indonesia	2002	0.68[(1)]	0.72	0.50	0.67	—	6.40	—
Japan	1Q/2003	3.36[(1)]	2.67	1.50	—	—	45.12	46.56
Korea, South	1Q/2003	4.18	1.73	2.06	—	—	86.66	49.70
New Zealand	1Q/2003	2.40	1.42	—	—	—	44.02	49.91
Taiwan	4Q/2002	2.31	1.59	—	—	—	36.37	30.77
Thailand	4Q/2002	1.36	1.25	1.43	—	—	—	37.19

Note:
(1) Price is for regular gasoline.

Source: Energy Information Administration.

Taiwan's Petroleum Refining Industry

Industry Participants

Currently there are only two refiners operating in Taiwan: CPC and Formosa Petrochemical, which together account for virtually 100 per cent. of production and sales of refined petroleum products in Taiwan. CPC, the national oil company, was Taiwan's sole oil refiner prior to 2000. For the year ended December 31, 2003, CPC's sales of refined petroleum products amounted to NT$319,003 million, and the company accounted for 65 per cent. of Taiwan's total refining volume and 69 per cent. of refined petroleum products sales in Taiwan for the year. Formosa Petrochemical, a private refiner, was incorporated in 1992 and began refining operation in the end of 1999. In the year ended December 31, 2003, Formosa Petrochemical's sales of refined petroleum products amounted to NT$144,564.0 million, and the company accounted for 35 per cent. of Taiwan's total refining volume and 31 per cent. of refined petroleum products sales in Taiwan for the year.

As of December 31, 2003, these two companies controlled four refineries with a combined processing capacity of 1,220,000 barrels of crude oil per day. CPC has three refinery plants in Taiwan with a total processing capacity of 770,000 barrels of crude oil per day: including refineries in Kaoshsiung (270,000 bbl/d), Ta-Lin (300,000 bbl/d), and Taoyuan (200,000 bbl/d). Formosa Petrochemical has one refinery in Mailiao with total processing capacity of 450,000 barrels of crude oil per day.

Taiwan opened its petroleum market to the import of refined petroleum products in 2002. However, difficulty in obtaining necessary government approvals, high minimum inventory requirements, high import duties and other taxes present high barriers to entry for foreign refiners and other petroleum product exporters. Although foreign refiners have attempted to gain Taiwanese market share in the past, currently there are no foreign competitors in the market.

Supply and Demand

The following table sets out the production, imports, inventory changes, exports, internal consumption and domestic sales of the major refined petroleum products in Taiwan for the periods indicated:

Product		2001	2002	2003
		Year Ended December 31, (in kL, unless otherwise noted)		
Gasoline	Production	9,229,285	10,456,693	12,472,478
	Imports	655,061	310,370	225,991
	Inventory increase (decrease)	594,286	229,468	375,277
	Exports	259,989	1,277,760	2,944,460
	Internal consumption	2,580	8,003	26,783
	Domestic sales	10,216,063	9,710,768	10,102,503
Naphtha	Production	9,519,474	9,875,329	11,722,670
	Imports	—	26,589	25,128
	Inventory increase (decrease)	(274,348)	(182,854)	236,165
	Exports	2,626,881	3,094,251	5,377,597
	Internal consumption	124,034	402,772	509,195
	Domestic sales	6,494,211	6,222,041	6,097,171
Fuel Oil	Production	15,983,641	12,836,725	14,999,422
	Imports	1,522,368	1,382,311	391,500
	Inventory increase (decrease)	(175,432)	504,307	382,259
	Exports	354,107	144,030	827,151
	Internal consumption	1,846,506	1,556,070	1,902,478
	Domestic sales	15,129,964	13,023,243	13,043,552
Jet fuel/kerosene	Production	3,159,043	3,423,482	2,978,132
	Imports	124,576	—	—
	Inventory increase (decrease)	135,600	341,179	313,492
	Exports	136,694	964,271	586,961
	Internal consumption	34,473	67,802	112,040
	Domestic sales	3,248,052	2,732,588	2,592,623
LPG	Production	1,941,227 kL	2,182,715 kL	1,364,536 kL
	Imports	1,495,689 kL	1,537,943 kL	796,463 kL
	Inventory increase (decrease)	28,152 kL	63,291 kL	(45,325) kL
	Exports	678,305 kL	660,449 kL	358,890 kL
	Internal consumption	60,647 kL	91,149 kL	64,874 kL
	Domestic sales	2,726,116 kL	3,032,351 kL	1,691,909 kL

Note:

(1) Includes amounts consumed or transformed into other products.

Source: Energy Commission — Ministry of Economic Affairs of Taiwan

Since the country's refining capacity exceeds its domestic consumption of petroleum products, Taiwan is a net exporter of petroleum products. Exported petroleum products are shipped largely to countries in Asia, principally Japan, Korea, the Philippines, Singapore, Thailand, Vietnam, Malaysia, and the PRC.

Supply of Crude Oil

Taiwan's current crude oil production is under 1,000 barrels per day. Most of Taiwan's crude oil imports come from the Middle East, though West African countries also are important suppliers for Taiwan. To ensure against a supply disruption, Taiwan's refiners are under a regulatory requirement to maintain stocks of no less than 60 days of consumption.

Marketing and Distribution

Petroleum products are sold wholesale to downstream producers or retail to customers through gasoline service stations supplied with refined petroleum products by either CPC or Formosa Petrochemical. As of March 31, 2004, there were a total of 2,347 gas stations in Taiwan, of which CPC supplied 1,698 and Formosa Petrochemical supplied 649.

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APPENDIX D — THE PETROCHEMICAL INDUSTRY

Except as otherwise indicated, statistical and certain other information contained in the following description is based on or derived from data prepared by independent sources, including Chemical Market Associates, Inc ("CMAI") and the 2003 Annual Report of the Petrochemical Industry Association of Taiwan ("PIAT"). The information has not been independently verified by any of the Issuers, or any of the Purchasers or any other person. Much of the available information is based on estimates and should therefore be regarded as indicative only and treated with the appropriate caution.

General Industry Overview

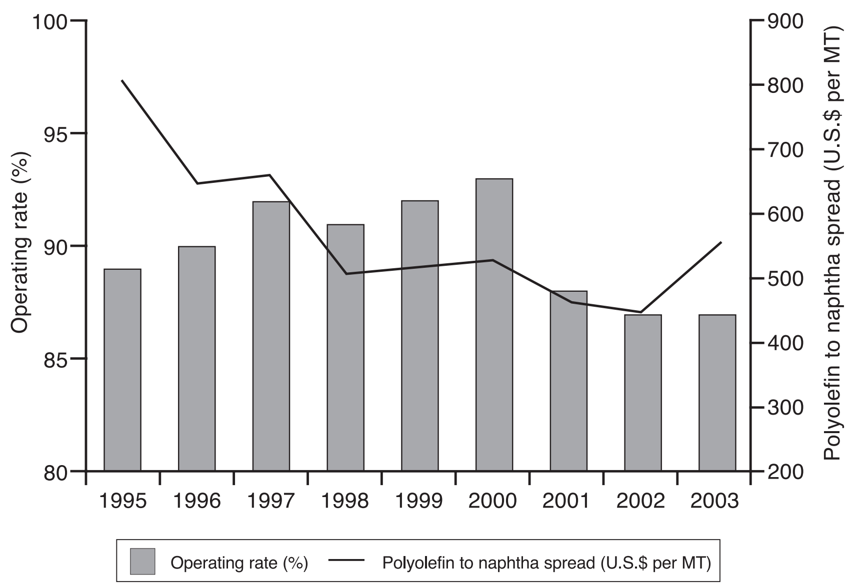
The petrochemical industry extends from value-added processes such as naphtha cracking and aromatics synthesis, to a wide range of feedstock and intermediates, to industries such as plastics, synthetic rubbers and textiles.

Ethylene and propylene are two of the main building blocks of the petrochemical industry. Their derivatives, polyethylene and polypropylene, are used in the manufacture of a wide range of consumer non-durable plastics and films, as well as consumer durables and industrial products such as automotive products and coatings. Together, polyethylene and polypropylene account for nearly two-thirds of the major thermoplastics usage in the world. Historical demand for these products has generally tracked economic growth. Other key drivers of demand are rising living standards in developing nations and the continued substitution of plastics and synthetics for other materials. Countries with a low per capita consumption of petrochemical products tend to have a higher demand to GDP elasticity, as the demand is referenced off a lower base case, while countries with higher per capita consumption of petrochemical products tend to have a lower demand to GDP elasticity, unless a derivative finds a new end-use through technology advances. According to CMAI, the elasticity of demand in industrialized countries have historically been between 1.0 to 2.0 times while those for developing countries have a tendency to vary from 2.0 to 6.0 times.

Petrochemical Cycle

The petrochemical industry is capital intensive and margins in the industry have historically been cyclical. Changes in demand and supply balances and the resulting changes in average capacity utilization are key drivers influencing the petrochemical industry cycle and margins. Demand is typically affected by general economic activity while supply is affected by industry capacity additions, which typically are made in large increments. As a result, the cycles are characterized by periods of tight supply, leading to high operating rates and peak margins, followed by periods of oversupply resulting primarily from significant capacity additions, leading to reduced operating rates and margins. Historically, the petrochemical cycles typically have lasted between seven to nine years from peak-to-peak. The primary process for production of ethylene is through the cracking of hydrocarbons, ranging from natural gas liquids (ethane, propane and butane) to petroleum liquids (naphtha and gas oils). In 2003, naphtha cracking accounted for a majority of the ethylene produced in the world (54 per cent.), followed by natural gas liquid (39 per cent.), with gas oil and others taking up the balance. Profitability in the industry is frequently tracked by the delta between average polyolefin price and naphtha, also known as the polyolefin to naphtha spread. The following chart illustrates average global operating rate as well as the average polyolefin to naphtha spreads from 1995 through 2003.

Global operating rate vs polyolefin to naphtha spread



Source: CMAI. Polyolefin to naphtha spread is calculated by subtracting average naphtha prices from average polyolefin prices. Average prices are calculated based on average of North America, Western Europe and South East Asia prices.

Beginning in 1994, the petrochemical industry went through a phase of increasing demand and profitability, with average margins peaking in 1995. The addition of significant new capacity in 1995, combined with an increase in feedstock prices, sharply depressed industry margins in 1996. Industry conditions improved slightly in 1997 until the onset of the Asian financial crisis in mid-1997 reduced demand sharply, resulting in another industry slowdown, particularly in Asia, which combined with new capacities, depressed prices and margins through 1998. Growth resumed in 1999 and in 2000 keeping pace with world economic growth. This economic upturn resulted in another period of improving prices and stable margins for the industry. In 2001, the United States economy entered a recession that led to global economic slowdown, which caused petrochemical demand to weaken in 2001. Significant capacity additions in 2001 and 2002, particularly for ethylene, caused industry margins to decline sharply. Since then, margins have begun to improve as a result of improving economic conditions, and limited new capacity additions in 2003.

Industry supply and demand balances are expected to be influenced by a number of other factors, in particular the following:

- Over the last few years, industry consolidations have also led to mergers among a number of the major petrochemical producers. This is likely to contribute to greater investment discipline going forward.

- In recent years, structural issues in the U.S. natural gas industry have led to relatively high feedstock costs for North American ethylene producers. This may lead to reduced exports of petrochemical products from North America.

- Asia, especially the PRC, is a major source of global demand for petrochemicals, and is expected to be a key driver of industry growth in the next two years.

- The petrochemical industry in countries in the Middle East has grown in recent years by taking advantage of access to low cost ethane feedstock. New capacities and the speed of these additions will impact ethylene margins in this industry in the post 2006 period. However, the new steam crackers in the Middle East are not expected to generate much propylene and mixed C_4 due to the preponderance of ethane as a feedstock.

Petrochemicals Supply and Demand

Ethylene

Ethylene is the most widely consumed petrochemical in the world. It is a basic raw material for a broad array of chemical products including:

- polyethylene, which is used in numerous consumer and industrial products, including trash bags, packaging film, toys, house-wares and plastic bottles;

- ethylene oxide, which is used in the production of ethylene glycol, and further processed into antifreeze, polyester fibers and resins;

- ethylene dichloride, which is further processed into PVC for use in pipes and fittings; and

- ethylbenzene, an intermediate chemical used in the production of polystyrene used in packaging and containers.

In 2003, global ethylene demand reached 97.1 million tons. From 1998 through 2003, a period which included the Asian financial crisis as well as a global economic downturn, global ethylene demand grew by a compound annual growth rate (“CAGR”) of 3.6 per cent.. Most of the future growth in demand is expected to occur in developing economies, in particular the PRC.

Global ethylene capacity grew by a CAGR of 4.3 per cent. from 1998 through 2003. A new ethylene facility typically takes three to five years from planning to commissioning. New capacity additions are mainly concentrated in the Middle East and the PRC, and are expected to be added mainly from 2005 and beyond.

The following table sets forth the historical global capacity, demand and operating rates for ethylene for the periods indicated.

Ethylene (million MT)	2001	2002	2003	CAGR (1998–2003)
Capacity	104.1	109.4	111.2	4.3%
Demand	92.0	95.1	97.1	3.6%
Operating rate	88.4%	86.9%	87.3%	—

Source: CMAI.

Propylene

Propylene is the second most widely consumed petrochemical in the world, with global demand of 59.4 million tons in 2003. The five principal derivative products of propylene are:

- polypropylene used in carpeting, food packaging, upholstery, automotive components and plastic bottle caps;
- acrylonitrile and acrylic acid, used in clothing, high impact plastics, coatings, adhesives and super-absorbent polymers;
- oxo-alcohols, used in industrial solvents, coatings and plasticizers;
- propylene oxide, used in antifreeze and polyurethane foams; and
- cumene, an intermediate petrochemical used in the production of phenol and acetone, which are used in polycarbonates and epoxy resins.

Propylene demand typically grows at rates slightly faster than ethylene, primarily because demand for propylene's largest derivative, polypropylene, has grown slightly faster than ethylene's largest derivative, polyethylene. From 1998 through 2003, global propylene demand in volume grew by a CAGR of 6.2 per cent..

Global propylene capacity grew by 7.0 per cent. from 1998 to 2003. In the future, one of the key issues that is expected to emerge in the propylene market is the source of propylene. Although steam crackers are currently the largest source of propylene supply, this source is expected to show the slowest growth over the next several years, due to the expectation for lighter (lower-propylene-yielding) cracker feedstock from new ethane-based crackers being built in the Middle East. Going forward, propylene-to-ethylene price ratios are expected to be higher than historical norms, as propylene and propylene derivative markets are expected to experience tighter conditions relative to corresponding ethylene markets during this period.

The following table sets forth the historical global capacity, demand and operating rates for propylene for the periods indicated.

Propylene (million MT)	2001	2002	2003	CAGR (1998–2003)
Capacity	66.2	69.1	71.2	7.0%
Demand	54.1	57.5	59.4	6.2%
Operating rate	81.7%	83.2%	83.5%	—

Source: CMAI.

Butadiene

Butadiene, another by-product of the cracking process, had a total annual global demand in 2003 of 8.7 million tons. Demand for butadiene is driven primarily by the production of synthetic rubbers, and increasingly, it is also used to produce acrylonitrile butadiene styrene ("ABS"), which is a thermoplastic used in the manufacture of computer and electronic equipment.

Global demand in terms of volume for butadiene grew by a CAGR of 3.3 per cent. from 1998 through 2003. Future butadiene demand growth is strongly linked to the durable goods sector of the global economy, particularly the automotive industry.

Global butadiene capacity grew by a CAGR of 3.1 per cent. from 1998 through 2003. Production however, is expected to be constrained by feedstock limitations, as feedstock slate to ethylene plants is expected to become lighter through the forecast period, reducing the growth of crude C_4, the feedstock for butadiene extraction.

The following table sets forth the historical global capacity, demand and operating rates for butadiene for the periods indicated.

Butadiene (million MT)	**2001**	**2002**	**2003**	**CAGR (1998–2003)**
Capacity	9.5	9.9	10.0	3.1%
Demand	8.0	8.4	8.7	3.3%
Operating rate	84.3%	84.9%	86.3%	—

Source: CMAI.

Polyethylene

Polyethylene is the most widely used thermoplastic in the world by volume, with demand amounting to 57.6 million tons in 2003. There are three primary types of polyethylene: LDPE, HDPE and LLDPE. All three resins are produced through the polymerization of ethylene, however, the three resins differ in molecular structure which results in differing physical characteristics such as hardness, clarity, and melting point.

- LDPE is typically used in applications requiring flexibility and film clarity, such as household bags and wraps.

- HDPE is a rigid plastic most commonly used for blow molding in the manufacture of milk bottles, liquid detergent bottles, industrial drums and bottles.

- LLDPE is a tough yet flexible plastic with its major end use in cost-sensitive film applications such as stretch wrap, trash can liners and injection molding applications, including housewares and lids.

Global demand in terms of volume for polyethylene increased by a CAGR of 4.5 per cent. from 1998 to 2003. In the future, LLDPE and HDPE are expected to have the greatest rates of growth. Potential growth opportunities in the polyethylene business can be illustrated by a comparison of the 2003 estimated polyethylene and polypropylene usage per capita for particular regions or countries:

Region	Volume
North America	57 kg/capita
Western Europe	52 kg/capita
Japan	42 kg/capita
PRC	11 kg/capita

Source: CMAI.

Asia, North America and Western Europe are the three largest consumers of polyethylene, accounting for approximately 34.1 per cent., 28.1 per cent. and 21.9 per cent. of world's consumption in 2003, respectively. As a result, economic developments in these regions are important factors influencing demand and pricing for polyethylene worldwide. Significant growth in polyethylene is expected to occur in developing regions, such as Southeast Asia, the Indian sub-continent, South America and the PRC. As these regions move toward a more consumer-based economy, the usage of plastics in general is expected to increase.

Global capacity for polyethylene increased by a CAGR of 4.7 per cent. from 1998 through 2003. Future growth is expected to be derived primarily from the commissioning of new plants in the PRC and the Middle East.

The following table sets forth the historical global capacity, demand and operating rates for polyethylene for the periods indicated.

Polyethylene (million MT)	2001	2002	2003	CAGR (1998–2003)
Capacity	65.8	67.5	69.1	4.7%
Demand	53.4	56.8	57.6	4.5%
Operating rate	81.2%	84.1%	83.3%	—

Source: CMAI.

Polypropylene

Polypropylene is one of the most versatile polymers in the petrochemicals industry, with demand amounting to 35.4 million tons in 2003. It has achieved a portion of its demand growth by displacing other polyolefins. This has been especially true for such applications as polystyrene in disposable utensils, polyethylene terephthalate (PET) in film, packaging, extrusion/thermoforming and soda straws, polyethylene in housewares and consumer goods, nylon in carpet face yarn, ABS in appliances, and flexible PVC in film, automotive and medical applications. Advances made in clarifying technology have also helped add to the list of applications in which polypropylene can now be used.

Global demand in terms of volume for polypropylene grew by a CAGR of 6.3 per cent. from 1998 through 2003.

Global capacity for polypropylene increased by a CAGR of 6.3 per cent. from 1998 through 2003.

The following table sets forth the historical global capacity, demand and operating rates for polypropylene for the periods indicated.

Polypropylene (million MT)	2001	2002	2003	CAGR (1998–2003)
Capacity	37.5	39.2	40.4	6.3%
Demand	31.8	34.4	35.4	6.3%
Operating rate	84.9%	87.7%	87.7%	—

Source: CMAI.

Benzene

Benzene's major demand segment has been in the production of ethylbenzene, which goes into making styrene, which is used in a variety of applications, the most common being for the production of polystyrene for packaging. This is expected to continue to be the major demand segment for benzene over the foreseeable future, and as such the demand for benzene will be driven by the demand for styrene. According to CMAI, Asia does not have enough regional benzene capacity to meet its current demand. As a result, operating rates and margins in Asia should remain strong in the next two years.

The following table sets forth the historical global capacity, demand and operating rates for benzene for the periods indicated.

Benzene (million MT)	2001	2002	2003	CAGR (1998–2003)
Capacity	42.5	42.4	43.6	2.4%
Demand	31.3	33.3	34.3	4.0%
Operating rate	73.6%	78.6%	78.7%	—

Source: CMAI.

Toluene

Toluene's major demand segment is for the production of xylenes, which is used in polyester fiber and resins. The other large demand segment for toluene is for use in solvents for paints and various other industrial applications. These demand segments are expected to continue being the drivers for toluene.

The following table sets forth the historical global capacity, demand and operating rates for toluene for the periods indicated.

Toluene (million MT)	2001	2002	2003	CAGR (1998–2003)
Capacity	24.8	25.2	25.3	2.5%
Demand	14.2	16.4	17.2	3.3%
Operating rate	57.2%	65.1%	67.9%	—

Source: CMAI.

Taiwan's Petrochemical Industry

The following table sets forth the growth trend of the petrochemical industry in Taiwan, for the periods indicated:

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Ethylene Demand (1,000MT)	1,840	1,884	2,048	2,312	2,198	2,455	2,576	2,569	2,834	2,776	2,790	2,894
Growth Rate (%)	21.7	2.4	8.7	12.9	(4.9)	11.2	5.4	(0.3)	10.3	(2.1)	0.5	3.7
Ethylene Production (1,000MT)	709	734	742	889	847	906	959	935	1,296	1,592	2,584	2,393
Growth Rate (%)	(8.9)	3.5	1.1	19.8	(4.7)	7.0	5.8	(2.5)	38.6	22.8	62.3	(7.4)
Import of Ethylene (1,000MT)	40	68	181	85	147	186	126	198	293	329	140	319
Growth Rate (%)	153	73	164	(53)	73	27	(32)	57	48	12	(57)	128
Shortage of Ethylene (1,000MT)	1,131	1,150	1,306	1,423	1,351	1,539	1,617	1,634	1,538	1,184	206	501
Self-Sufficiency Rate of Ethylene (%)	38.5	39.0	36.2	38.4	38.6	37.1	37.2	36.4	45.7	57.3	92.6	82.7
Taiwan GDP Growth Rate (%)	7.2	6.5	6.3	6.5	6	5.7	6.8	4.6	5.4	5.9	(2.2)	3.5
Taiwan Manufacturing Sector Growth Rate (%)	6.7	3.2	2.5	5.7	6.0	4.5	6.6	3.3	6.7	7.3	(5.7)	6.6
Elasticity of Ethylene Demand to Taiwan GDP	3.01	0.37	1.38	1.98	(0.82)	1.96	0.79	(0.07)	1.91	(0.33)	(0.23)	1.05
Elasticity of Ethylene Demand to Manufacturing Sector	3.23	0.74	3.47	2.26	(0.82)	2.49	0.82	(0.09)	1.54	(0.25)	(0.09)	0.56
Imports of Basic Chemical (1,000MT)	1,001	1,436	1,628	1,431	1,774	2,062	1,953	2,134	2,591	2,975	2,143	3,075
Growth Rate (%)	20.1	43.5	13.4	(12.1)	21.9	18.2	(5.3)	9.3	21.4	14.8	(28.0)	43.5
Imports of PC Intermediates (1,000MT)	3,365	3,455	3,715	4,084	3,836	3,998	4,037	4,444	4,067	3,406	2,853	2,945
Growth Rate (%)	39.2	2.7	7.5	9.9	(6.1)	4.2	7.8	10.1	(8.5)	(16.3)	(16.2)	3.2

Source: PIAT 2003 Annual Report

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