

OFFERING CIRCULAR



MORE

Mobiletron Electronics Co., Ltd.

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

U.S.\$30,000,000 Zero Coupon Convertible Bonds due 2008

Issue Price: 100%

The U.S.\$30,000,000 Zero Coupon Convertible Bonds due 2008 (the “**Bonds**”) will be issued in registered form by Mobiletron Electronics Co., Ltd. (“**Mobiletron**” or the “**Company**”) in reliance on Regulation S under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”).

The Bonds will be direct and unconditional obligations of Mobiletron and will rank at least *pari passu* in right of payment with all other unsecured and unsubordinated debt of Mobiletron, except as otherwise provided herein. The Bonds will not bear interest except in the limited circumstances set forth herein. The holder of any Bond (“**Bondholder**”) may convert the Bonds into the common shares, par value NT\$10 per share, of Mobiletron (the “**Shares**”) at any time (subject to certain restrictions) on or after March 27, 2004 and prior to the close of business (at the place the Bond is deposited for conversion) on February 26, 2008. Subject to availability, converting Bondholders may elect to receive the Depositary Receipts representing the Shares (“**DRs**”) at a conversion rate to be determined. Conversion of the Bonds into DRs is not currently available. The Conversion Price will initially be NT\$53.00 per Share, which is equivalent to U.S.\$ 1.53 per Share, based on a fixed rate of exchange of NT\$34.71 = U.S.\$1.00 (the “**Fixed Exchange Rate**”), subject to adjustment in the manner provided herein. In addition, the Conversion Price will be adjusted from time to time in certain circumstances relating to the then prevailing closing price of the Shares relative to the Conversion Price. The Shares are listed on the Taiwan Stock Exchange and application will be made to list the Shares issued on conversion of the Bonds on the Taiwan Stock Exchange. On March 18, 2003, the closing price of the Shares on the Taiwan Stock Exchange was NT\$50.00 per Share.

Bondholders have the option to require the Company to redeem all or part of the holder’s Bonds on March 27, 2006 and March 27, 2007 at 109.27% and 112.55%, respectively, of the principal amount. The Company has the option to redeem all, but not in part, of the Bonds on or at any time after March 27, 2005 and prior to March 27, 2008 (the “**Maturity Date**”) at their principal amount by giving not less than 80 days’ notice of redemption to the Bondholders, if the closing price of the Shares on the Taiwan Stock Exchange in U.S. dollars, calculated at the prevailing exchange rate, for each of the 20 consecutive trading days, the last of which occurring not more than ten days prior to the date of the notice of such redemption, is at least 150% of the Conversion Price in effect on each such trading day translated into U.S. dollars at the Fixed Exchange Rate. In addition, the Company may redeem the outstanding Bonds in whole, but not in part, at any time at their principal amount in the event that (i) 90% of the Bonds have been previously redeemed, repurchased and cancelled or converted, or (ii) certain changes relating to Republic of China taxation have been made which will result in additional costs to the Company.

For a discussion of certain factors that should be considered in connection with an investment in the Bonds, see “Risk Factors” on page 7 herein.

Application has been made to list the Bonds on the Société de la Bourse de Luxembourg S.A. (the “**Luxembourg Stock Exchange**”). It is expected that delivery of the Bonds will be made in book entry form through the facilities of Euroclear and Clearstream, Luxembourg (each as defined herein) on March 27, 2003 (the “**Closing Date**”).

The Bonds and Shares to be issued upon conversion of the Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account on behalf of, U.S. persons. The Bonds will be offered and sold outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act. The Bonds are not being and may not be offered in the ROC or in the United States.

Joint Bookrunners and Lead Managers

Polaris Securities (Hong Kong) Limited

GC Capital (Asia) Limited

Financial Advisor

GC Capital (Asia) Limited

The date of this Offering Circular is March 25, 2003

Mobiletron, having made all reasonable inquiries, confirms that this Offering Circular contains all information with respect to Mobiletron and its subsidiaries as a whole, the Bonds, and the Shares which is material in the context of the issue and offering of the Bonds (including all information required by applicable laws of the ROC), that the information contained herein (save as set out below) is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the Bonds, 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 respects, that all reasonable inquiries have been made by Mobiletron to verify the accuracy of such information, and that 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. Mobiletron accepts responsibility accordingly.

The distribution of this Offering Circular and the offering and sale of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by Mobiletron and the Managers (as defined in “Underwriting”) to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the Bonds 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 Mobiletron or the Managers to subscribe for or purchase, any of the Bonds in any jurisdiction in which such offer or invitation would be unlawful.

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

The Bonds will be represented by beneficial interests in a permanent global certificate (the “**Global Certificate**”) in registered form, which will be registered in the name of a nominee of, and shall be deposited on or about March 27, 2003 with a common depositary for, Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”).

Mobiletron has prepared the audited non-consolidated financial statements as at and for the years ended December 31, 1999, 2000 and 2001, the audited consolidated financial statements as at and for the year ended December 31, 2001 and the unaudited non-consolidated financial statements as at and for the nine-month periods ended September 30, 2001 and 2002, contained herein in accordance with accounting principles generally accepted in the ROC.

In accordance with the ROC GAAP and rules promulgated by the ROC Securities and Futures Commission (“**ROC SFC**”), Mobiletron is not required to make its audited annual financial statements as at and for the year ended December 31, 2002 on either a consolidated or a non-consolidated basis available to the public until April 30, 2003. In addition, pursuant to the ROC GAAP and rules promulgated by the ROC SFC, Mobiletron only prepares quarterly financial statements on a non-consolidated basis, which is not required to be audited.

NOTICE TO INVESTORS

The Bonds may not be offered or sold directly or indirectly in the ROC. The Bonds and the Shares issuable upon conversion of the Bonds have not been and will not be registered under the Securities Act. The Bonds and the Shares issuable upon conversion of the Bonds may not be offered or sold to any person in the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. In addition, no transfer of any interest in the Global Certificate may be made to any U.S. person outside the United States or any person in the United States for a period of 40 days after the later of the commencement of this offering and the latest closing date of this offering. Terms that are defined in Regulation S under the Securities Act and used in this section have the meanings assigned in Regulation S.

Each purchaser of Bonds will be deemed to have represented and agreed as follows:

- (1) it is purchasing the Bonds 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;
- (2) it acknowledges that neither the Bonds nor the Shares issued upon conversion of the Bonds 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;
- (3) it understands and agrees that if in the future it decides to resell, pledge or otherwise transfer any Bond or beneficial interest therein, or any Shares issued upon conversion of the Bonds, it may do so only (i) in an offshore transaction meeting the requirements of Rule 903 or Rule 904 of Regulation S, (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;
- (4) if it is purchasing Bonds prior to the expiration of 40 days after the later of the commencement of the offering and the latest closing date (the “**distribution compliance period**”), it is purchasing the Bonds in an offshore transaction meeting the requirements of Rule 903 or 904 of Regulation S and the Bonds will not be sold, pledged or otherwise transferred to, or for the account or benefit of, any U.S. person outside the United States or any person in the United States during the distribution compliance period;
- (5) it agrees to, and each subsequent holder is required to, notify any purchaser from it of a Bond or beneficial interest therein of the resale restrictions referred to in sections (3) and (4) above, if then applicable;
- (6) it understands that, except in the circumstances referred to under the heading “The Form of the Bonds”, the Bonds, and beneficial interests therein, will be represented by the Global Certificate (as defined herein);
- (7) it understands that the Global Certificate will bear a legend to the following effect (unless otherwise agreed by the Company):

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY JURISDICTION AND, ACCORDINGLY, MAY NOT BE RESOLD, PLEDGED OR OTHERWISE

TRANSFERRED TO A U.S. PERSON OR WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

THIS LEGEND MAY BE REMOVED AFTER THE EXPIRATION OF 40 DAYS FROM THE ORIGINAL ISSUANCE OF THE ZERO COUPON CONVERTIBLE BONDS DUE 2008 OF MOBILETRON ELECTRONICS CO., LTD.”; and

- (8) it acknowledges that the Company and the Managers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements; and if it is acquiring the Bonds as a fiduciary or agent for one or more accounts, it represents that it has 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.

For further information about the requirements under the Indenture to effect exchanges or transfers of interests in the Global Certificate and of Bonds in certificated form, see “The Form of the Bonds”.

ENFORCEABILITY OF FOREIGN JUDGMENTS IN THE ROC

Mobiletron is a company limited by shares incorporated under the ROC Company Law. All of Mobiletron’s directors, executive officers and supervisors are residents of the ROC and the principal place of business and a substantial portion of the assets of Mobiletron and such persons are located in the ROC. As a result, it may not be possible for investors to effect service of process upon Mobiletron or such persons outside the ROC, or to enforce against any of them judgments obtained in courts outside the ROC.

Any final judgment obtained against Mobiletron 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 Bonds 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 is 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, Mobiletron or such persons were served within the jurisdiction of such court, or process was served on Mobiletron 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.

TABLE OF CONTENTS

	<i>Page</i>		<i>Page</i>
Summary	1	Description of the Shares	71
Risk Factors	7	Taxation	77
Terms and Conditions of the Bonds	15	Underwriting	80
The Form of the Bonds	37	Legal Matters	83
Use of Proceeds	40	Independent Auditors	83
Market Price Information	41	General Information	84
Dividends and Dividend Policy	42	Summary of Principal Differences between ROC GAAP and U.S. GAAP	87
Exchange Rates	43	Index to Financial Statements	F-1
Capitalization	44	Appendix A — Foreign Investment and Exchange Controls in the ROC	A-1
Business	46	Appendix B — The Securities Market of The ROC	B-1
Selected Financial Data	62		
Management and Employees	64		
Share Capital	70		

CERTAIN DEFINED TERMS, CONVENTIONS AND CURRENCY OF PRESENTATION

Except where the context otherwise requires, all references herein to “**Mobiletron**” are to Mobiletron Electronics Co., Ltd. and all references to the “**Company**” are to Mobiletron or Mobiletron and its subsidiaries, as the context requires. All references herein to the “**Group**” are to Mobiletron and its subsidiaries and affiliates as a whole. All references herein to “**affiliate**” are to a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified, as these terms are defined in Rule 405 under the Securities Act. All references herein to “**Taiwan**” or the “**ROC**” are to the island of Taiwan and other areas under the effective control of the Republic of China. All references herein to the “**ROC Government**” or the “**ROC Company Law**” are references to the government of the Republic of China and the Company Law of the Republic of China, respectively. All references herein to “**ROC GAAP**” are to the Rules Governing Preparation of the Financial Statements of Securities Issuers and accounting principles generally accepted in the ROC and all references herein to “**U.S. GAAP**” are to accounting principles generally accepted in the United States. All references herein to the “**PRC**” are to the People’s Republic of China. All references herein to the “**TSE**” are references to the Taiwan Stock Exchange and all references herein to the “**GTSM**” are to the ROC GreTai Securities Market.

The Company’s financial statements are prepared using accounting principles, procedures and reporting practices generally accepted in the ROC, or ROC GAAP, and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions, including the United States, other than those in the ROC. The principal differences between ROC GAAP and generally accepted accounting principles in the United States, or U.S. GAAP, as applicable to the Company are discussed under “Summary of Principal Differences Between ROC GAAP and U.S. GAAP”. Certain financial amounts presented herein may not correspond directly to the Company’s financial statements included elsewhere herein or may not add up due to rounding.

The Group does not exist as a legal entity. References herein to the Group and to financial or statistical information relating to the Group are for convenience of presentation only. Except as otherwise indicated, all financial information set forth herein with respect to various members of the Company has been presented in New Taiwan Dollars.

The Company publishes its financial statements in New Taiwan Dollars, the lawful currency of the ROC. All references herein to “**New Taiwan Dollars**”, “**NT Dollars**” and “**NT\$**” are to New Taiwan Dollars and all references herein to “**United States Dollars**”, “**U.S. Dollars**” and “**U.S.\$**” are to United States Dollars. All translations from New Taiwan Dollars to United States Dollars were made on the basis of the average of buying and selling exchange rates in Taipei for cable transfers in NT Dollars per U.S. Dollars as certified by the Bank of Taiwan of NT\$34.95 = U.S.\$1.00 as of December 31, 2001, and of NT\$34.92 = U.S.\$1.00 as of September 30, 2002, with respect to information for the nine months ended September 30, 2002. 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 Dollar or U.S. Dollar 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. The closing rate between the NT Dollar and the U.S. Dollar on March 18, 2003 was NT\$34.71 = U.S.\$1.00.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Offering Circular contains forward-looking statements that involve risks and uncertainties. Forward-looking terminology include “may”, “will”, “expect”, “anticipate”, “estimate”, “continue”, “believe”, “forecast”, “project” and other similar words. Statements that include such terminology are forward-looking statements. The Company’s actual results could differ materially from those anticipated in these forward-looking statements as a result of the risks, uncertainties and assumptions discussed in the “Risk Factors” and elsewhere in this Offering Circular. The Company undertakes no obligation after the date of this Offering Circular to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future which may affect information contained herein.

SUMMARY

The summary highlights information contained elsewhere in this Offering Circular. The investors should read the entire Offering Circular carefully, including the section titled “Risk Factors” and the financial statements and the related notes to those statements included elsewhere in this Offering Circular.

MOBILETRON

The Company designs, manufactures and sells power tools such as drills and fasteners and automotive electronics (“**AE products**”) such as ignition modules, voltage regulators and rectifiers. The Company sells its power tools on an original design manufacturing (“**ODM**”) basis for some of the most respected international power tool suppliers such as Robert Bosch GmbH (“**Bosch**”), Porter Cable Corporation (“**Porter-Cable**”), Skil/Bosch Power Tool Company (“**Skil/Bosch**”), The Stanley Works (“**Stanley**”) and Draper Tools Limited (“**Draper**”) and large hardware chain outlets operated by B&Q Corp. (“**B&Q**”), Canadian Tire Corporation (“**CTC**”), Lowe’s Companies, Inc. (“**Lowe’s**”) and Sears, Roebuck and Co. (“**Sears**”). The Company also sells power tools under its own brand name “Regitar” mainly in Asia. The Company’s AE products are sold under its own brand names “Mobiletron” and “Regitar” on a worldwide basis. The AE products are sold in the automobile after-sales maintenance market (commonly known as the “automotive aftermarket”) where the customers are involved in rebuilding automobile alternators. The major customers for the Company’s AE products include Dana Corporation (“**DANA**”), Holger Christiansen A/S (“**Holger**”) and Sovereign Motor Company (“**Sovereign**”). The power tools business and the AE products business accounted for approximately 68% and 32% of the Company’s consolidated net sales in 2001, respectively.

The Company has received the ISO 9001 accreditation, an internationally recognized quality standard focused on continuous improvement and customer satisfaction, for its power tool manufacturing facilities in both the ROC and the PRC and the QS 9000 accreditation for its AE products.

In addition, the Company has won various ROC national awards from the Ministry of Economic Affairs such as The National Award of Small and Medium Enterprise in 1995, the “It’s Very Well Made in Taiwan” award in 1997 and the Ninth National Quality Award in 1998.

The Company has focused on research and development since its incorporation. The Company has designed and made a number of innovative power tool products, such as the screwdriver with a guiding light function and the cordless rechargeable pneumatic fastener. The Company boasts of an extensive range of AE products comprising no less than 1,000 products, each of which has been designed and engineered by the Company.

The non-consolidated net sales of the Company in 2000 and 2001 were NT\$1,788.3 million and NT\$1,788.1 million (U.S.\$51.2 million), respectively. For the nine months ended September 30, 2002, Mobiletron recorded non-consolidated net sales of NT\$1,553.9 million (U.S.\$44.5 million) and non-consolidated net income of NT\$257.4 million (U.S.\$7.4 million), compared to NT\$1,243.1 million and NT\$204.8 million, respectively, for the same period in 2001.

Competitive Strengths

The Company believes that the following strengths contribute to its competitive position in the relevant markets:

- ▶ Strong research and development programs and design capacity;
- ▶ Comprehensive AE product lines;

- ▶ Strict quality control processes and standards; and
- ▶ Experienced management team and highly-qualified employees forming a consistent corporate culture.

Strategy

The principal elements of the Company's business strategy include the following:

- ▶ Expanding manufacturing capacity in the PRC;
- ▶ Pursuing new customers in America, Europe and Asia;
- ▶ Increasing the range of the power tools manufacturing services by expanding into the DIY power tools market;
- ▶ Further improving after-sales services;
- ▶ Focusing on high growth markets;
- ▶ Selectively pursuing strategic acquisitions, partnerships and investments; and
- ▶ Increasing vertical and horizontal integration of the manufacturing process.

Corporate Information

Mobiletron was incorporated in July 1982 and its Shares were listed on the TSE on April 6, 2001. Mobiletron's corporate headquarters and principal place of business are located at No.39 and No.39-2, Chung-Ching Road, Sec. 3, Ta-Ya Hsiang, Taichung Hsien, Taiwan, ROC. The Company's web-site is <http://www.more.com.tw>. Information contained in the Company's web-site does not form part of this Offering Circular. The trustee for the Bonds is The Bank of New York, whose office is located at 101 Barclay Street, 21st Floor West, New York, New York 10286, U.S.A.

The Offering

Issuer	Mobiletron Electronics Co., Ltd.
Bonds	U.S.\$30,000,000 Zero Coupon Convertible Bonds due 2008 convertible into fully-paid common shares, with a par value of NT\$10 each, of the Company (the “ Shares ”).
Issue Price	100%
The Offering	The Bonds will not be offered or sold in the United States or the ROC. The Bonds will be offered only in offshore transactions in reliance on Regulation S under the Securities Act.
Closing Date	March 27, 2003
Maturity Date	March 27, 2008
Status	The Bonds will constitute direct, unconditional, unsecured and unsubordinated general obligations of the Company and will rank at least <i>pari passu</i> in right of payment among themselves and with all other present and future direct, unconditional, unsecured and unsubordinated obligations of the Company, except as may be preferred by mandatory provisions of law.
Interest	No interest will be payable on the Bonds, except in certain circumstances where an event of default has occurred. See “Terms and Conditions of the Bonds — Events of Default”.
Withholding Tax	Premium (if any) and interest (if any) payable on the Bonds to non-residents of the ROC is subject to a withholding tax in the ROC equal to 20% of the gross amount of such premium (if any) and interest (if any). The Company will gross up such amounts as will result in the receipt by the Bondholders of the net amounts after such withholding or deduction equal to the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.
Negative Pledge	The Company will not create or permit to subsist security for the benefit of holders of any International Investment Securities (as defined herein) or for any guarantee thereof without granting equivalent security in respect of the Bonds. See “Terms and Conditions of the Bonds — Negative Pledge”.
Conversion	Subject to prior redemption and subject as otherwise provided herein, the Bonds are convertible at any time on or after March 27, 2004 and prior to the close of business (at the place at which the Bond is deposited for conversion) on February 26, 2008, except during any Closed Period (as defined herein), into Shares or depositary receipts (“ DRs ”) (if

available) at a conversion price (subject to adjustment in certain circumstances) (the “**Conversion Price**”) of NT\$53.00 per Share, which is equivalent to U.S.\$1.53 per Share, determined on the basis of a fixed exchange rate of NT\$34.71 = U.S.\$1.00 (the “**Fixed Exchange Rate**”). The Conversion Price will be subject to adjustment for, among other things, subdivision or consolidation of Shares, bonus issues of Shares, right issues, distributions of stock dividends and other dilution events. Fractional Shares will not be issued or paid in cash, or by any other means. See “Terms and Conditions of the Bonds — Conversion”.

The Company shall as soon as practicable, and in any event within five Trading Days (as defined herein) from the date the notification of the Conversion Notice (as defined herein) is received by the Company or its domestic stock transfer agent from the Principal Agent (as defined herein), deliver to the local agent appointed by the converting Bondholder, and/or to the relevant custodian, as agent for the relevant DR Depositary (as defined herein) (if the converting Bondholder has the option under the Terms and Conditions of the Bonds to elect, and elects, to receive DRs), a certificate or certificates for the relevant Shares, by electronic credit to the account established by the relevant local agent for the conversion of the Bonds, through the facilities of the Taiwan Securities Central Depositary Co. Ltd.

Conversion Price Reset

The Conversion Price shall be adjusted on each Reset Date (as defined herein) in the event that the average closing price of the Shares on the TSE translated into U.S. Dollars at the then prevailing exchange rate for the 20 consecutive Trading Days immediately prior to the Reset Dates is less than the Conversion Price then in effect on the relevant Reset Date converted into U.S. Dollars at the Fixed Exchange Rate of NT\$34.71 = U.S.\$1.00; provided that the Adjusted Conversion Price (as defined herein) (on a cumulative basis, if applicable) shall not be less than 80% of the initial Conversion Price after anti-dilution adjustments, if any. See “Terms and Conditions of the Bonds — Conversion — Conversion Price Reset”.

Final Redemption

Unless previously redeemed, converted or repurchased and cancelled in the circumstances referred to in “Terms and Conditions of the Bonds”, the Bonds will be redeemed at their principal amount in U.S. Dollars on March 27, 2008. See “Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at Maturity”.

Redemption at the Option of The Company	The Company may, having given not less than 80 days' notice to the Bondholders, redeem all, but not in part, of the Bonds on or at any time after March 27, 2005 and prior to the Maturity Date at their principal amount in the event that the Closing Price (as defined herein) of the Shares on the TSE in U.S. Dollars, calculated at the prevailing exchange rate, for each of the 20 consecutive Trading Days, the last of which occurs not more than ten days prior to the date upon which notice of such redemption is given, is at least 150% of the Conversion Price in effect on each such Trading Day translated into U.S. Dollars at the Fixed Exchange Rate of NT\$34.71 = U.S.\$1.00. The Company may at any time, having given the same notice, redeem the outstanding Bonds in whole, but not in part, at their principal amount in the event that more than 90% of the Bonds have been previously redeemed, repurchased and cancelled or converted. See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at the Option of the Company".
Tax Redemption	The Company may redeem all, but not part, of the Bonds at their original principal amount in the event of changes in ROC taxation which will result in additional costs to the Company to gross up for payment of principal, premium (if any) or interest (if any) at the rate exceeding 20%. See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption for Taxation Reasons".
Redemption at the Option of Bondholders	Until and unless previously redeemed, converted or repurchased and cancelled, the Company will, at each Bondholder's option, redeem all or part of the Bondholder's Bonds on March 27, 2006 and March 27, 2007 at 109.27% and 112.55%, respectively, of the principal amount. See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at the Option of Bondholders".
Form and Registration of the Bonds	The Bonds will be issued in registered form, without coupons, in denominations of U.S.\$1,000 and integral multiples thereof. The Bonds will initially be represented by a permanent global certificate (the " Global Certificate ") deposited with The Bank of New York, as common depositary for, and registered in the name of a nominee for, Euroclear Bank S.A./N.V as operator of the Euroclear System (" Euroclear ") and Clearstream Banking, <i>société anonyme</i> (" Clearstream, Luxembourg "). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates for Bonds will not be issued in exchange for beneficial interests in the Global Certificate. See "The Form of the Bonds — Registration of Title".

Use of Proceeds	The Company will use the net proceeds of the offering for the expansion of the Company's business in the PRC, investment in domestic optical and electronics business and the purchase of raw materials from overseas suppliers.
Governing Law	The laws of the State of New York, United States of America.
Trustee	The Bank of New York.
Listing	Application has been made to list the Bonds on the Luxembourg Stock Exchange. The Shares are listed on the TSE and application will be made for the Shares issuable upon conversion of the Bonds to be listed on the TSE.

RISK FACTORS

Prior to making an investment decision, prospective investors should carefully consider the following risk factors along with the other matters set out in this Offering Circular. The following risk factors could affect the Company's actual results and could cause them to differ materially from estimates in any forward-looking statements given by or on behalf of the Company. ROC laws and regulations may differ from the laws and regulations in other countries.

Risks Relating to the Company's Financial Condition and Business

The Company's business depends on a limited number of customers

The markets for the Company's products tend to be concentrated, with a large percentage of orders coming from a relatively small number of customers. The Company believes that this is the result of the Company's intensive and successful sales and marketing efforts on its customers which generated larger revenues. For 2001 and the first nine months of 2002, the Company's largest five customers accounted for 65.1% and 57.8% of its consolidated and non-consolidated net operating revenues, respectively. However, there are no long-term purchase commitments made between the Company and its customers. There can be no assurance that such customers or any other customers will continue to place orders with the Company in the future at the same levels as in prior periods. The Company believes that such a risk is mitigated by the fact that the Company's high quality products incorporate the Company's patents and proprietary technology and original designs. Nonetheless, the loss of one or more of the Company's customers, or reduced orders by its key customers, could adversely affect the Company's results of operations. See "— The Company does not usually enter into long-term supply contracts with its customers and therefore its customers may cancel, reduce or postpone their orders".

A downturn in the power tools and the automotive electronics industries or in the business of the Company's customers would likely harm the Company's operating results

The Company's business depends substantially on the power tools and the automotive electronics ("AE") industries, which is subject to intense competition and pricing and margin pressures. When these factors adversely affect the Company's customers, whether because its customers fail in developing or marketing their products or for other reasons, the Company may suffer similar adverse effects.

The Company does not usually enter into long-term supply contracts with its customers and therefore its customers may cancel, reduce or postpone their orders

The Company does not generally enter into firm, long-term supply contracts with its customers and it continues to experience reduced lead-times in customer orders. As the Company's power tools customers generally pay for the tooling costs, the Company believes that they would be more inclined to maintain a longer term relationship with the Company. However, customers may cancel their orders or change the size or timing of their orders for a number of reasons. Cancellations, reductions or postponements by a significant customer or by a group of customers could seriously adversely affect the Company's results of operations.

In addition, the Company makes significant decisions, including determining the levels of business that it will seek and accept, production schedules, components and raw material procurement commitments, personnel needs and other resource requirements, based on its estimates of customer requirements. The short-term nature of the Company's customers' commitments and the possibility of rapid changes in demand for their products reduce the Company's ability to estimate accurately future customer requirements. On occasion, customers may require rapid increases in production, which can

stress the Company's resources. Although the Company has increased its manufacturing capacity and plans further increases, it may not have sufficient capacity at any given time to meet its customers' demands. In addition, because many of the Company's costs and operating expenses are relatively fixed, a reduction in customer demand could impact its gross margins and operating income.

The Company's new products may not meet market trends

The Company's future success for both the AE and power tools products will depend in part on its ability to develop and market products which meet changing customer needs. There can be no assurance that the new products developed by the Company will be successful in meeting its customers' needs or market demands.

The Company faces intense competition from other power tools and AE manufacturers

The industries in which the Company operates are highly competitive and include numerous companies with widely varying levels of engineering expertise and sophistication, some of which have achieved a substantial market share. General competition in the Company's industries is characterized by price erosion. The Company competes with different companies depending upon the type of product or geographic area. The Company also faces competition from the manufacturing operations of its current and prospective customers, which continually evaluate the merits of manufacturing products internally. A number of the Company's competitors are much larger and have greater manufacturing, financial, research and development and marketing resources than the Company. Some of these competitors also carry product lines that the Company does not carry and provide services that the Company does not provide. If the Company does not compete successfully, its business will be materially and adversely affected.

The Company's operating results may vary significantly

The Company experiences significant fluctuations in its results of operations. The factors that contribute to fluctuations include:

- ▶ ability and results of research and development;
- ▶ the timing of customer orders;
- ▶ the volume of these orders relative to the Company's capacity;
- ▶ market acceptance of new products developed and sold by the Company;
- ▶ changes in demand for the products and product obsolescence;
- ▶ the timing of the Company's expenditures in anticipation of future orders;
- ▶ the Company's effectiveness in managing manufacturing processes;
- ▶ changes in the cost and availability of labor and components;
- ▶ changes in economic conditions; and
- ▶ local factors and events that may affect the Company's production volume, such as local holidays.

The Company may experience shortages of key components and parts

The Company currently purchases certain of its key components and parts from a limited number of suppliers. For example, the Company purchased substantially all of its requirements of the motors assembled in the power tools from Johnson Electric Trading Limited and Leshi Electric Machine Co., Limited in 2001. These suppliers' capacity may be insufficient should the Company's requirements increase or demand from other purchasers of such components and parts increases. In addition, the Company is, in certain circumstances, required to source certain key components from suppliers who have been qualified by its customers and the Company may not be able to obtain alternative satisfactory sources of supply should such qualified suppliers be unable to supply it in the future. The Company believes that there are sufficient alternative suppliers of all the Company's key components and parts. However, there can be no assurance that shortages of supply will not occur in the future and that, if such shortages occur, the Company will be able to obtain an adequate alternative supply of components and parts on a timely basis to meet production demand. If the Company is unable to obtain sufficient components and raw materials on a timely basis, the Company could experience manufacturing and shipping delays, which could adversely affect customer relationships and reduce sales. In addition, there can be no assurance that the Company would be able to pass on increased costs of components and raw materials to its customers. See "Business — Raw Materials and Components".

The Company is subject to operational risks and its insurance may not be adequate

The operation of manufacturing facilities involves many risks and hazards, including the breakdown, failure or substandard performance of equipment, delay in delivery of equipment or improper installation or operation of equipment, difficulties in upgrading or expanding existing facilities or changing manufacturing line technologies, capacity constraints, labor disturbances, fire, natural disasters such as earthquakes or typhoons, environmental hazards and industrial accidents. The occurrence of material operational problems, including but not limited to the above events, could adversely affect the Company's manufacturing plants. These problems could cause delivery delays and reduced output. See "— The Company's operations may be adversely affected by natural disasters".

The Company currently maintains insurance for facilities and inventories based on their net book value. Such insurance, however, may not provide adequate coverage in certain circumstances. The Company does not carry business interruption insurance. No assurance can be given that uninsured losses and liabilities incurred by the Company will not have a material adverse effect on the Company's results of operations.

The Company's business depends in part on its ability to obtain and preserve intellectual property rights

The Company's ability to compete successfully and achieve future growth will depend, in part, on the Company's ability to protect its proprietary technology. The Company relies on patents, copyrights and trade secret protection rights to protect some of its proprietary technologies and products. These measures may not provide meaningful protection of the Company's intellectual property or commercial advantage. For example, the Company's competitors may be able to use technologies developed by the Company and published in connection with a patent application to develop similar or superior products. The Company intends to continue to file patent applications when appropriate to protect its proprietary technologies, but the process of seeking patent protection can be lengthy and expensive. Patents may not be issued for pending or future applications. If patents are issued, they may be challenged, invalidated or circumvented. Protection of intellectual property rights in different countries may vary. See "Business — Research and Development" and "Business — Intellectual Property".

The Company is vulnerable to intellectual property claims of others

The Company may receive communications alleging that Company's products or processes infringe product or process technology rights held by others. If the Company's products or manufacturing processes are found to infringe such third party's rights, the Company may be subject to significant liabilities and be required to change the Company's production which could in turn materially and adversely affect the Company's business and financial condition. In addition, any litigation could materially and adversely affect the Company's operating results because of management attention required and legal costs incurred. See "Business — Legal Proceedings".

The Company is dependent on its ability to attract and retain qualified employees

The Company's success depends to a significant extent on the skills and efforts of key managerial and technical and other employees and upon its ability to continue to attract, retain and motivate qualified personnel. The Company competes with other manufacturing companies for technical and other employees and the competition for such employees is intense. There can be no assurance that the Company will be able to continue to attract and retain qualified employees essential for the Company's growth. The loss of the services of certain of these employees or an inability to attract or retain qualified employees could have a material adverse effect on the Company.

Certain existing shareholders have a significant influence on the Company, and the interests of these shareholders may be inconsistent with the interests of other shareholders

As of December 31, 2002, the Company's directors and supervisors owned approximately 46.3% of the Company's outstanding Shares. While no person, so far as is known to the Company, directly or indirectly, jointly or severally, exercises or could exercise control over the Company. The Company's directors and supervisors have and will continue to have the ability to exercise a significant influence over the Company's business and policy, including the matters relating to the management and policies, the timing and distribution of dividends and the election of the directors and supervisors of the Company. This influence may be exercised in a way that may not be consistent with the interests of other shareholders.

The Company's operations may be adversely affected by natural disasters

The Company's existing research and development and manufacturing facilities are located in Taiwan and mainland China, all which are vulnerable to natural disasters. Disruption of operations at the research and development center or manufacturing facilities for any reason, including work stoppages, power outages, fires, typhoons, earthquakes or other natural disasters, would cause delays in shipments of certain products, which could lead customers to obtain products from other sources. The Company has in the past experienced a number of major power outages, each of which resulted in a brief suspension of operation. In September 1999, a major earthquake occurred with its epicenter in central Taiwan. The earthquake caused interruptions to power supply and significant damage to buildings across Taiwan. After the 1999 earthquake, there were a number of earthquakes in Taiwan in 2000, 2001 and 2002 including one in northern Taiwan on March 31, 2002. Like many other companies in Taiwan, the 1999 earthquake resulted in the Company suspending its Taiwan operations briefly for approximately 3 days. The Company's Taiwan operations were not affected by the other earthquakes in Taiwan which occurred between 2000 to 2002. Similar incidents may occur in the future, which could have a material adverse effect on the Company's results of operations in Taiwan and the PRC.

The Company may be subject to changes in tax benefits and increased taxes

The Company has structured its operations among various jurisdictions in the most tax efficient manner. If the tax rates and policies applicable to the Company are rescinded or changed or if tax authorities were to challenge successfully the manner in which profits are recognized among the members of the Company, the Company's taxes could increase and its results of operations and cash flow could be adversely affected.

Financial reporting and accounting standards in the ROC differ from other countries

The Company is subject to financial reporting requirements in the ROC that differ in significant respects from those applicable to companies in certain other countries including the United States and the United Kingdom. In addition, the Company's financial statements are prepared in accordance with the ROC GAAP, which differ in certain material respects from U.S. GAAP. See "Summary of Certain Differences Between ROC GAAP and U.S. GAAP". Potential investors should consult their own professional advisers for an understanding of such differences and how they might affect the financial information contained herein.

Investors are recommended not to unduly rely on financial forecasts that the Company reports from time to time as required by the Taiwan Stock Exchange

Investors of the Bonds are recommended not to unduly rely on the forecasts published by the Company from time to time under the requirements of the TSE. These forecasts are based upon a number of estimates and assumptions regarding the Company's industries, investments and general market, political and economic conditions, many of which are beyond the Company's control, and are inherently subject to significant uncertainties and contingencies.

None of the information included in this Offering Circular has formed or will form the basis of the Company's future forecasts. The Company does not undertake any obligation to update these forecasts, except as required by applicable laws and regulations.

Risks Relating to the Offering

The Bondholders' ability to exercise their conversion rights may be limited

The Bonds are convertible into Shares at the option of the converting Bondholders one year after the Closing Date pursuant to the terms of the Bonds. Purchasers of the Bonds will not be able to exercise their conversion right during the Closed Periods, as defined in the terms and conditions of the Bonds. Under current ROC law, regulations and policy, PRC persons are not permitted to hold or convert the Bonds or to register as shareholders of the Company.

The Company has not, at the date of this Offering Circular, established or authorized the establishment of any DR facility. Accordingly, conversion into DRs is not currently available. If in the future a depositary receipt facility is established or authorized, the Company will, to the extent permitted by applicable laws and regulations, make arrangements satisfactory to the Trustee for the Shares issued upon conversion of Bonds to be accepted for deposit (at the option of the converting Bondholder) into such depositary receipt facility, subject always to the terms of such depositary facility, which terms may include certification or other requirements as conditions to the acceptance for deposit of the Shares issued upon conversion of Bonds. There can be no assurance that the Company will in the future establish or authorize any DRs or that any arrangements for the deposit of Shares into such DRs would be available to all Bondholders.

Transfers of the Bonds and Shares are restricted

Neither the Bonds nor the Shares have been, nor will they be, registered under the securities laws of the United States or elsewhere and neither the Bonds nor the Shares may be publicly offered, sold, pledged or otherwise transferred in any jurisdiction where such registration may be required. See "Underwriting". The Bonds may not be publicly offered or sold, directly or indirectly, in the ROC.

An active trading market for the Bonds may not develop

The Bonds are a new issue of securities for which there is currently no trading market. The Company cannot predict whether an active trading market for the Bonds will develop or be sustained. If an active trading market were to develop, the Bonds could trade at prices that may be lower than the initial offering price. Whether or not the Bonds could trade at lower prices depends on many factors including:

- ▶ prevailing interest rates and the markets for similar securities;
- ▶ general economic conditions; and
- ▶ the Company's financial condition, historic financial performance and future prospects.

If an active market for the Bonds fails to develop or be sustained, the trading price of such Bonds could be materially adversely affected. Application has been made to have the Bonds listed on the Luxembourg Stock Exchange. However, there can be no assurance that the Company will be able to obtain or be able to maintain such a listing or that, if listed, a trading market will develop on the Luxembourg Stock Exchange. The Company does not intend to apply for listing of the Bonds on any securities exchange other than the Luxembourg Stock Exchange. The Bonds may not be publicly offered, sold, pledged or otherwise transferred in any jurisdiction where registration may be required.

Shares eligible for future sale by the current shareholders may adversely affect the market price of the Shares

While the Company is not aware of any plans by any major shareholders to dispose of a significant amount of Shares, it cannot assure that one or more of the shareholders will not dispose of the Shares in the future. The Company also cannot predict the effect, if any, that future sales of the Shares, or the availability of the Shares for future sale, will have on the market price of the Shares prevailing from time to time. Sales of substantial amounts of common shares in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of the Shares.

Bondholders will be required to appoint several local agents in Taiwan if they convert the Bonds into Shares, which may make ownership burdensome

Non-ROC Bondholders wishing to convert the Bonds into Shares are required under current ROC laws and regulations to appoint an agent, called a tax guarantor, in Taiwan for filing tax returns and making tax payments on their behalf. A tax guarantor must meet certain qualifications set by the Ministry of Finance of the ROC and, upon appointment, becomes a guarantor of the Bondholders' ROC tax obligations. Bondholders wishing to repatriate profits derived from the sale of Shares received upon conversion or cash dividends or interest derived from any such Shares, will be generally required to submit evidence of appointment of a tax guarantor and the approval of the appointment by the ROC tax authorities. There is no assurance that Bondholders will be able to appoint and obtain approval for a tax guarantor in a timely manner.

In addition, under current ROC law, non-ROC Bondholders who exercise their conversion rights to receive Shares will be required to appoint a local agent in Taiwan to, among other things, open a securities trading account with a local securities brokerage firm, remit funds and exercise shareholders' rights. They must also appoint a local bank to act as custodian for handling confirmation and settlement of trades, safekeeping of securities and cash proceeds and reporting and declaration of information. Without a local agent, a custodian and the opening of a trading account, the Bondholders will not be able to hold, sell or otherwise transfer Shares.

Risks Relating to the ROC

Disruptions in the ROC's political environment could seriously harm the Company's business

The Company's principal executive office and a substantial portion of its assets are located in Taiwan and most of its net operating revenues are derived from the operations in the ROC. Accordingly, the financial condition and results of operations of the Company and the market price of the Shares may be affected by changes in ROC governmental policies, taxation, inflation, interest rates, social instability and other political, economic, diplomatic or social developments in or affecting ROC which are outside of the Company's control.

The ROC has a unique international political status. The PRC asserts sovereignty over mainland China and Taiwan and does not recognize the legitimacy of the ROC government. The ROC government resists sovereignty of the PRC and holds the ROC as a state with full sovereignty power equal to the PRC's. President Chen of the ROC recently announced "one side, one state" policy, which was unwelcomed by the PRC government. Although significant economic and cultural relations have been established in recent years between the ROC and the PRC, the government in the PRC has refused to renounce the possibility that it may at some point use force to gain control over the ROC. Relations between the ROC and the PRC and aspects of the ROC's political environment could negatively affect the Company's business and the market price of the Shares. The adverse economic conditions in Taiwan may affect the Company and the prices of its Shares and the Bonds.

The economy in the ROC has experienced significant downturns and related difficulties in recent years. The value of NT Dollars has fluctuated significantly since 1998. See "Exchange Rates". In addition, the capital markets in the ROC have experienced substantial downfalls in recent years. The adverse economic conditions in Taiwan could materially and adversely affect the Company's business, results of operations and financial condition. The adverse economic conditions may also adversely affect the prices of the Company's Shares and the Bonds.

Foreign exchange approvals may be required

Under existing ROC law, foreign exchange approvals must be obtained from the Central Bank of China (the "CBC") on a payment-by-payment basis for the conversion into foreign currencies of the net proceeds realized from sales of the Shares issued upon conversion of Bonds or any dividends relating to such Shares, or of any cash dividends or other cash distributions in respect of such Shares, as well as for inward remittances of subscription payments in connection with a rights issue. In addition, foreign persons may, subject to certain required documents, 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. There can be no assurance that any such approval will be obtained in a timely manner or at all.

Risks relating to the PRC

The Company is subject to the political and economic situation and legal developments in the PRC

Currently a substantial part of the Company's operations and assets are located in the PRC and the Company expects to make further investments in the PRC in the future. The Company is also selling and marketing its products in the PRC. Accordingly, financial condition, results of operations and future prospects of the Company are subject, to a significant degree, to the political and economic situation and legal developments in the PRC. Prior to 1978, the PRC had adopted a central economic planning system. All production and economic activities in the country were governed by the economic goals set out in the five-year plans and annual plans adopted by central authorities. Since 1978, the PRC government has permitted foreign investment and implemented economic reforms,

gradually changing from a planned economy towards a market-oriented economy. However, many of the reforms and economic policies adopted or to be adopted by the PRC government are unprecedented or experimental in nature and may have unforeseen results, which may have an adverse effect on enterprises with substantial business in the PRC, including the Company.

The Company is subject to risks associated with the PRC legal system

Since 1979, many laws and regulations dealing with general economic matters or particular economic activities have been promulgated in the PRC. However, enforcement of existing laws and regulations may be uncertain and sporadic and implementation and interpretation thereof may be inconsistent. The PRC judiciary is relatively inexperienced in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation. Further, it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. The PRC's legal system is based on written statutes and, therefore, decided legal cases do not have binding legal effect, although they are often followed by judges as guidance. The introduction of new PRC laws and regulations and the interpretation of existing laws and regulations may be subject to policy changes reflecting domestic political or social changes. As the PRC legal system develops, there can be no assurance that changes in such legislation or interpretation thereof will not have a material adverse effect on the business, financial condition, results of operations and future prospects of the Company.

TERMS AND CONDITIONS OF THE BONDS

The following terms and conditions (except for the sentences in italics) will be endorsed on the Global Certificate and the Definitive Certificates issued in respect of the Bonds. The Global Certificate contains provisions which apply to the Bonds when they are represented by the Global Certificate, some of which modify the effect of the terms and conditions set out below. See “The Form of the Bonds”.

The issue of U.S.\$30,000,000 Zero Coupon Convertible Bonds Due 2008 (the “**Bonds**”) of Mobiletron Electronics Co., Ltd (the “**Company**”) was authorized by a resolution of the board of directors of the Company adopted on December 20, 2002. The Bonds are constituted by an indenture (the “**Indenture**”) to be dated as of March 27, 2003 and to be made between the Company and The Bank of New York, as trustee (the “**Trustee**”), which term includes any successor trustee under the Indenture for the holders of the Bonds (the “**Bondholders**”). The Company will enter into a paying and conversion agency agreement (the “**Agency Agreement**”) to be dated as of March 27, 2003 with the Trustee and The Bank of New York, as the registrar (the “**Registrar**”) and the paying, transfer and conversion agent, (the “**Principal Agent**”, also the “**Paying Agent**”, the “**Conversion Agent**” and the “**Transfer Agent**” and such expression shall include the Principal Agent), in relation to the Bonds. The Registrar, the Principal Agent, the Paying Agent, the Conversion Agent and the Transfer Agent together are referred to as the “**Agents**”. The statements in these Terms and Conditions (“**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Indenture. Copies of the Indenture and the Agency Agreement are available for inspection during normal business hours at the principal office of the Trustee, being at the date hereof at 101 Barclay Street, 21st Floor West, New York, N.Y. 10286 U.S.A. and at the specified offices of each of the Agents. The Bondholders are entitled to the benefit of the Indenture and are bound by, and are deemed to have notice of, all the provisions of the Indenture and the Agency Agreement.

1. Status

The Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured general obligations of the Company and rank at least *pari passu* in right of payment among themselves and (subject to Condition 3) with all other present and future direct, unconditional, unsubordinated and unsecured obligations of the Company, except as may be required by mandatory provisions of law.

2. Form, Denomination and Title

(A) *Form and Denomination*

The Bonds will be issued in registered form, without coupons, in denominations of U.S.\$1,000 and integral multiples thereof. The Bonds will be offered and sold in principal amounts of U.S.\$1,000 or an integral multiple thereof and will be transferable in principal amounts of U.S.\$1,000 or an integral multiple thereof. The Bonds are not issuable in bearer form. The Bonds will initially be represented by a global certificate (the “**Global Certificate**”) deposited with The Bank of New York, as common depositary for, and registered in the name of a nominee for, Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”).

Owners of interests in the Bonds will not be entitled to receive definitive physical certificates (the “**Definitive Certificate**”) in respect of their Bonds except in the limited circumstances described in the Global Certificate. In the event that certificates do become issuable, a Definitive Certificate will be issued to each Bondholder in respect of its registered holding of Bonds. Each Bond and each Definitive Certificate will be serially numbered with an identifying number which will be recorded on the relevant Definitive Certificate and in the register of Bondholders which the Company will procure to be kept by the Registrar.

(B) *Title*

The Bonds will be registered instruments, title to which will pass only by transfer and registration in the register of Bondholders. The registered holder of any Bond will (except as otherwise required by law or ordered by a court of competent jurisdiction) 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 will be liable for so treating the holder. In these Conditions, “**Bondholder**” and (in relation to a Bond) “**holder**” mean the person in whose name a Bond is registered.

3. **Negative Pledge**

So long as any of the Bonds remain outstanding (as defined in the Indenture) or any amount is due under or in respect of any Bond or otherwise under the Indenture, the Company and each of its Principal Subsidiaries shall not, and shall ensure that none of its Principal Subsidiaries (as defined below), if any, will, create or permit to be outstanding any mortgage, charge, pledge, lien or other form of encumbrance (each an “**Encumbrance**”) upon the whole or any part of its, or, as the case may be, any such Principal Subsidiary’s, if any, undertaking, property, assets or revenues, present or future, to secure for the benefit of the holders of any International Investment Securities (as defined below) (i) any payment of any sum due in respect of any such International Investment Securities, (ii) any payment under any guarantee relating to any such International Investment Securities or (iii) any payment under any indemnity or other like obligation relating to any such International Investment Securities without in any such case at the same time according to the Bonds, either the same security as is granted to or is outstanding in respect of such International Investment Securities, guarantee, indemnity or other like obligation or such other security as shall be approved by an Extraordinary Resolution (as defined in the Indenture) of the Bondholders.

As used herein, the term “**International Investment Securities**” means bonds, debentures (debentures for this purpose shall exclude, for the avoidance of doubts, fixed or floating charges, loan agreements or other documents creating or evidencing indebtedness which are not commonly known as securities), notes or investment securities of the Company or any other person evidencing indebtedness with a maturity of not less than one year from the date thereof which (a) either (i) are by their terms payable, or confer a right to receive payment, in any currency other than New Taiwan Dollars or (ii) are denominated or payable in New Taiwan Dollars and more than 50% of the aggregate principal amount thereof is initially distributed outside Taiwan, the Republic of China (the “**ROC**”) by or with the authorization of the issuer thereof 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.

“**Principal Subsidiary**” means any Subsidiary (i) whose net operating revenues, as shown by the latest audited accounts (consolidated in the case of a company which itself has subsidiaries) of such Subsidiary, are at least 10% of the net operating revenues of the Company and its consolidated Subsidiaries as shown by the latest audited consolidated accounts of the Company or (ii) whose total assets, as shown by the latest audited accounts (consolidated in the cases of a company which itself has subsidiaries) of such Subsidiary are at least 10% of the total assets of the Company and its consolidated Subsidiaries as shown by the latest audited consolidated accounts of the Company, which may be acquired or formed by the Company from time to time during the terms of the Bonds.

“**Subsidiary**” means any corporation or other business entity more than 50% of the outstanding voting stock of which is for the time being owned directly or indirectly by the Company.

4. **No Interest**

No interest will be payable on the Bonds, except as provided in Condition 10.

5. Transfers of Bonds; Issue of Definitive Certificates

(A) *Transfers*

Subject to Condition 5(D) below, a Bond may be transferred by delivering the individual Definitive Certificate evidencing that Bond duly endorsed and accompanied by a form of transfer, duly completed and signed, at the specified office of any Transfer Agent appointed pursuant to the Agency Agreement (if a Definitive Certificate has been issued) or, in the case of a Bond represented by the Global Certificate, delivery at such office of a form of transfer obtainable from any of the Transfer Agents (the “**Form of Transfer**”), duly completed and executed. In the case of a transfer of only part of a holding of Bonds in respect of which a Definitive Certificate is issued, a new Definitive Certificate shall be issued to the transferee in respect of the part transferred and a further new Definitive Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. The Form of Transfer is available at the specified office of the Transfer Agent appointed pursuant to the Agency Agreement.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

(B) *Delivery of New Definitive Certificates*

Each new Definitive Certificate to be issued upon a transfer of Bonds shall be available for delivery upon receipt by the Transfer Agent at its specified office of the relevant Definitive Certificate and the Form of Transfer. Delivery of the new Definitive Certificates shall be made at the specified office of such Transfer Agent to whom the relevant Definitive Certificate and the Form of Transfer shall have been surrendered or delivered or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant Form of Transfer or otherwise in writing, be mailed within five Business Days of receipt by the Transfer Agent of the relevant Definitive Certificate and the Form of Transfer by registered post at the risk of the holder entitled to the new Definitive Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify.

Except in the limited circumstances described in the Global Certificate, owners of interests in the Bonds represented by the Global Certificate will not be entitled to receive Definitive Certificates (if issued) in respect of their individual holdings of the Bonds.

For the purposes of this Condition 5, “**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 relevant Transfer Agent with whom a Definitive Certificate is deposited or surrendered in connection with a transfer, conversion or redemption is located.

(C) *Formalities Free of Charge*

Transfers of the Bonds will be effected without charge by or on behalf of the Company or any Transfer Agent, but only upon payment (or the giving of such indemnity as such Transfer Agent may require in respect) of any tax or other governmental charges which may be imposed in relation thereto.

(D) *Restricted Transfer Periods*

No Bondholder may require the transfer of a Bond to be registered (i) during the period of ten days ending on the due date for any payment of principal and premium (if any) on the Bond; (ii) 20 days after such Bond has been called for redemption pursuant to Condition 8(B) or 8(D);

(iii) after the Conversion Notice (as defined in Condition 6(B)) and the individual Definitive Certificate in respect of such Bond (if issued) have been deposited for conversion pursuant to Condition 6; or (iv) following exercise of the Bondholder's put option pursuant to Condition 8(C).

(E) *Regulations*

All transfers of Bonds and entries on the register of Bondholders will be made subject to the detailed regulations concerning transfer of Bonds (the "**Regulations**") set forth in the Agency Agreement. The Regulations may be changed by the Company, with the prior written approval of the Trustee and the Registrar which shall not be unreasonably withheld. A copy of the Regulations will be mailed (at the Company's expense) by the Registrar to any Bondholder who asks for one and will also be available at the office of the Paying and Conversion agent.

6. Conversion

On exercise of the Conversion Right (as defined below), the converting Bondholders pursuant to the election made by such Bondholder may: (a) elect to receive Shares in Taiwan, or (b) in the event the Company establishes a depositary receipt facility following the closing for the conversion of the Bonds and subject to compliance with the terms and conditions of the deposit agreement established with such depositary receipt facility, elect to receive depositary shares representing the interests in the Shares and the Bondholder may direct the Company to procure that Shares transferred and delivered upon conversion of the Bonds are deposited with the custodian for the DR Depositary (as defined below) for the issuance and delivery of the DRs (as defined below) by the DR Depositary. The DRs may be listed on recognized stock exchanges.

In the event that the Company establishes a depositary receipt facility for the conversion of the Bonds, it will have to procure additional Shares for deposit with the custodian for the DR Depositary subject to compliance with the terms and conditions of the deposit agreement and applicable laws. Such Shares could be procured by open market purchases or by issuing new Shares, subject to compliance with applicable ROC law and the Company's articles of incorporation.

In the event the Company does establish a depositary receipt facility for the conversion of the Bonds, the procedure for Bondholders to convert the Bonds into DRs will be substantially similar to the conversion procedure for Bondholders to convert the Bonds into Shares. In each case, the Bondholder will deposit the individual Definitive Certificate (if issued) in respect of a Bond and the Conversion Notice (as defined herein) with the Conversion Agent. However, in the case of conversion into DRs, the Bondholder will direct that all of the Shares issuable upon conversion be deposited with the relevant DR Depositary for issuance of DRs (as defined below).

The Company shall, within five Trading Days (as defined in Condition 8(B)) from the date the notification of the Conversion Notice is received by the Company or its domestic stock transfer agent from the Principal Agent, issue and deliver the Shares converted from the Bonds to the converting Bondholder or its designee, subject to the requirements relating to the conversion in the Indenture and in these terms and conditions being satisfied.

The Company undertakes to ensure that its authorized and unissued Shares will at all times equate or exceed the Shares that are required to be issued by the Company in connection with the exercise of the Conversion Rights. The Company represents and warrants that all acts, conditions and things required to be taken, fulfilled and done (including, without limitation, the obtaining of all necessary approvals, consents, authorizations, filing, registration, documentation or permit) for the purpose of issuing the Shares upon the exercise of the Conversion Rights by the Bondholders and the listing of such Shares on the Taiwan Stock Exchange, have been done, fulfilled and obtained and there

has been no default in the observance of the conditions or restrictions (if any) imposed on or in connection with any of the same. The aforesaid Shares to be issued to the Bondholders upon the exercise of their Conversion Rights shall rank pari passu in all respects with the existing Shares of the Company listed on the Taiwan Stock Exchange.

*The Indenture provides, in summary, that the term “**Shares**” means, when used to refer to the class or classes of the Company’s capital stock into which the Bonds are convertible and when used in certain other instances, only the Company’s common shares, NT\$10 par value per share, but that when used elsewhere, including in Condition 6(C), such term also includes shares of any other class or classes of the share capital of the Company authorized 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 the Company.*

(A) Conversion Right

- (i) **Conversion Period:** Each Bondholder has the right during the Conversion Period (as defined below) to convert any Bond into Shares, credited as fully paid, and may, if a depositary receipt (“**DR**”) facility has been established for the conversion of the Bonds, and subject to compliance with the terms and conditions of the relevant deposit agreement, direct in the Conversion Notice that all or some only of the Shares issuable upon conversion be deposited with the relevant DR depositary (the “**DR Depositary**”) for issuance of DRs on and subject to the terms set forth herein (the “**Conversion Right**”). Subject to and upon compliance with the provisions of this Condition, the Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof and as and to the extent provided herein, at any time on or after March 27, 2004 and prior to the close of business (at the place where the Conversion Notice (as defined in Condition 6(B)) and the individual Definitive Certificate (if issued) in respect of such Bond are deposited for conversion) on February 26, 2008 (or if such date shall not be a business day, on the immediately preceding business day at such place) (but in no event thereafter), or, if such Bond shall have been called for redemption prior to that date, then up to the close of business (at the place aforesaid) on the seventh 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 “**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 but such Conversion Right shall not lapse and shall notwithstanding any Condition, take effect on the Trading Day following the last day of the Closed Period and for this purpose, the Conversion Period shall be deemed to include such Trading Day. “**Closed Period**” shall mean any period during which, under the laws of the ROC or otherwise, the Company shall close its shareholders register, which period includes (a) 60 days prior to the date of the annual meeting of shareholders (“**AGM**”), (b) 30 days prior to an extraordinary shareholders’ meeting, (c) the period from the third Trading Day prior to the Company’s notification to the TSE in respect of a record date (and the relevant closure of the shareholders’ register) for determining the identity of shareholders entitled to receive annual dividend distribution or other rights or benefits to such record date. The Company shall procure that the Bondholders and the Trustee are given not less than 10 days’ nor more than 60 days’ prior notice of any Closed Period in accordance with Condition 15.

Under current ROC law, regulation and policy, PRC persons are not permitted to hold or convert the Bonds or to register as a shareholder of the Company. Under current ROC law, a 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), any agency or instrumentality of the PRC and any corporation, partnership and 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 Bondholder when exercising his Conversion Right to convert the Bonds into Shares is required (unless the Bondholder has the option under these Conditions to elect, and elects to receive DRs with respect to the Bonds to be converted. In such case, the Shares will be delivered to and deposited with a custodian appointed by the relevant DR Depositary) to appoint a local agent in the ROC with such qualifications as are set by the ROC Securities and Futures Commission ("ROC SFC"), to open a securities trading account with a local brokerage firm and a New Taiwan Dollar bank account, remit funds, exercise shareholders' rights, handle conversion application and perform such other matters as may be designated by such converting Bondholder (or its designee), on behalf of and as agent for such converting Bondholder (or its designee) and a tax agent, who also has to serve as a tax guarantor, to file tax returns and make tax payments. In addition, such non-ROC converting Bondholder must also appoint a custodian bank to hold the securities for safekeeping, make confirmation and settlement, and report all relevant information. Under existing ROC laws and regulations, without opening such accounts, an investor in the Bonds would not be able to receive, hold, sell or otherwise transfer the Shares into which the Bonds may have been converted on the TSE or otherwise. See "Description of the Shares".

- (ii) *Number of Shares and/or DRs Issuable on Conversion:* The number of Shares to be issued upon conversion of any Bond will be determined by dividing the principal amount of the Bond (translated into NT Dollars at the fixed rate NT\$34.71 = U.S.\$1.00) by the Conversion Price (as defined below) in effect on the Conversion Date as defined in Condition 6(B)(ii). Fractional Shares will not be issued or paid in cash, or in any other means. The number of DRs to be issued upon conversion of any Bond (if applicable) will be determined by dividing the principal amount of the Bond by the Conversion Price (as defined below) in effect on the Conversion Date (translated into NT Dollars at the fixed rate of NT\$34.71 = U.S.\$1.00), and multiplying such quotient by the number of Shares represented by each DR on the Conversion Date as defined in Condition 6(B)(ii).

If a Definitive Certificate or Definitive Certificates in respect of more than one Bond shall be deposited for conversion at any one time by the same Bondholder, the number of Shares (and/or DRs, if applicable) to be issued upon conversion thereof will be calculated on the basis of the aggregate principal amount of the Bonds in respect of which the Definitive Certificate(s) were so deposited. Fractions of Shares (and/or DRs, if applicable) will not be issued on conversion, and cash adjustments will not be made in respect thereof by the Company. Notwithstanding the foregoing, in the event of a consolidation or reclassification of Shares (and DRs, if applicable) by operation of law or otherwise occurring after March 27, 2003, the Company will upon conversion of the Bonds pay in U.S. Dollars a sum equal to such portion of the principal amount of the Bond or Bonds converted as corresponds to any fraction of a Share (and/or DR, if applicable) not issued as aforesaid if such sum exceeds U.S.\$10. For the purpose of calculating the amount of such payment, the Company shall use the exchange rate referred to above in this Condition 6(A)(ii).

- (iii) *Initial Conversion Price:* The price at which Shares will be issued upon conversion (the "**Conversion Price**") will initially be NT\$53.00 per Share, which is equivalent to U.S.\$1.53 per Share based on the Fixed Exchange Rate(as defined below) but will be subject to adjustment in the manner provided in Conditions 6(C) and 6(D). The price at which DRs will be issued upon conversion, in the event that the Company

establishes a depositary receipt facility, will be determined by dividing the Conversion Price by the number of Shares represented by each DR on the Conversion Date and will be subject to adjustment in the manner provided in Conditions 6(C) and 6(D). In the event that a depositary receipt facility is established and DRs may be issued upon conversion, the term “Conversion Price” shall be understood to mean the price at which DRs will be issued or the price at which Shares will be issued, as the case may be.

- (iv) *Revival on Default:* Notwithstanding the provisions of Condition 6(A)(i), if there shall be default in making payment in full in respect of any Bond which shall have been called for redemption prior to March 27, 2008 on the date fixed for redemption thereof, the Conversion Right attaching to such Bond will continue to be exercisable up to and including the close of business (at the place where the relevant individual Definitive Certificate (if issued) in respect of such Bond and the Conversion Notice (as defined in Condition 6(B), are deposited for conversion) on the date upon which the full amount of the monies payable in respect of such Bond has been duly received by the Trustee or the Principal Agent and notice of such receipt has been duly given to the Bondholders.

(B) *Conversion Procedure*

- (i) *Exercise Procedure:* To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at its own expense between 9:00 a.m. and 3:00 p.m. (local time at the specified office referred to below) on any business day (as defined below) during the Conversion Period at the specified office of a Conversion Agent outside of the ROC, a notice of conversion (a “**Conversion Notice**”) in duplicate, duly completed and signed, in the form as set out in Exhibit A of the Paying and Conversion Agency Agreement, together with the relevant individual Definitive Certificate (if issued) and any certificates and other documents as may be required under the law of the ROC or the jurisdiction in which such Conversion Agent is located and any amount to be paid by the Bondholder. The Conversion Notice shall contain, among other things, an appointment of a local agent by such converting Bondholder as required by the applicable laws and regulations. A Conversion Notice, or the relevant individual Definitive Certificate (if issued), deposited outside the hours specified above or on a day which is not a business day at the place of the specified office of the relevant Conversion Agent shall for all purposes be deemed to have been deposited with the Conversion Agent between 9:00 a.m. to 3:00 p.m. on the next business day.

Bondholders who deposit a Conversion Notice during a Closed Period will not be permitted to convert their Bonds until the Trading Day following the last day of the Closed Period which (if all other conditions to convert have been fulfilled) will be the Conversion Date for such Bonds. Such Bondholders or the relevant DR Depositary, as applicable, will not be registered as holders of Shares until the Conversion Date.

If a DR facility has been established and DRs have been issued, the Conversion Notice shall contain an option for the Bondholder to elect to receive Shares and/or DRs upon such conversion. The Conversion Notice shall contain, inter alia, an appointment of a local agent by such converting Bondholder and an irrevocable instruction to exchange for Shares issued pursuant to Condition 6(B)(iii), as soon as Shares are available. A Conversion Notice once deposited may not be withdrawn without the consent in writing of the Company, and the Conversion Agents, Principal Agent and Trustee shall be immediately notified in writing of such written consent of the Company, accompanied by the relevant Conversion Notice. The price at which such Bonds will be converted will be the Conversion Price in effect on the Conversion Date.

In this Condition, “**business day**” means a day on which commercial banks are open for business in London, and in the place where the Conversion Agent with whom the individual Definitive Certificate (if issued) and the Conversion Notice are deposited is open for business.

- (ii) *Taxes and Expenses; Deposit Date and Conversion Date:* As conditions precedent to conversion, together with the Conversion Notice, the Bondholder must pay to the relevant Conversion Agent all stamp, issue, registration, excise and similar taxes or duties or transfer costs (if any) arising on conversion in the country in which the Bond is deposited for conversion, or payable in any jurisdiction consequent upon the issue or delivery of Shares (and/or DRs, if applicable) or any other property or cash upon conversion to or to the order of a person other than the converting Bondholder. Except as aforesaid, the Company will pay the expenses arising in the ROC on the issue of Shares (and/or DRs, if applicable) on conversion of Bonds and all charges of the Conversion Agents (and the relevant DR Depositary, if applicable) in connection therewith as provided in the Indenture and Agency Agreement. The date on which any Definitive Certificate and the Conversion Notice (in duplicate) relating thereto, together with any certificates and other documents as may be required under applicable law or a relevant deposit agreement (if applicable), are deposited with a Conversion Agent and the payments, if any, required to be paid by the Bondholder are made is hereinafter referred to as the “**Deposit Date**”. The “**Conversion Date**” applicable to a Bond shall mean the next day following the Deposit Date, which is both a Trading Day as defined in Condition 8(B) and a day which occurs during the Conversion Period. Bondholders who deposit a Conversion Notice during a Closed Period will not be permitted to convert their Bonds until the Trading Day following the last day of that Closed Period.
- (iii) *Holder of Record:* With effect from the opening of business in the ROC on the Conversion Date, the Company will deem the converting Bondholder (or its designee) as indicated in the Conversion Notice to have become the holder of record of the number of Shares to be issued upon such conversion to such holder (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 6(B)(v), the rights of such converting Bondholder as a Bondholder with respect to such Bonds converted shall cease (except rights arising under Condition 6(B)(vi) and 6(B)(vii)).

Under applicable ROC laws, the Company is required to report that information to the ROC SFC if the person to be registered as shareholder (i) is a “related party” to the Company as defined in Statement of Financial Accounting Standard No. 6 of the ROC or (ii) will hold, immediately following the conversion, more than 10% of the total number of the Shares issuable upon conversion of the aggregate principal amount of the Bonds at the time of issue.

In the event that a converting Bondholder has the option under these Conditions to elect, and elects, to receive DRs, with effect from the opening of business in the ROC on the Conversion Date, the Company will deem the relevant DR Depositary to have become the holder of record of the number of Shares represented by such DRs 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 upon delivery by the relevant DR Depositary to the Bondholder of the number of DRs into which the Bonds are convertible, subject to Condition 6(B)(v), the rights of such converting Bondholder as a Bondholder with respect to such Bonds converted shall cease (except rights arising under Condition 6(B)(vi) and 6(B)(vii)).

- (iv) *Availability of Shares:* The Company shall, for the benefit of Bondholders, ensure that sufficient Shares are available as soon as possible (but no later than five Trading Days after the date the notification of the Conversion Notice is received by the Company or its domestic stock transfer agent from the Principal Agent).
- (v) *Delivery of Shares and/or DRs:* On the Conversion Date, the Company will register the converting Bondholder (or its designee) or the relevant DR Depositary (or its designee), as applicable, in the Company's register of shareholders as the owner of the number of Shares to be issued pursuant to Condition 6(B)(iii) upon conversion of such Bonds and, subject to any applicable limitations then imposed by ROC laws and regulations, according to the request made in the relevant Conversion Notice, procure that, as soon as practicable, and in any event within five Trading Days after the date the notification of the Conversion Notice is received by the Company or its domestic stock transfer agent from the Principal Agent, there be delivered to the local agent appointed by the converting Bondholder, and/or to the relevant custodian, as agent for the relevant DR Depositary (if the converting Bondholder has the option under these Conditions to elect, and elects, to receive DRs), a certificate or certificates for the relevant Shares, by electronic credit to the account established by the relevant local agent for the conversion of the Bonds, through the facilities of the Taiwan Securities Central Depositary Co. Ltd., registered in the name specified for that purpose in the relevant Conversion Notice, together with any other property or cash (including, without limitation, cash payable pursuant to Condition 6(A)(ii)) required to be delivered upon conversion and such assignments and other documents (if any) as may be required by law to effect the delivery thereof. If the converting Bondholder has not created the required account, the Company will deliver the Shares after such account has been set up.

In the event a converting Bondholder has the option under these Conditions to elect, and elects, to receive DRs on exercise of its Conversion Right, the Company agrees to deliver to and deposit with the relevant custodian, as agent for the relevant DR Depositary, a sufficient number of Shares to represent the DRs such Bondholder is entitled to receive upon conversion. Such Shares will be registered in the name of the relevant DR Depositary or its nominee and deposited in accordance with the terms of the relevant deposit agreement.

- (vi) *Retroactive Adjustment of Conversion Price:* If the Conversion Date in relation to any Bond 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 6(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, the Company will, within 20 days after the effective date of such adjustment of the Conversion Price, issue and deliver (to the local agent appointed by the converting Bondholder and/or, if applicable, to the relevant custodian, as agent for the relevant DR Depositary) such number of Shares as is equal to the excess of the number of Shares that would have been required to be issued on conversion of such Bond if the relevant retroactive adjustment had been made as at the said Conversion Date over the number of Shares previously issued pursuant to such conversion, and in such event and in respect of such number of Shares, references in Condition 6(B)(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 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 and regulations of the ROC, the converting Bondholders will be entitled to the annual dividend distributions or other benefits if the Conversion Date falls on a day prior to the relevant record date.

(viii) *Conversion Agents*: The Company reserves the right, subject to the provisions of the Agency Agreement, at any time to vary or terminate the appointment of any Conversion Agent and to appoint further or other Conversion Agents; provided that the Company will at all times maintain a Conversion Agent having specified offices in London, the United Kingdom and, so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, in Luxembourg. Notice of any such termination or appointment and of any changes in the specified offices of the Conversion Agents will be given promptly by the Company to the Bondholders in accordance with Condition 15 and to the Luxembourg Stock Exchange.

(C) *Adjustments to Conversion Price*

The Conversion Price will be subject to adjustment in the manner set forth in the Indenture upon the occurrence of certain events set out in the Indenture, including:

- (i) the making of a free distribution or bonus issue of Shares;
- (ii) subdivisions, consolidations or reclassifications of Shares;
- (iii) the declaration of a dividend in Shares (under the terms of the Indenture, no account is to be taken of, or credit given for, the par value of Shares issued in any stock dividend in calculating an appropriate conversion price adjustment, so that the full dilutive effect of stock dividends is provided for);
- (iv) the grant, issue or offer to the holders of Shares of rights or warrants to subscribe for or purchase Shares at less than the then Current Market Price (as defined in the Indenture) or to subscribe for or purchase any securities convertible into or exchangeable for Shares at less than the then Current Market Price;
- (v) the distribution to the holders of Shares of evidences of indebtedness of the Company or of shares of capital stock of the Company (other than Shares) or of assets (other than regular periodic dividends in cash) or of rights or warrants to subscribe for or purchase shares or securities (other than those mentioned in (iv) above);
- (vi) the issue of securities (other than (a) the Bonds, (b) those mentioned in (iv) above) convertible into or exchangeable for Shares at less than the then Current Market Price or of rights or warrants (other than those mentioned in (iv) above) to subscribe for or purchase Shares at less than the then Current Market Price or to subscribe for or purchase securities convertible into or exchangeable for Shares at less than the then Current Market Price;
- (vii) the issue of Shares (other than (a) Shares issued on conversion of convertible bonds, including the Bonds, or (b) Shares to shareholders of any company which merges with the Company upon such merger and in proportion to their shareholdings in such company immediately prior to such merger, or (c) in any of the circumstances described above but including Shares issued under any employee bonus or profit-sharing arrangements) at less than the then Current Market Price; and
- (viii) any other event or circumstance which would have in the determination of the Company or the Trustee an analogous effect to any of the events in (i) to (vii) above including, but not limited to, issues of receipts or certificates entitling holders to receive securities,

in accordance with the formulas stipulated in the Indenture. 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. Any adjustment will be notified promptly by the Company to the Bondholders in accordance with Condition 15.

For the avoidance of doubt, no adjustment will be made if there shall be any reduction of outstanding Shares resulting from the repurchase of Shares by the Company and the creation of treasury stock in connection therewith.

The Indenture provides that the Conversion Price may be reduced, as a result of any adjustment required by this Condition 6(C), below the par value of the Shares for the time being to the extent permitted by ROC law, provided that any Shares issued on conversion of Bonds at such reduced Conversion Price would be legally issued and non-assessable Shares.

The Trustee will not be obliged to monitor whether any event has occurred which might fall within (i) to (viii) above and until it has actual knowledge by way of express notice in writing from the Company to the contrary, shall assume that none has.

(D) *Conversion Price Reset*

The Conversion Price shall be adjusted (the “**Adjusted Conversion Price**”) on the first, second, third and fourth anniversary of the Closing Date (collectively the “**Reset Dates**” and each a “**Reset Date**”), in the event that the average closing price of the Shares on the TSE translated into U.S. Dollars at the then Prevailing Rate (defined below) for the 20 consecutive Trading Days immediately prior to a Reset Date (the “**Average Closing Price**”) is less than the Conversion Price then in effect on the relevant Reset Date translated into U.S. Dollars at the Fixed Exchange Rate in accordance with the following formula:

$$\text{Adjusted Conversion Price} = \frac{\text{Fixed Exchange Rate}}{\text{Prevailing Rate}} \times \text{Average Closing Price}$$

Such Adjusted Conversion Price shall be rounded upwards, if necessary, to the nearest NT\$0.01, provided that:

- (i) any adjustment to the Conversion Price pursuant to this Condition 6(D) shall be limited so that the Conversion Price adjusted in accordance with this Condition 6(D) shall not be less than 80% of the initial Conversion Price prevailing on March 27, 2003 (as adjusted to reflect any adjustments required under Condition 6(C) above, which may have occurred prior to the Reset Date);
- (ii) the provisions of Condition 6(C) shall apply *mutatis mutandis* to this Condition 6(D) to ensure that appropriate adjustments shall be made to any Closing Price to reflect any adjustments made to the Conversion Price in accordance with Condition 6(C) during the period of calculation of the Average Closing Price;
- (iii) the Conversion Price may be reduced below the par value of the Shares (currently NT\$10 per share), provided that under applicable law then in effect, the Bonds could be converted at such reduced Conversion Price into legally issued, fully-paid and non-assessable Shares; and
- (iv) for the avoidance of doubt (x) any adjustments to the Conversion Price made pursuant to this Condition 6(D) shall only be downward adjustments and (y) an adjustment may be made in respect of a Reset Date notwithstanding that an adjustment may have been made in respect of a preceding Reset Date, if any.

The “**Prevailing Rate**” for the translation of the Closing Prices shall be the arithmetic average of the closing rate for the purchase of U.S. Dollars with NT Dollars quoted by Taipei Forex Inc. at the close of business on each day of the 20 consecutive Trading Days preceding the relevant Reset Date. For the purpose of the formula in this Condition, the Prevailing Rate shall be expressed as the number of NT Dollars per U.S.\$1.00. The “**Fixed Exchange Rate**” is NT\$34.71 = U.S.\$1.00 for purposes of this Condition 6.

Any adjustment will be notified promptly by the Company to the Bondholders in accordance with Condition 15.

The “**Average Closing Price**” means the arithmetic average of the Closing Price for the 20 consecutive Trading Days immediately prior to the relevant Reset Date.

(E) *Mergers; Disposals*

The Company will not merge, amalgamate or consolidate with or into any other corporation or entity where the Company is not being the continuing entity or sell or transfer all, or substantially all, of the assets of the Company, 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 the Company shall have notified the Bondholders of such event in accordance with Condition 15 and the Company and such corporation, entity or person shall have executed an indenture supplemental to the Indenture in form and substance satisfactory to the Trustee providing that such corporation, entity or person shall assume the obligations of the Company under the Bonds, the Indenture and the Agency Agreement and providing that each Bond then outstanding shall be convertible into the class and amount of shares and other securities, cash and other property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares (and/or DRs, if applicable) into which such Bond would have been convertible immediately prior to such consolidation, amalgamation, merger, sale or transfer (assuming for such purpose that the Bonds were convertible at the time of such consolidation, amalgamation, merger, sale or transfer) at the Conversion Price as adjusted from time to time pursuant to the Indenture. Such supplemental indenture will provide for adjustments which will be as nearly equivalent as may be practicable to the adjustments provided for in the foregoing provisions to this Condition. The above provisions of this Condition 6(E) will apply in the same way to any subsequent or further consolidations, amalgamations, mergers, sales or transfers. Notwithstanding this Condition 6(E), no such amalgamation, merger, sale or transfer shall be effected if it would or might result in an Event of Default. A certificate signed by two authorized officers of the Company and a legal opinion from an independent international firm of solicitors appointed by the Trustee certifying that the provisions of this Condition 6(E) have been complied with in full shall be obtained on or before the date of such supplemental indenture.

(F) *Conversion Undertakings*

- (i) *Depository receipts:* Subject to the ROC SFC’s separate approval, if required, the Company may, at its option, but is not required to, make arrangements satisfactory to the Trustee for the Bonds to be converted into depository receipts or other scrip evidencing Shares. Any such arrangements shall be in addition to the provisions of these Conditions relating to conversion into Shares.

The Company has not at the date of the Offering Circular established or authorized the establishment of any depository receipt facility. Accordingly, conversion into DRs is not currently available. If in the future a depository receipt facility is established or authorized by the Company, the Company will, to the extent permitted by applicable laws and regulations, make arrangements satisfactory to the Trustee for Shares issued on conversion of Bonds to be accepted for deposit (at the option of the converting Bondholder) into such depository receipt facility and list the depository receipt

facility in an appropriate stock exchange as determined by the Company, subject always to the terms of such depositary facility, which terms may include certification or other requirements as conditions to the acceptance for deposit of Shares issued on conversion of Bonds. There can be no assurance that the Company will in future establish or authorize any depositary facility.

The Company shall give notice to the Conversion Agents, the Principal Agent and the Bondholders in accordance with Condition 15 and to the Luxembourg Stock Exchange within 14 days of the establishment of the depositary receipt facility.

- (ii) *Closed Periods:* The Company undertakes to ensure that any Closed Period is as short a period as is reasonably practicable having regard to applicable ROC laws and regulation and practices.

7. Payments

(A) Principal, Premium (if any) and Interest (if any)

Payment of principal, premium (if any) and interest (if any) will be made against surrender of the relevant certificate at the specified office of any Agent by transfer to the registered account of the Bondholder or by U.S. Dollar check drawn on a bank in The City of New York, U.S.A., mailed (provided that the Principal Agent shall have received the relevant funds in full from the Company in accordance with the Agency Agreement) to the registered address of the Bondholder by registered post if it does not have a registered account. Payments of principal and premium (if any) will only be made after surrender of the relevant individual Definitive Certificate (if issued) at the specified office of any Agent.

(B) Registered Accounts

A Bondholder's registered account means the U.S. Dollar account maintained by or on behalf of it with a bank in The City of New York, U.S.A., details of which appear on the register of Bondholders at the close of business on the second business day (as defined below) before the due date for payment and a Bondholder's registered address means its address appearing on the register of Bondholders at that time.

(C) Fiscal Laws

All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(D) Payment Initiation

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that date is not a business day, for value the next following business day) will be initiated and, where payment is to be made by check, the check will be mailed by registered post (provided that the Principal Agent shall have received the relevant funds in full from the Company in accordance with the Agency Agreement), on the later of the due date for payment and the business day on which the relevant Definitive Certificate is surrendered (if applicable) at the specified office of an Agent.

(E) Payment Delay

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a business day, if the Bondholder is late in surrendering its Definitive Certificate (if applicable) or if a check mailed in accordance with this Condition arrives after the due date for payment.

(F) *Business Days*

In this Condition, “**business day**” means a day on which commercial banks are open for business in the ROC, The City of New York, U.S.A. and London, United Kingdom and, in the case of the surrender of a Definitive Certificate, in the place where the Definitive Certificate is surrendered.

(G) *Partial Payments*

If the amount of principal and premium which is due on the Bonds is not paid in full, the Registrar will annotate the register of Bondholders with a record of the amount of principal and/or premium, in fact paid.

Distribution of payments with respect to the Global Certificates held through Euroclear or Clearstream, Luxembourg will be made to the holders holding through participants of Euroclear or Clearstream, Luxembourg, as the case may be, to the account of The Bank of New York, as common depositary for Euroclear and Clearstream, Luxembourg and will be credited by Euroclear or Clearstream, Luxembourg, as the case may be, to the cash accounts of the participants of Euroclear or Clearstream, Luxembourg, in accordance with the relevant system’s rules and procedures, to the extent received by the common depositary.

8. **Redemption, Purchase and Cancellation**

(A) *Redemption at Maturity*

Unless previously redeemed, converted or purchased and cancelled as herein provided, the Company will redeem the Bonds at their principal amount in U.S. Dollars on March 27, 2008. The Bonds may be redeemed in whole or in part prior to that date only as provided in paragraphs (B), (C) and (D) below (but without prejudice to Condition 10).

(B) *Redemption at the Option of the Company*

- (i) On or at any time after March 27, 2005, the Company may, having given not less than 80 days’ notice to the Bondholders in accordance with Conditions 8(H) and 15 (which notice will be irrevocable), redeem all, but not in part, of the Bonds at their principal amount if the Closing Price of the Shares translated into U.S. Dollars at the Prevailing Exchange Rate for each of the 20 consecutive Trading Days, the last of which occurs not more than ten days prior to the date upon which notice of such redemption is given, is at least 150% of the Conversion Price then in effect, translated into U.S. Dollars at the Fixed Exchange Rate, on each such Trading Day. Without prejudice to the foregoing, the Bondholders shall be entitled to exercise its conversion and redemption rights at any time after its receipt of such redemption notice from the Company. If there shall occur an event giving rise to a change in the Conversion Price during any such 20 Trading Day period, appropriate adjustments for the relevant days shall be made for the purpose of calculating the Closing Price for such days. If the Closing Price cannot be determined for one or more consecutive Trading Days, such day or days will be disregarded in the relevant calculation and will be deemed not to have existed when ascertaining such 20 Trading Day period. The “**Fixed Exchange Rate**” is NT\$34.71 = U.S.\$1.00 for purposes of this Condition 8(B).
- (ii) The Company may, at any time, having given not less than 80 days’ notice to the Bondholders in accordance with Conditions 8(G) and 15 (which notice will be irrevocable), redeem all but not some of the Bonds at their principal amount if 90% of the Bonds have been previously redeemed, repurchased and cancelled or converted.

Upon the expiry of any such notice, the Company will be bound to redeem the Bonds to which such notice relates at the price aforesaid applicable at the date fixed for redemption.

The term “**Trading Day**” means a day on which the TSE is open for business but does not include a day when (a) no such last transaction price or closing bid and offered prices are reported and (b) (if the Shares are not listed or admitted to trading on such exchange) no such closing bid and offered prices are furnished as aforesaid. The “**Closing Price**” of the Shares for each Trading Day shall be the last reported transaction price of the Shares on the TSE for such day or, if no transaction takes place on such day, the last available reported transaction price of the Shares on the TSE in effect on the Trading Day immediately preceding such day or, if the Shares are not listed or admitted to trading on such exchange, the average of the closing bid and offered prices of Shares for such day as furnished by a leading independent securities firm licensed to trade on the TSE selected by the Company for the purpose. The term “**Prevailing Exchange Rate**” in this Condition 8(B) means the closing rate of U.S. Dollars to NT Dollars quoted by Taipei Forex Inc. at the close of business on any relevant Trading Day.

(C) Redemption at the Option of Bondholders

Unless previously redeemed, converted or purchased and cancelled as herein provided, the Company will, at the option of the holder of any Bond, redeem all or part of the Bonds held by that Bondholder on March 27, 2006 and March 27, 2007 (each a “**Put Date**”) at 109.27% and 112.55%, respectively of their principal amount.

To exercise such option the holder must deposit the individual Definitive Certificate in respect of such Bond (if issued) with any Agent and a duly completed redemption notice in the form obtainable from any of the Agents, not more than 60 nor less than 30 days prior to the relevant Put Date. No Bond so deposited may be withdrawn (except as provided in the Agency Agreement) without the prior written consent of the Company and such written consent must be notified by the Company to the Principal Agent no later than seven days prior to the relevant Put Date. The Company shall give the Bondholders not less than 30 nor more than 45 days’ notice of the commencement of the period for the deposit of individual Definitive Certificates (if issued) for redemption and the redemption notice pursuant to this Condition 8(C) shall be given to the Bondholders by the Company in accordance with Condition 15. The exercise of the Bondholders’ option under this Condition 8(C) shall override any exercise of the Company’s right under Condition 8(B).

(D) Redemption for Taxation Reasons

At any time, the Company may, having given not less than 40 nor more than 60 days’ notice to the Bondholders in accordance with Conditions 8(G) and 15 (which notice shall be irrevocable) redeem all but not some only of the Bonds at their principal amount, if (i) the Company determines immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 9 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 on or after March 27, 2003 and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the giving of any notice of redemption pursuant to this paragraph, the Company shall deliver to the Trustee a certificate signed by two directors of the Company stating that the obligation referred to in (i) above cannot be avoided by the Company taking reasonable measures available to it and the

Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedents set out in (ii) above, in which event it shall be conclusive and binding on the Bondholders. Bonds in respect of which a notice of redemption has been given under Condition 8(B) and Condition 8(C) shall not be affected by any notice given subsequently under this Condition 8(D). Without prejudice to the foregoing, the Bondholders shall be entitled to exercise its conversion and redemption rights after its receipt of such redemption notice from the Company.

(E) *Purchase*

The Company may at any time and from time to time purchase Bonds in the open market or otherwise. Bonds so purchased will be surrendered and deemed cancelled and may not be reissued or resold.

(F) *Cancellation*

All Bonds which are redeemed or converted or purchased and surrendered to any Agent will forthwith be cancelled in accordance with the provisions of the Agency Agreement. Definitive Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Principal Agent and such Bonds may not be reissued or resold.

(G) *Redemption Notices*

All notices to Bondholders given by or on behalf of the Company pursuant to this Condition will specify the date fixed for redemption, the redemption price, the Conversion Price as at the date of the relevant notice, the Closing Price of the Shares and the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the notice.

9. Taxation

- (A) All payments of principal, premium (if any) and interest (if any) by the Company will 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 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, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law.
- (B) Where such withholding or deduction is in respect of ROC withholding tax on premium or interest payments at the rate of up to and including 20%, the Company will increase the amount of premium (if any) or interest (if any) paid by it to the extent required so that the net amount of premium (if any) or interest (if any) received by Bondholders (without prejudice to Condition 7) would be equal to the amounts which would have been receivable in the absence of any such withholding or deduction.
- (C) In the event that any such withholding or deduction in respect of principal or any additional withholding or deduction in excess of 20% in respect of interest (if any) or premium (if any) is required, the Company will pay such additional amounts by way of principal, premium

(if any) and interest (if any), as will result in the receipt by the Bondholders of the amounts which would have been receivable in the absence of any such withholding or deduction, except that no such additional amounts shall be payable in respect of any Bond:

- (i) to, or on behalf of, a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his being connected with the ROC otherwise than merely by holding such Bond or by the receipt of principal in respect of the Bond; or
 - (ii) if the individual Definitive Certificate in respect of such Bond (if issued) is surrendered more than 30 days after the relevant date except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant Definitive Certificate for payment on the last day of such 30 day period. For this purpose, the “**relevant date**” in relation to any Bond 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 Bondholders that such monies have been so received.
- (D) References in these Conditions to principal, premium or interest shall be deemed also to refer to any increased or additional amounts which may be payable in respect thereof under this Condition or any undertaking given in addition to or substitution for it under the Indenture.

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of not less than 25% in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (but subject to being indemnified or secured by the holders to its satisfaction), give notice in writing to the Company that the Bonds are immediately due and payable, if any of the following events (an “**Event of Default**”) shall have occurred and be continuing:

- (i) there is failure to pay the principal of or any premium (if any) on any of the Bonds within 15 business days after the same shall become due and payable in accordance with these Conditions; or
- (ii) the Company defaults in performance or observance of or compliance with any of its other obligations (other than the covenant to pay the principal, premium (if any) or interest (if any) in respect of the Bonds) set out in the Bonds 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 in the opinion of the Trustee remedied within 30 days after written notice of such default shall have been given to the Company by the Trustee; or
- (iii) any other present or future indebtedness of the Company, or any of its Principal Subsidiaries, for or in respect of monies borrowed or raised becomes (or becomes capable of being declared) 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 the Company or any of its Principal Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee or indemnity or arrangement or obligation having a like or similar effect (howsoever described) for any monies borrowed or raised by any person, provided that the aggregate amount of the relevant indebtedness and guarantees in respect of which one or more events mentioned above in this paragraph (iii) have occurred and is continuing equals or exceeds U.S.\$5,000,000 or its equivalent in any other currency

(determined as provided below), and provided further that where two or more of the Company and/or its Principal Subsidiaries are liable for the payment of the same relevant indebtedness or guarantee (whether liable jointly and severally, by way of guarantee, surety or otherwise), any such amount shall be counted once only; or

- (iv) an execution by a court having jurisdiction is levied or enforced or sued out, or other legal enforcement process is levied or sued out upon, commenced or issued upon, against or in respect of the whole or any substantial part of the undertaking, property, assets or revenues of the Company or any of its Principal Subsidiaries and in any such case is not discharged or stayed within 60 days of having been so levied, sued out, commenced or issued, unless the Company or such Principal Subsidiary is contesting such proceedings in good faith in accordance with relevant laws and regulations; or
- (v) any person entitled to the benefit thereof shall institute appropriate legal proceedings to enforce any Encumbrance upon the whole or any substantial part of the assets or revenues of the Company or any Principal Subsidiary and the same is not stayed, discharged, released or satisfied (as the case may be) within 60 days of such proceedings unless the Company or such Principal Subsidiary is contesting such proceedings in good faith in accordance with relevant laws and regulations; or
- (vi) the Company or any of its Principal Subsidiaries becomes bankrupt or insolvent, or consents to or suffers the appointment of an administrator, liquidator (except for the purpose of and followed by a voluntary solvent reorganization, merger, consolidation, amalgamation or other similar arrangement the terms of which have previously been approved by an Extraordinary Resolution of the Bondholders) or receiver (or other similar official) in bankruptcy or insolvency of the Company or any of its Principal Subsidiaries or in respect of the whole or any substantial part of the undertakings, property, assets or revenues of the Company or any of its Principal Subsidiaries or the Company or any of its Principal Subsidiaries stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts; or
- (vii) an order issued by a court with competent jurisdiction is made or an effective resolution passed by the Company or any of its Principal Subsidiaries for the winding-up or dissolution of the Company or any of its Principal Subsidiaries (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 an Extraordinary Resolution of the Bondholders); or
- (viii) the Company shall merge, amalgamate or consolidate with any other corporation or entity (with the Company not being the continuing 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, unless the Company shall have notified the Bondholders of such event in accordance with Condition 15 (with a copy of such notice sent to the Luxembourg Stock Exchange) and the Company and such corporation, entity or person shall have executed an indenture supplemental to the Indenture in form and substance satisfactory to the Trustee providing that such corporation, entity or person shall assume the obligations of the Company under the Bonds, the Indenture and the Agency Agreement and providing that each Bond then outstanding shall be convertible into the class and amount of Shares and other securities, cash and other property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares into which such Bond would have been convertible immediately prior to such consolidation, amalgamation, merger, sale or transfer (assuming for such purpose that the Bonds were convertible at the time of such consolidation, amalgamation, merger, sale or transfer) at the Conversion Price as adjusted from time to time pursuant to the Indenture; or

- (ix) any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or a substantial part of the assets or shares of the Company or any of its Principal Subsidiaries; or
- (x) proceedings shall have been initiated against the Company or any of its Principal Subsidiaries under any applicable bankruptcy, insolvency or reorganization law and such proceedings shall not have been discharged within a period of 60 days; or
- (xi) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, license, order, recording or registration) at any time required to be taken, fulfilled or done in order to (i) enable the Company lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds, the Agency Agreement and the Indenture, (ii) ensure that those obligations are legally binding and enforceable (subject to the qualifications set out in the legal opinion issued in connection therewith), and (iii) make the Bonds, the Indenture and the Agency Agreement admissible in evidence in the courts of New York, USA, is not taken, fulfilled or done and such case is incapable of remedy or is not remedied within 30 days; or
- (xii) it is or would become unlawful for the Company to perform or comply with any one or more of its material obligations under any of the Bonds or the Indenture or the Agency Agreement; or
- (xiii) 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 Condition 10 (iii) above, any indebtedness which is in a currency other than U.S. Dollars shall be translated into NT Dollars at the spot rate for the sale of U.S. 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 purposes. If no direct spot rate is available, a rate shall be calculated by reference to the cross-rates through U.S. Dollars and relevant currencies.

Upon any such notice being given to the Company, the Bonds will immediately become due and payable at 100% of their principal amount, with a compound interest rate of 3.5% per annum, calculated on the actual number of days elapsed and on a three hundred and sixty (360) day year from and including the date the Bonds are issued to the Bondholders up to but excluding the date of repayment.

For the purpose of this Condition, “**Subsidiary**” means any corporation or other business entity more than 50% of the outstanding voting stock of which is for the time being owned directly or indirectly by the Company, and “**Principal Subsidiary**” means any Subsidiary (i) whose total revenues, as shown by the latest audited accounts (consolidated in the case of a company which itself has subsidiaries) of such Subsidiary at the time that event of defaults occurs, are at least 10% of the total revenues of the Company and its consolidated Subsidiaries as shown by the latest audited consolidated accounts of the Company or (ii) whose gross assets, as shown by the latest audited accounts (consolidated in the case of a company which itself has subsidiaries) of such Subsidiary at the time that event of defaults occurs are at least 10% of the gross assets of the Company and its consolidated Subsidiaries as shown by the latest audited consolidated accounts of the Company.

The term “**business day**” for the purpose of this Condition 10 means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in Taipei, Taiwan, ROC.

11. Prescription

Claims in respect of (a) principal and premium (if any) and (b) interest (if any) will become unenforceable after ten years (in the case of (a)) and five (5) years (in the case of (b)), from the relevant date for payment in respect thereof.

12. Enforcement

At any time after the Bonds shall have become due and payable, the Trustee may, at its discretion and without further notice, take such proceedings against the Company as it may think fit to enforce payment of the Bonds together with premium (if any) with respect thereto and to enforce the provisions of the Indenture, but it will not be bound to take any such proceedings unless (a) it shall have been so requested in writing by the holders of at least 25% in principal amount of the Bonds then outstanding or so directed by an Extraordinary Resolution and (b) it shall have been indemnified and/or secured to its satisfaction. No Bondholder will be entitled to proceed directly against the Company, unless the Trustee, having become bound to do so, fails to do so and such failure shall have continued for a period of 60 days and no direction in writing inconsistent with such written request or Extraordinary Resolution has been given to the Trustee during such 60-day period by the holders of a majority in principal amount of the outstanding Bonds.

13. Meetings of Bondholders, Modification and Waiver

(A) Meetings

The Indenture contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds or the provisions of the Indenture. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing over 50% in principal amount of the Bonds for the time being outstanding or, at any such meeting which has been adjourned, two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the maturity date of the Bonds, (ii) to reduce or cancel the amount of principal, premium or interest (if any) payable in respect of the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify or cancel the right to convert the Bonds into Shares (except in accordance with Condition 6(B) and 13(B)) or to modify the circumstances in which the Bonds may be redeemed or converted at the option of the Company or to shorten the Conversion Period, (v) to modify the provisions relating to the reset of the Conversion Price, (vi) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution or sign a resolution in writing, (vii) amending this Condition 13(A), in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing 100% of principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and will be conclusive and binding upon all future Bondholders.

The Indenture provides that a written resolution signed by or on behalf of the holders of not less than 75% of the aggregate principal amount of Bonds outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

The Company shall prepare a supplement to the Offering Circular and notify the Bondholders (and the Luxembourg Stock Exchange) in accordance with Condition 15 in respect of any proposed Extraordinary Resolution relating to items (i) to (vii) above in this Condition 13(A).

(B) Modification of Conversion Right

Notwithstanding Condition 13(A)(iv) above, the Trustee may agree, without the consent of the Bondholders, to any modification to or variation of the Conversion Rights (including modification of and additions to the declarations and statements to be made by Bondholders in a Conversion Notice) which is in its opinion necessary or desirable to effect or facilitate conversion as contemplated in these Conditions and which is not materially prejudicial to the interests of the Bondholders. The Trustee's agreement may be subject to any condition which the Trustee requires; including, but not limited to, obtaining, at the sole expense of the Company, an opinion of a merchant or investment bank or legal or other expert. Any such modification shall be binding on all the Bondholders. The Company shall prepare a supplement to the Offering Circular and notify the Bondholders of such modification in accordance with Condition 15 and to the Luxembourg Stock Exchange as soon as practicable.

(C) Other Modifications and Waivers

The Trustee may (but shall not be in any way be obligated to) agree, without the consent of the Bondholders, to (i) any modification (except as mentioned above) of, or the waiver or authorization of any breach or proposed breach of, the Bonds or the Indenture which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or (ii) any modification of the Bonds or the Indenture which, 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 (at the sole expense of the Company) a certificate from the Company certifying, and a legal opinion 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 provisions of law. Any such modification, waiver or authorization will be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modification will be notified by the Company to the Bondholders in accordance with Condition 15 and to the Luxembourg Stock Exchange as soon as practicable thereafter.

(D) Exercise of Trustee's Functions

In connection with the exercise of its functions (including but not limited to those in relation to any proposed modification, authorization or waiver) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Company or the Trustee, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders.

14. Replacement of Definitive Certificates

If any Definitive Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar 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 the Company and/or Registrar may reasonably require (which terms will require, inter alia, that if such Definitive Certificate is subsequently deposited for conversion into Shares there shall be paid to the Company on demand such costs at the Fixed Exchange Rate of the principal amount of such Bond). Mutilated or defaced Definitive Certificates must be surrendered before replacements will be issued. The "**Fixed Exchange Rate**" is NT\$34.71 = U.S.\$1.00 for purposes of this Condition 14.

15. Notices

In addition to the provisions set forth in the Global Certificate, if applicable, all notices to Bondholders shall be validly given if given in writing and in English and mailed to them by registered post at their respective addresses in the register of Bondholders maintained by the Registrar. In addition, so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, the Company shall send such notices to the Bondholders and the Luxembourg Stock Exchange, and publish the notices in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

16. 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 to its satisfaction.

17. Agents

The names of the initial Agents and Registrar and their specified offices are set out at the end of the Offering Circular. The Company reserves the right, subject to the provisions of the Agency Agreement, at any time to vary or terminate the appointment of further or other Agents, provided that the Company will at all times maintain Agents having specified offices in London, and, so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, a Paying, Conversion and Transfer Agent in Luxembourg, a Registrar and a Principal Agent. 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 the Registrar or the Principal Agent will be given promptly in accordance with Condition 15 by the Company to the Bondholders and the Trustee and the Luxembourg Stock Exchange.

18. Governing Law and Jurisdiction

(A) Governing Law

The Indenture and the Bonds are governed by and shall be construed in accordance with the laws of the State of New York, U.S.A.

(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, have jurisdiction to settle any disputes which may arise out of or in connection with the Indenture or the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Indenture or the Bonds (“**Proceedings**”) may be brought in such courts. The Company has in the Indenture irrevocably submitted to the jurisdiction of such courts.

(C) Agent for Service of Process

The Company has irrevocably appointed CT Corporation System of 111 Eighth Avenue, New York, NY10011, U.S.A. as its authorized agent for service of process in New York in any Proceedings.

THE FORM OF THE BONDS

The Bonds will be issued in registered form, without coupons, in denominations of U.S.\$1,000 and integral multiples thereof. The Bonds are not issuable in bearer form.

The Bonds will be represented by a global certificate (the “**Global Certificate**”) which will be deposited with the Trustee as common depositary for, and registered in the name of a nominee for, Euroclear and Clearstream, Luxembourg. Upon the issuance of the Global Certificate, Euroclear and Clearstream, Luxembourg will credit, on their internal systems, the respective principal amounts of the individual beneficial interests in the Bonds represented by the Global Certificate to the accounts of persons who have accounts with Euroclear and Clearstream, Luxembourg (“**participants**”). These accounts will initially be designated by or on behalf of the Managers. Ownership of beneficial interests in the Global Certificate will be limited to participants and persons who hold interests through participants. Beneficial interests in the Global Certificates will be shown on, and transfers thereof will be effective only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants.

The Company expects that Euroclear and Clearstream, Luxembourg, or their nominees, upon receipt of any payment of principal, premium (if any) or interest (if any) in respect of the Bonds represented by the Global Certificate will credit the accounts of the participants with payments of principal, premium (if any) or interest (if any) on the date payable in amounts proportionate to their respective interests in such Bonds as shown on the records of Euroclear and Clearstream, Luxembourg or their nominees. The Company also expects that payments by such participants to owners of beneficial interests in the Bonds held through such participants will be governed by standing instructions and customary practices. Such payments will be the responsibility of the participants.

Payments, transfers, exchanges and other matters relating to interests in the Bonds may be subject to various policies and procedures adopted by Euroclear and Clearstream, Luxembourg from time to time. Transfers between participants in Euroclear and Clearstream, Luxembourg, and conversions through participants in Euroclear and Clearstream, Luxembourg, will be effected in the ordinary way in accordance with the rules and operating procedures of Euroclear and Clearstream, Luxembourg. Neither the Company, the Trustee or any of their respective agents will have any responsibility or liability for the performance by Euroclear and Clearstream, Luxembourg or their participants of their respective obligations under the rules and procedures governing their operations, or for payments made on account of, or records relating to, interests in the Bonds held through Euroclear and Clearstream, Luxembourg and their participants.

Owners of interests in the Bonds will not be entitled to receive definitive physical certificates in respect of their interests in the Bonds except in the limited circumstances described below under “— Registration of Title”.

The holder of a registered Bond in definitive certificated form may transfer or exchange such Bond by surrendering it at the office or agency maintained by the Company for such purpose in London, and, so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, in Luxembourg, which offices will initially be the corporate trust offices of the Trustee maintained in the City of New York or such other offices as may be notified by the Trustee from time to time and the offices of the Paying Agent, respectively. Any such Bond in physical certificated form issued prior to the 41st day following the original issuance of the Bonds shall bear the legend set out under “Notice to Investors”.

The Global Certificate

The Global Certificate contains provisions which apply to the Bonds that are represented by the Global Certificate, some of which modify the effect of the terms and conditions of the Bonds (the “**Conditions**”) set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:

Meetings

The registered holder (as defined in the Conditions) of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each U.S.\$1,000 in principal amount of Bonds for which the Global Certificate is issued. The Trustee may allow a person with an interest in Bonds in respect of which the Global Certificate has been issued to attend and speak at a meeting of Bondholders on appropriate proof of his identity and interest.

Cancellation

Cancellation of any Bond following its redemption, conversion or purchase by the Company will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders.

Trustee’s Powers

In considering the interests of Bondholders while the 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 Bonds and may consider such interests as if such accountholders were the holders of the Bonds.

Conversion

Subject to the requirements of Euroclear and Clearstream, Luxembourg, the Conversion Right attaching to a Bond in respect of which the 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 the Bond. Deposit of the 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 holder of the Global Certificate.

Payment

Payments of principal, premium (if any) and interest (if any) in respect of Bonds represented by the Global Certificate will be made without presentation or if no further payment is to be made in respect of the Bonds, against presentation and surrender of the Global Certificate to or to the order of the Principal Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose.

Notices

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and Clearstream, Luxembourg or the Alternative Clearing System (as defined below), notices to Bondholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg, for communication by it to entitled accountholders in substitution for notification as required by the Conditions except that so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notices shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

Redemption at the Option of Bondholders

The Bondholders' put option in Condition 8(C) may be exercised by the holders of the Global Certificate giving notice to the Principal Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Certificate for endorsement or exercise within the time limits specified in Condition 8(C).

Registration of Title

Certificates in definitive form for individual holdings of Bonds will not be issued in exchange for interests in Bonds in respect of which the Global Certificate is issued, except in case that (a) either Euroclear or Clearstream, Luxembourg (or any clearing system designated by the Company and approved in writing by the Trustee (the "**Alternative Clearing System**") on behalf of which the Bonds evidenced by the Global Certificate may be held) 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, or (b) the Bonds become immediately due and payable in accordance with the provisions of Condition 10 or if in connection with judicial proceedings brought by the Trustee, the Trustee has been advised that it is necessary or appropriate for Definitive Certificates to be executed and delivered.

Transfers

Transfers of interests in the Bonds with respect to which the Global Certificate is issued shall be effected through the records of the relevant clearing system and its participants in accordance with the Conditions, the Agency Agreement and the rules and procedures of the relevant clearing system.

Enforcement

For the purposes of enforcement of the provisions of the Indenture against the Trustee, the persons named in a certificate of the holder of the Bonds in respect of which the 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 Bonds set out in the certificate of the holder, as if they were themselves the holders of Bonds in such principal amounts.

USE OF PROCEEDS

The net proceeds from the offering will be approximately U.S.\$29.6 million. The Company will use the net proceeds of the offering for the expansion of the Company's business in the PRC, the investment in domestic optical and electronics business and the purchase of raw materials from overseas suppliers.

MARKET PRICE INFORMATION

The Shares have been quoted and traded on the TSE since April 6, 2001. The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the TSE for the Shares (adjusted for the effects of rights issues, employee bonus issues and stock dividends) and the high and low of the daily closing values of the TSE Index.

		Closing Price per Share		Average Daily Trading		TSE index
		High	Low	Volume	High	Low
		(NT\$)		(in thousands of Shares)		
2001		55.50	29.00	402	5,896.32	5,499.54
2002	January	54.45	45.08	1,111	6,007.33	5,488.33
	February	52.66	46.86	291	5,968.61	5,499.79
	March	52.22	46.41	346	6,242.64	5,680.78
	April	51.33	46.41	397	6,462.30	6,059.21
	May	60.25	47.31	827	5,910.69	5,443.18
	June	58.91	41.06	494	5,599.42	5,071.76
	July	48.65	42.84	223	5,416.50	4,855.34
	August	49.09	41.06	300	4,968.85	4,572.35
	September	46.41	41.06	268	4,668.01	4,185.95
	October	52.00	45.80	232	4,601.37	3,850.04
	November	53.50	47.30	439	4,813.53	4,500.55
	December	51.00	47.00	301	4,823.67	4,452.45
2003	January	56.00	48.90	595	5,078.80	4,524.87
	February	51.50	48.60	185	4,833.58	4,432.46

Sources: TSE, Taiwan Economic Journal

On March 18, 2003, the reported closing price of the Shares was NT\$50 per Share and the TSE Index closed at 4,539.72.

DIVIDENDS AND DIVIDEND POLICY

The Company paid cash dividends on the Shares for the first time in 2001. In accordance with ROC market practice, the Company also paid stock dividends on common stock since 1994. In fiscal year 2002, a cash dividend of NT\$1.80 and a stock dividend of NT\$1.20 per Share for fiscal year 2001 were approved at the Company's annual meeting of shareholders held in June 2002. The cash dividend was paid in September 2002.

The following table sets forth the aggregate number of outstanding Shares entitled to dividends, as well as the stock dividends paid during each of the years indicated. The stock dividends per Share represent dividends paid in the fiscal year for the Shares outstanding on the record date applicable to the payment of these dividends.

<u>Year</u>	<u>Stock dividends per Share⁽¹⁾</u>	<u>Total Shares issued as stock dividends</u>	<u>Outstanding Shares on record date⁽²⁾</u>
	(NT\$)		
1999	2.64	9,000,000	43,000,000
2000	4.00	17,200,000	64,200,000
2001	1.80	11,556,000	75,756,000
2002	1.20	9,090,720	84,846,720

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- (1) Holders of Shares received as a stock dividend the number of Shares equal to the NT Dollar value per Share of the dividend declared multiplied by the number of Shares owned and divided by the par value of NT\$10 per Share. Fractional Shares are not issued but are paid in cash.
- (2) Aggregate number of Shares outstanding on the record date applicable to the dividend payment.

The Company has historically paid stock dividends on the Shares with respect to the preceding year after approval by the shareholders at the annual general meeting of shareholders. The form, frequency and amount of future cash or stock dividends on the Shares will depend upon the Company's operation layout, investment plan, budget of capital expenditures, internal and external environments and other factors.

Under the ROC Company Law, except under certain limited circumstances, an ROC company is not permitted to distribute dividends or make any other distributions to shareholders in any year in which the Company has no earnings.

The ROC Company Law also requires that 10% of the Company's annual earnings, less prior years' losses, if any, and outstanding tax, should be set aside as a legal reserve until the accumulated legal reserve equals the paid-in capital. The Company may set aside a special reserve in accordance with applicable laws and regulations. The Articles of Incorporation provide that the Company may distribute earnings to shareholders after having set aside the following items in the order they are listed:

- ▶ payment of all taxes;
- ▶ making up all past losses;
- ▶ allocation of 10% as a legal reserve and a special reserve according to the ROC Company Law;
- ▶ allocation of at least 3% as employee bonus; and
- ▶ allocation of 2% to the directors and supervisors as remuneration.

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 Shares on the TSE and, as a result, may affect the market price of the Bonds.

The following table shows the exchange rates for New Taiwan Dollars expressed in New Taiwan Dollars per U.S.\$1.00.

	Average	High	Low	At period-end
1998	33.47	35.02	32.04	32.21
1999	32.27	33.24	31.46	31.46
2000	31.23	33.20	30.28	33.08
2001	33.80	35.16	32.27	34.95
2002				
January	35.02	35.10	34.89	34.96
February	35.06	35.13	34.96	35.11
March	35.01	35.09	34.92	35.00
April	34.90	35.00	34.72	34.72
May	34.44	34.63	34.02	34.13
June	33.96	34.16	33.53	33.53
July	33.39	33.87	33.01	33.75
August	33.96	34.24	33.66	34.24
September	34.56	34.99	34.11	34.92
October	34.95	35.17	34.76	34.76
November	34.70	34.86	34.41	34.81
December	34.79	34.94	34.73	34.77
2003				
January	34.60	34.81	34.44	34.69
February	34.78	34.85	34.74	34.75

Source: Bank of Taiwan

On March 18, 2003, the closing rate between the NT Dollar and the U.S. Dollar was NT\$34.71 = U.S.\$1.00.

CAPITALIZATION

The following table sets forth the consolidated short-term debt, and the capitalization of the Company as of December 31, 2001 and as adjusted to reflect the issuance of the Bonds:

	As at December 31, 2001			
	Actual		As adjusted	
	NT\$'000	U.S.\$'000 ⁽¹⁾	NT\$'000	U.S.\$'000 ⁽¹⁾
Short-term debt:				
(including current portion of long-term debt)	737,310	21,096	737,310	21,096
Long-term debt	13,584	389	1,062,084	30,389
Shareholders' equity:				
Common stock	757,560	21,675	757,560	21,675
Capital reserve	200,677	5,742	200,677	5,742
Unappropriated earnings	404,295	11,568	404,295	11,568
Legal reserve	81,711	2,338	81,711	2,338
Cumulative translation adjustment	9,870	282	9,870	282
Total shareholders' equity	<u>1,454,113</u>	<u>41,605</u>	<u>1,454,113</u>	<u>41,605</u>
Total consolidated capitalization	<u>2,205,007</u>	<u>63,090</u>	<u>3,253,507</u>	<u>93,090</u>

(1) New Taiwan Dollar amounts have been translated into U.S. Dollars (and the principal amount of the Bonds, being U.S.\$30,000,000, has been translated into New Taiwan Dollars) using the exchange rate published by Bank of Taiwan at December 31, 2001 of NT\$34.95 = U.S.\$1.00 solely for the convenience of the reader.

The following table sets forth the non-consolidated short-term debt, and the capitalization of the Company as of September 30, 2002 and as adjusted to reflect the issuance of the Bonds.

	As at September 30, 2002			
	Actual		As adjusted	
	NT\$'000	U.S.\$'000 ⁽¹⁾	NT\$'000	U.S.\$'000 ⁽¹⁾
Short-term debt:				
(including current portion of long-term debt)	164,110	4,699	164,110	4,699
Long-term debt	476,531	13,646	1,524,131	43,636
Shareholders' equity:				
Common stock ⁽²⁾	861,272	34,664	861,272	34,664
Capital reserve	237,403	6,798	237,403	6,798
Unappropriated earnings	393,015	11,255	393,015	11,255
Legal reserve	112,187	3,213	112,187	3,213
Cumulative translation adjustment	12,671	363	12,671	363
Total shareholders' equity	<u>1,616,548</u>	<u>46,293</u>	<u>1,616,548</u>	<u>46,293</u>
Total non-consolidated capitalization	<u>2,257,189</u>	<u>64,638</u>	<u>3,304,789</u>	<u>94,628</u>

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- (1) New Taiwan Dollar amounts have been translated into U.S. Dollars (and the principal amount of the Bonds, being U.S.\$30,000,000, has been translated into New Taiwan Dollars) using the average of buying and selling exchange rates published by Bank of Taiwan at September 30, 2002 of NT\$34.92 = U.S.\$1.00 solely for the convenience of the reader.
 - (2) This includes certificates exchangeable for common stock.

Except as set forth above, there has been no material change in the total capitalization of Mobiletron since September 30, 2002.

BUSINESS

This Offering Circular contains certain forward-looking statements. When used in this Offering Circular, the words “believes”, “intends”, “anticipates” and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include the timing and acceptance of new product introductions, the actions of the Company’s competitors and business partners and those discussed above under “Risk Factors”.

Overview

The Company designs, manufactures and sells power tools such as drills, fasteners and automotive electronics (“**AE products**”) such as ignition modules, voltage regulators and rectifiers. The Company sells its power tools on an original design manufacturing (“**ODM**”) basis for some of the most respected international power tool suppliers such as Robert Bosch GmbH (“**Bosch**”), Porter Cable Corporation (“**Porter-Cable**”), Skil/Bosch Power Tool Company (“**Skil/Bosch**”), The Stanley Works (“**Stanley**”) and Draper Tools Limited (“**Draper**”) and large hardware chain outlets operated by B&Q Corp. (“**B&Q**”), Canadian Tire Corporation (“**CTC**”), Lowe’s Companies, Inc. (“**Lowe’s**”) and Sears, Roebuck and Co. (“**Sears**”). The Company also sells power tools under its own brand name “Regitar” mainly in Asia. The Company’s AE products are sold under its own brand names “Mobiletron” and “Regitar” on a worldwide basis. The AE products are sold in the automobile after-sales maintenance market (commonly known as the “automotive aftermarket”) where the customers are involved in rebuilding automobile alternators. The major customers for the Company’s AE products include Dana Corporation (“**DANA**”), Holger Christiansen A/S (“**Holger**”) and Sovereign Motor Company (“**Sovereign**”). The power tools business and the AE products business accounted for approximately 74% and 26% of the Company’s consolidated net sales in 2001, respectively.

The Company has received the ISO 9001 accreditation, an internationally recognized quality standard focused on continuous improvement and customer accreditation, for its power tool manufacturing facilities in both the ROC and the PRC and the QS 9000 certification for its AE products.

In addition, the Company has won various ROC national awards from the Ministry of Economic Affairs such as The National Award of Small and Medium Enterprise in 1995, the “It’s Very Well Made in Taiwan” award in 1997 and the Ninth National Quality Award in 1998.

The Company has focused on research and development since its incorporation. The Company has designed and made a number of innovative power tool products, such as the screwdriver with a guiding light function and the cordless rechargeable pneumatic fastener. The Company boasts of an extensive range of AE products comprising no less than 1,000 products, each of which has been designed and engineered by the Company.

The non-consolidated net sales of the Company in 2000 and 2001 were NT\$1,766.8 million (U.S.\$53.4 million) and NT\$1,788.1 million (U.S.\$51.2 million), respectively. For the nine months ended September 30, 2002, Mobiletron recorded non-consolidated net sales of NT\$1,553.9 million (U.S.\$44.5 million) and non-consolidated net income of NT\$257.4 million (U.S.\$7.4 million), compared to NT\$1,243.1 million and NT\$204.8 million, respectively, for the same period in 2001.

History and Organization of the Group

Mobiletron was incorporated on July 19, 1982. Its original product line focused on AE products. Mobiletron’s first manufacturing plant in Taiwan was the Ta-Ya Plant.

On July 24, 1987, the Company acquired a subsidiary in Alabama, U.S.A. as a sales office and service center for the Group’s U.S. market.

On January 19, 1995, the Company established Mobiletron Electronics (Ningbo) Co., Ltd. for material processing and trading of electronic components in the PRC.

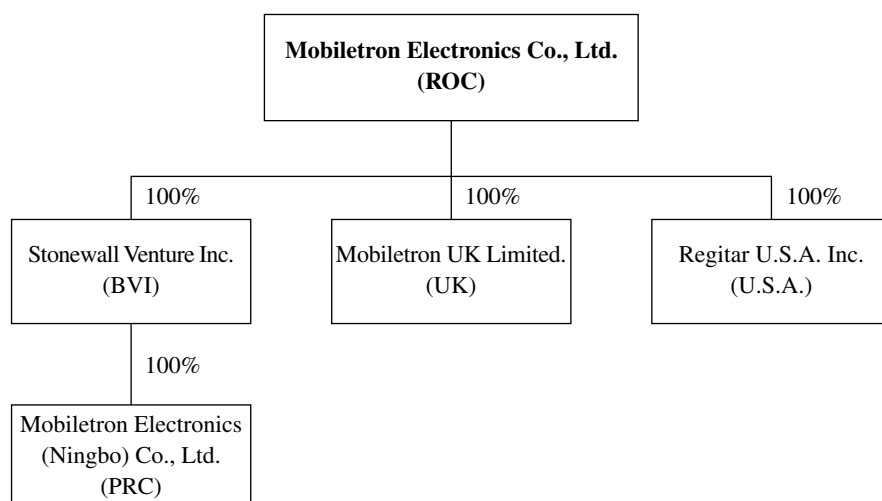
On November 15, 1997, Mobiletron Electronics Co., Ltd. merged with Regitar Power Tools Co., Ltd. and expanded its business to include power tool manufacturing services, which now constitute the Company's principal business.

On November 1, 2000, the Company established a subsidiary in England as a sales office and service center for the Group's European market.

Mobiletron's Shares were listed on the TSE on April 6, 2001.

On March 14, 2002, Mobiletron began production of power tools in Ningbo, Zhejiang Province, PRC and also embarked on the construction of additional facilities in Ningbo in order to increase the Company's production capacity. The Company expects the expansion construction to be completed by the third quarter of 2003. See "— Production Facilities".

The following diagram shows the structure of Mobiletron and its subsidiaries:



Mobiletron's corporate headquarters and principal place of business are located at No.39, Chung-Ching Road Sec. 3, Ta-Ya Hsiang, Taichung Hsien, Taiwan, ROC. The Company's web-site is <http://www.more.com.tw>. Information contained in the Company's web-site does not form part of this Offering Circular.

Competitive Strengths

The Company believes that the following strengths contribute to its competitive position in the relevant markets:

Strong research and development programs and design capacity

The Company invests significant resources in research and development, through in-house research and development activities, and joint development projects with major customers and reputable academic institutions. As at December 31, 2002, the Company employed 66 engineers in its research and development division in Taiwan and the PRC. The focus of the Company's research and development activities is new product development and improving production efficiency and lowering costs. All of the AE products and most of the power tool products offered by the Company have been designed and engineered by the Company. Some recent examples of the new products developed by the Company include a screwdriver with a guiding light function; a cordless rechargeable pneumatic

fastener, which employs no external compressor; a multitude absolute pressure (“MAP”) sensor, which is applied for better automobile engine control; and an automobile rearview mirror system with advance features. As at December 31, 2002, the Company owned a total of 133 patents which are registered in the ROC and U.S.

As an ODM manufacturer for power tools, the Company is capable in new product design, which conforms to customer requirements and safety standards. By leveraging the strong design capacity, the Company is able to produce standardized products being widely accepted by professional and Do-It-Yourself (“DIY”) power tools users. The strong design capacity will also allow the Company to continue to design and engineer new AE products and expand its range of AE products, which are compatible with new AE products produced by automobile manufacturers or their suppliers.

Comprehensive AE product lines

The Company believes that it offers a wide range of AE products and that it is one of the few AE products manufacturers which are able to manufacture a comprehensive range of AE products. The Company believes that this “one-stop shop” capability allows the Company to meet the needs of the customers for its AE products, which are mainly providers of automobile maintenance services and enables the Company to benefit from the growth in demand of different products as they enter into different product cycles. The Company believes that it will be difficult for new competitors to offer such a wide range of AE products as the Company’s AE products have been developed and accumulated over an extensive period of time.

Strict quality control processes and standards

The Company has instituted a comprehensive quality assurance program to ensure the implementation of its firmwide quality policy. To implement the quality program comprehensively, the Company has established a Quality Assurance Department. The Department provides quality services and support for the quality assurance sections of each of the manufacturing divisions. The Quality Assurance Department implements a series of rigorous quality checks at all stages of product development and production.

The Company strives towards the achievement of no more than 3.4 defects per million chances for not meeting the required product specifications or what is known as the “Six Sigma Quality”. The highly disciplined process implemented by the Company focuses the management and employees on providing consistent manufacturing processes and developing and delivering near-perfect products for its customers. The Company believes that through rigorous implementation of the quality assurance program, it has been able to achieve a reputation for consistently high product quality, and that this reputation is an important competitive advantage for retaining existing customers and attracting new customers.

Experienced management team and highly-qualified employees forming a consistent corporate culture

The senior management of the Company consists of a core team of highly experienced professionals in the fields of management, finance and engineering. As a result, the Company is able to capture the market opportunities by directing its research and development, and sales and marketing efforts to high-growth sectors. In addition, the Company’s employees are highly qualified with consistent commitment to the Company’s growth. In 2001, the Company had a employee turnover rate of 2.0%, which the Company believes is lower than those of its competitors. As a result, the Company is able to leverage its core strengths in the future by its consistent corporate culture.

Strategy

Expanding manufacturing capacity in the PRC

The Company is in the process of expanding its production facilities in Ningbo, Zhejiang Province, PRC, which are anticipated to commence operations in the third quarter of 2003. These manufacturing facilities will comprise an area of 20,000 square meters and are anticipated to have a total manufacturing capacity of 962,500 pieces of power tools per month at the first stage. The Company believes that establishing new production facilities in the PRC will allow it to greatly expand its production capacity of power tools and AE products. In addition, operating production facilities in the PRC are expected to offer the Company significant labor, land, manufacturing and other costs savings, as compared to its operations in Taiwan, which should allow it to maintain its current cost structure advantages.

Pursuing new customers in America, Europe and Asia

The Company intends to pursue new customers in America, Europe and Asia. The Company believes that many of world's leading original equipment manufacturers, power tool and AE product companies are potential customers which offer favorable opportunities for the Company's growth. The Company believes that manufacturers in Taiwan, the U.S., Europe and Asia, which comprise many of the world's leading power tools and AE product companies, are potential customers of the Company and offer the Company favorable opportunities for growth.

Increasing the range of the power tools manufacturing services by expanding into the DIY power tools market

Currently, the power tools manufactured by Mobiletron belong to the higher range products and are mainly targeted for professionals. The Company will seek to expand its business to include the design, manufacture and sale of power tools which are targeted for the DIY market. In addition to professional power tools, many of the Company's customers such as B&Q, CTC, Lowes and Sears also supply power tool products in the DIY range. As a result, the Company can benefit from the global trend towards outsourcing by such power tool suppliers who target the DIY markets. This will also allow the Company to tap the growth of the DIY market, particularly in the U.S. and Europe and to increase its market share of the power tools market.

Further improving after-sales services

Product quality and reliability and after-sales service are key factors in ensuring customer loyalty and in maintaining the Company's good reputation. The Company intends to further improve the quality of its products by continuing to refine its quality assurance procedures, training staff in quality assurance and investing in testing equipment used in the quality assurance process. The Company is continuously improving its after-sales service by expanding its overseas network of after-sales service centers and the services offered by those centers, and by further improving its after-sales service in Taiwan. The Company has also provided on-site services to its major customers through its overseas subsidiaries, which reduces transportation costs, eliminates the risk of damage to goods during transit, and provides faster and more convenient services to customers.

Focusing on high growth markets

The Company will continuously focus its product development efforts on high-growth markets. These include the development of advanced automobile electronics sub-systems such as electronic rearview mirrors with advanced features and electronic tire pressure monitors. The Company will explore new products which it believes have market potential and will produce such products on an OEM/ODM basis.

Selectively pursuing strategy acquisitions, partnership and investments

The Company will continue to selectively seek acquisition and investment opportunities in high-tech companies in Taiwan and overseas that would complement and expand the Company's existing technological capabilities, processes and core technologies. In line with such strategy, the Company has acquired strategic stakes of 32.6% equity interest in Media View Technology Corporation, which specializes in the manufacturing of automotive multimedia and safety display systems; 2.8% equity interest in BCD Semiconductor Manufacturing Ltd., which designs and manufactures analogue IC and power device in its own foundry and 6.7% equity interest in Asia Pacific Microsystems Co., Ltd., which designs micro-processing systems.

Increasing vertical and horizontal integration of manufacturing process

The Company endeavors to establish a steady supply of critical materials and components for its core products through vertical integration by the acquisition of or strategic alliance with selected suppliers and the in-house development of relevant components. This gives the Company both control over quality, costs and supply chain management, as well as the flexibility necessary to customize components to match its customers' specifications, and to roll out and ramp up production of new products. For instance, the Company has successfully developed its own motor which may be used for the power tools and is expected to begin production of such motor in the third quarter of 2003.

Products

The Company capitalizes on its precision processing and expertise in mechanics and electronics to offer high quality products to its customers.

Overview

Power tools. The key power tools manufactured by the Company are:

- ▶ corded and cordless fasteners;
- ▶ corded and cordless drills/drivers; and
- ▶ cordless screwdrivers.

The Company also manufactures, on a smaller scale, corded and cordless sanders, corded and cordless jigsaws, corded angle grinders and cordless flashlights.

The core technology of the Company in the power tools lies in its patented gearbox design and the Company's ability to integrate its technical knowledge of mechanics and electronics. Each power tool manufactured by the Company involves at least one patent owned by the Company. The Company supplies its power tool products on an ODM basis to suppliers of power tools. In addition, it also sells some power tool products under its own brand "Regitar" mainly in Asia.

AE products. The key AE products of the Company are:

- ▶ ignition modules;
- ▶ voltage regulators; and
- ▶ rectifiers.

The core technology of the Company in the AE products lies in its technical knowledge of engine ignition control systems and alternator control systems and in its ability to produce reliable AE products with functions compatible with those from the original equipment manufacturers. The AE products are sold by the Company under the brand names of “Mobiletron” and “Regitar” on a worldwide basis.

The table below sets out Mobiletron’s non-consolidated total sales by product category and non-consolidated net sales for the periods indicated:

	Year ended December 31, (non-consolidated)		Nine months ended September 30, (non-consolidated)	
	2000	2001	2001	2002
	NT\$ (in millions)			
Power Tools				
Fasteners	177	205	116	96
Drills/drivers	784	783	588	483
Screwdrivers	49	90	68	255
Others ⁽¹⁾	366	226	111	313
AE Products				
Ignition modules	175	137	112	104
Voltage regulators	134	164	118	161
Rectifiers	89	140	119	132
Others ⁽²⁾	39	52	30	21
Total sales	1,813	1,797	1,262	1,565
Sales return and allowances	(25)	(9)	(19)	(11)
Net sales	<u>1,788</u>	<u>1,788</u>	<u>1,243</u>	<u>1,554</u>

(1) Include cordless and corded sanders, cordless and corded jigsaws, corded angle grinders and cordless flashlights and other related accessories.

(2) Include sales of raw materials and components.

Power Tools

Fasteners. The fastener is used for securing one object to another by the attachment of metallic nails. The Company manufactures and sells a wide variety of fasteners ranging from those for light purposes, such as securing picture frame, trims and similar home and DIY uses, to those for heavy duty purposes, such as securing ceiling panels, floor covering, hardboard panels and other professional use. The fasteners are small electrical tools driven by electrical power or battery, which provides the force to attach the nails. Some models of the fasteners incorporate the use of the Company’s patents such as the see-through magazine which allows for easy loading; the safety switch design; the double solenoid driving system which enhances the driving power, and the transmission mechanism for cordless tackers which also increases the driving power output efficiency.

For the years ended December 31, 2000 and 2001, sales of fasteners accounted for 9.9% and 11.5% of the Company’s non-consolidated total sales, respectively. For the nine months ended September 30, 2002, sales of fasteners accounted for 6.2% of Mobiletron’s non-consolidated total sales.

Drills/drivers. The electric drill/driver is a power-driven end-cutting tool used to originate or enlarge circular holes in various types of solid material. The Company manufactures and sells a wide range of electric drills/drivers, almost all of which are cordless and rechargeable and some of which are corded. Some drills/drivers incorporate a hammer and are known as hammer drills/drivers. The drills/drivers of the Company feature the Company's patented gearbox design.

For both the years ended December 31, 2000 and 2001, sales of drills/drivers accounted for 43.8% of the Company's non-consolidated total sales. For the nine months ended September 30, 2002, sales of drills/drivers accounted for 31.1% of Mobiletron's non-consolidated total sales.

Screwdrivers. The screwdriver is a light duty and user-friendly tool used to fasten screws. The screwdrivers produced by the Company are cordless and rechargeable and feature an automatic spindle lock function, which allows manual use when there is no electrical power. The screwdrivers of the Company also incorporate the Company's patented lighting system.

For the years ended December 31, 2000 and 2001, sales of screwdrivers accounted for 2.7% and 5.0% of the Company's non-consolidated total sales, respectively. For the nine months ended September 30, 2002, sales of screwdrivers accounted for 16.4% of Mobiletron's non-consolidated total sales.

AE Products

Ignition modules. Automobiles generally have engines which require an electric spark to be ignited to the fuel-air mixture within the engine so as to cause the burning of this mixture in the cylinders which then produces the motive force. The ignition module is a key component in the automobile engine. It is used to regulate the current and dwell angle for transistor ignition systems using a sensor. It is sometimes referred to as the switching unit. The ignition module provides for reliable spark distribution in ignition systems with rotary high voltage distribution. The ignition module must be very reliable as it is subjected to high voltage, varying temperatures, vibration, salt water, petrol, oil, road dust and cleaners.

The ignition modules developed by the Company are designed to be compatible in function with specified original products by major car manufacturers or their suppliers and are intended to be interchangeable with such original products.

For the years ended December 31, 2000 and 2001, sales of ignition modules accounted for 9.8% and 7.7% of the Company's non-consolidated total sales, respectively. For the nine months ended September 30, 2002, sales of ignition modules accounted for 6.7% of Mobiletron's non-consolidated total sales.

Voltage regulators. The voltage regulator is part of the alternator charging system. It is needed to keep voltages within the prescribed range that can be tolerated by the electrical equipment. In the alternator charging system, it is needed to match the output voltage of the generator to the electrical load and to the charging requirements of the battery.

For the years ended December 31, 2000 and 2001, sales of voltage regulators accounted for 7.5% and 9.2% of the Company's non-consolidated total sales, respectively. For the nine months ended September 30, 2002, sales of voltage regulators accounted for 10.4% of Mobiletron's non-consolidated total sales.

Rectifiers. The rectifier is used to convert alternating current created by the alternator to direct current. Direct current is necessary for charging battery and the operation of many devices such as radios, air-conditioners and other electrical devices in vehicles.

For the years ended December 31, 2000 and 2001, sales of rectifiers accounted for 5.0% and 7.8% of the Company's non-consolidated total sales, respectively. For the nine months ended September 30, 2002, sales of rectifiers accounted for 8.5% of Mobiletron's non-consolidated total sales.

New Product

Automotive multimedia and safety system

In January 2003, the Company began to offer manufacturing services for automotive multimedia and safety systems with very advanced features incorporated. This is a series of products which the Company designed and developed by using the patented technology of its affiliate, Media View Technologies Corporation, which is known as Multimedia Display Mirror System, or DMS™. The systems offered by the Company include the RearVISION™ mirror system, the BabyVISION™ mirror system, the TeleVISION™ mirror system and the TaxiVISION™ mirror system. For instance, through the Company's products, the passengers can enjoy quality TV and audio-video entertainment. This product has greatly simplified the process of incorporating new electronics into vehicle designs and can be easily mounted on most vehicles without having to redesign them.

The Company intends to further develop the product by incorporating more advanced features such as a global positioning system and a digital video recorder system.

The Company believes that there will be a strong demand for such advanced electronic mirror systems as there is an increasing pressure on automobile manufacturers to free up space in the instrument panels and overhead consoles to include more convenient features.

Production Process

The Company's products are assembled in-house involving a series of precise assembly processes. Quality control is therefore an important factor to the Company's success. Quality control tests are conducted along each step of the manufacturing process.

The quality of most of the Company's products also depends, to a significant extent, on the quality and precision of the dies and molds used for the production of metal and plastic components. The Company focuses on developing its molding and tooling resources and capabilities as it believes this enables it to manage its production process effectively and alleviate any significant bottlenecks in the production cycle. The Company believes this expertise has positioned the Company to compete effectively with its competitors as significant capital and internal know-how are required to develop precision molding and tooling expertise. The Company's manufacturing capacity has also been enhanced by the use of CAD/CAM tools to customize and automate molding and tooling equipment and to design prototypes of new products.

Quality control procedures and tests are conducted at each manufacturing and assembly stage. See "— Quality Control".

The Company has installed computerized equipment to increase the automation of its production process. However, the Company believes that in the production of certain products, such as small quantities of AE products, it will continue to rely on its well trained labor force to conduct manual assembly.

Quality Control

The Company has instituted a comprehensive quality management system to ensure the implementation of the Group's quality policy. The quality policy rests on the following key concepts, namely:

- ▶ customer quality — products must meet the demands and requirements of the customers;
- ▶ process capability — knowing the capabilities and limitations of the existing production process;
- ▶ know the customer — knowing the demands and requirements of the customers for particular products; and
- ▶ systematic quality processes — quality processes are implemented on a systematic basis to create an environment that supports use of statistical tools to evaluate and improve performance, so as to ensure consistent, predictable processes.

The Company strives towards the achievement of no more than 3.4 defects per million chances for not meeting the required product specifications or what is known as the "Six Sigma Quality". The highly disciplined process implemented by the Company focuses the management and employees on providing consistent manufacturing processes and developing and delivering near-perfect products for its customers. In order to implement the quality assurance program comprehensively, the Company has established a Quality Assurance Department, which is responsible for quality goal planning and follow-up; establishing and auditing the operation of the quality system and certification programs, including ISO; customer complaint follow-up and improvement; and quality documentation control.

The Quality Assurance Department is also responsible for designing product testing procedures; electrical, mechanical, environmental and reliability testing; laboratory operation and management; equipment maintenance and calibration; and product safety applications and management.

The Company believes that through rigorous implementation of the quality management system, it has been able to achieve a reputation for consistently high product quality, and that this reputation is an important competitive advantage for retaining existing customers and attracting new customers. Mobiletron's power tool manufacturing processes were accredited by ISO 9001 in 1997 and the AE products were accredited with ISO 9002 in 1993 and the QS 9000 in 1997.

Raw Materials and Components

The Company uses a variety of raw materials and components in its manufacturing processes. The key raw materials include plastic resins, ceramic boards, various non-ferrous metal alloys, such as copper and bronze alloys, and specialty chemicals. The Company purchases these items in bulk quantity from a number of suppliers based on spot market prices. To a large extent, the pricing and other terms of these purchases follow world commodity prices.

The main components for power tools are motors, batteries, plastic covers, switches, chucks and gearboxes. The Company purchases motors primarily from Johnson Electric Trading Limited and Leshi Electric Machine Co., Limited. The Company purchases battery cells mainly from Sanyo Electric (Taichung) Limited and BYD Company Limited. The Company plans to begin in-house production of the motor in the third quarter of 2003. The Company obtains the other components from several vendors based on purchase orders. The prices of these components largely follow world market trends.

The main components for the Company's AE products are integrated circuits ("IC"), power MOSFET, metallized substrates, hybrid thick film IC and diodes. The Company obtains such components from several vendors based on purchase orders. The prices of these components will also largely follow world market trends.

The Company generally does not enter into long-term supply contracts with its suppliers of key raw material or components. The Company believes that it is generally able to secure adequate supplies of the key raw materials and components at bulk prices due to the scale of its operations. The Company has not experienced any significant delay or constraint in production due to disruption of supply of raw materials and components. The Company believes that there are sufficient alternative suppliers of all of the Company's important materials and components to allow the Company to shift to such other sources if necessary.

Facilities

Production Facilities

The following table sets out the location and primary use of the production facilities of Mobiletron and its subsidiaries as of September 30, 2002:

<u>Location</u>	<u>Principal activities</u>	<u>Owned or leased</u>
<i>Taiwan</i>		
Ta-Ya, Taichung Hsien	Administration and production of power tools and AE products and tooling fabrication	Owned
Tantz, Taichung Hsien.	Production of power tools	Leased and owned ⁽¹⁾
<i>PRC</i>		
Ningbo, Zhejiang Province . . .	Production of power tools and AE products	Owned
<i>U.S.A</i>		
Montgomery, Alabama, ...	Assembly of AE products	Leased

(1) The building is owned by the Company and the land on which the building is situated is leased by the Company.

Taiwan

The Company has two production facilities in Taiwan. The first one is Mobiletron's Ta-Ya Plant, located adjacent to the corporate headquarters, and the second one is Mobiletron's Tantz Plant, which is located close to the corporate headquarters.

Ta-Ya Plant. The Ta-Ya Plant is located at 39, Chung-Ching Road, Sec. 3, Ta-Ya Hsiang, Taichung Hsien, Taiwan 428, ROC, in a three-storey building owned by Mobiletron. Currently, approximately 250 persons are employed to work in the Ta-Ya Plant. The total floor area of Ta-Ya Plant is 10,000 square meters, which is equipped with three production lines, among which one is for power tools and two are for AE products. The Company currently utilizes the Ta-Ya Plant and the adjacent corporate headquarters to provide the Group with sales and marketing, research and development, testing and administrative services.

Tantz Plant. The Tantz Plant is located at 11-1, Chien Kuo Rd., Tantz Economic Processing Zone, Tantz Hsiang, Taichung Hsien, Taiwan 427 ROC, in a four-storey building owned by Mobiletron. Currently, approximately 270 persons are employed to work in the Tantz Plant. The total floor area of the Tantz Plant is 5,444 square meters, which is equipped with two production lines, used solely for the manufacturer of power tools.

The PRC

The Company has one plant in the PRC, located in Ningbo, Zhejiang Province, PRC. The Ningbo Plant is owned and operated by Mobiletron (Ningbo). The Ningbo Plant produces both power tools and AE products. The Ningbo Plant is located at C6, Far East Industrial Park, Yu Yao City, Economical Development Zone A, Zhejiang Province, PRC. The total floor area of the Ningbo Plant is 17,000 square meters, which is equipped with four production lines, among which two are for the manufacture of power tools and two are for the manufacture of AE products. The factory complex has dormitory facilities to accommodate factory workers.

USA

The Company has one plant in Montgomery, which is within the State of Alabama, USA. The Montgomery Plant is used for the assembly of AE products, which are mainly targeted for the American market. The Montgomery Plant is located at 2575 Container Drive Montgomery, AL 36109, USA. Its total floor area is 10,000 square meters.

As of September 30, 2002, the total building area of the Company's facilities is approximately 40,000 square meters. The Company believes that its existing production and office facilities are adequate to meet current requirements, and that suitable additional or substitute space will be available as needed to accommodate any further physical expansion of production, corporate operations and for any additional sales offices. The Company has not experienced any significant interruptions in production at any of its production facilities due to equipment failure or breakdown, raw material shortages, power interruptions, fire, labor disputes or other causes.

Research and Development

To meet its customers' needs and to contribute to its continued success, the Company continuously engages in research and development activities. Research and development activities consist of:

- ▶ designing and developing new products, including in collaboration with key customers; and
- ▶ designing and developing new manufacturing techniques which take advantage of the latest component and product designs and packaging to improve production efficiency and reduce costs.

Each of the power tools business and the AE products business has its own research and development team. Furthermore, an advanced product quality team has also been set up for the evaluation of planning, design and quality assurance to ensure product conformity with customer requirements.

The research and development improvements have helped the Company to manufacture its products in a cost-effective and reliable manner.

In conducting its research and development activities, the Company works closely with its customers. This close involvement of the research and development teams with customers at each stage of the design and development process enables information on customer requirements to be efficiently relayed to the Company. By taking into account the customers' requirements early on in the product design stage, the Company is able to shorten its product rolled-out period and produce products that meet customers' requirements in a shorter time.

As of December 31, 2002, Mobiletron and its subsidiaries had 66 personnel engaged in research and development activities. Research and development activities are conducted separately for each division of the Company, as well as at the Company's production facilities in Taiwan and the PRC.

For fiscal years 2000 and 2001, the Company spent NT\$48.1 million and NT\$60.7 million, respectively, on research and development activities.

Intellectual Property

A number of elements of the Company's products and technological processes are proprietary in nature, and are owned by the Company or utilized under license from third parties.

As of December 31, 2002, Mobiletron held a total of 133 patents registered in various countries, including United Kingdom, France, Japan, Germany, PRC, Taiwan and the United States for products and technologies developed through its own efforts, as well as joint research and development efforts with other companies. The Company intends to continue to seek patent protection on any new inventions in design or process technology.

As at December 31, 2002, the Company had registered 33 trademarks in various countries. The trademarks are designated for use on the Company's products.

Competition

The Company believes that the primary basis of competition is a combination of engineering capability, services, manufacturing quality, price, production capacity, manufacturing technology, design expertise, breadth of product line, time to production and reliability of delivery. The Company believes that it currently competes favorably with respect to these factors. However, to remain competitive, the Company must continue to provide technologically advanced manufacturing services, maintain quality levels, offer flexible and reliable delivery and provide competitive pricing.

Sales and Marketing

The Company has a global sales network, consisting of a direct sales force and customer service representatives. To conduct its sales and marketing activities, the Company has sales offices located in Taiwan (Taichung), the U.S. (Alabama), and the U.K. (Manchester). Sales offices are located in proximity to key customers. Each office is responsible for obtaining new customers, providing sales and customer support and maintaining existing customer relationships. The primary sales and marketing efforts for the Company are conducted by the Company's sales and marketing teams for each of the power tools and AE products divisions, which are responsible for developing the sales and marketing strategies of new and existing products produced by the respective divisions.

The Company sells its products pursuant to specific customer purchase orders, as well as pursuant to longer-term contractual commitments. The customers may cancel the purchase orders subject to a penalty, which is charged based on the timing of such cancellation. Generally, the sales and marketing process involves a customer first qualifying the Company as an approved vendor or supplier. This process typically involves exchanges of information through written surveys, presentations, site visits, formal audits, sample quotations and prototype promotions. The Company also conducts a direct and active marketing strategy, including advertising in trade publications and attending trade shows and exhibitions.

The Company's customers generally are invoiced either at the time of delivery, or upon receipt, with varying credit terms, depending, in part, on where the customer is located and the product type. The Company's pricing policy takes into account a number of factors, including customer relations, product specification, cost of production, mode of transportation and size of order.

The following table sets out a breakdown of Mobiletron's total net sales by geographical region for the periods indicated:

	Year ended December 31, (non-consolidated)					
	2000		2001		2002	
	(audited)			(unaudited)		
	(in millions, except percentages)					
	NT\$	% NT\$	%	NT\$	%	
Region						
Taiwan	39.1	2,2%	33.2	1.9%	40.8	2.0%
America	1,159.9	64.9%	1,278.3	71.5%	1,271.1	61.4%
Europe	470.5	26.3%	405.9	22.7%	591.3	28.6%
Asia (excluding Taiwan) . . .	81.4	4.5%	13.0	0.7%	62.5	3.0%
Others	14.2	0.8%	26.7	1.5%	70.8	3.4%
Africa	23.3	1.3%	31.0	1.7%	33.4	1.6%
Net Sales	\$ 1,788.4	100.0%	\$ 1,788.1	100.0%	2,069.9	100.0%

Customers

The Company supplies power tools manufacturing services to key consumers, which are internationally renowned tool manufacturers such as Bosch, Porter-Cable, Skil/Bosch, Stanley and Draper and large hardware chain outlets operated by B&Q, CTC, Lowes and Sears. The key customers for the Company's AE products are DANA, Holger and Sovereign, which are distributors and manufacturers of automotive after-service products .

Environmental Matters

The Company's production facilities in Ta-Ya Hsiang, and Tantz Hsiang, Taichung Hsien, Taiwan, have received ISO 14001 certification which certifies that its production facilities conform to the prescribed environmental management system standards. The Company believes it is in compliance with all applicable environmental laws and regulations. In addition, the Company has not been subject to any material fines or legal action involving non-compliance with any relevant environmental regulations, nor is it aware of any threatened or pending action by any environmental regulatory authority in Taiwan or the PRC. However, any failure to comply with present and future regulations could subject the Company to future liabilities or the suspension of production. In addition, any such regulations could restrict the Company's ability to expand its facilities or could require it to acquire costly equipment or to incur other significant expense to comply with environmental regulations.

Legal Proceedings

Neither Mobiletron nor any member of the Group is involved in any litigation or other proceedings the outcome of which the Company believes might, individually or taken as a whole, materially affect the financial results or operations of Mobiletron or any member of the Group, other than as follows:

In November 2002, Black & Decker Inc. and Black & Decker (U.S.) Inc. initiated proceedings in Illinois, USA against Mobiletron and Regitar U.S.A., together with Milwaukee Electric TWI Corporation and Porter-Cable Corporation, for infringement of their patents in relation to the mechanisms within certain hammer drills. The Company is currently taking legal advice from its legal counsel in U.S. and is examining the merits of the claim. The Company will confer with its legal counsel and take the appropriate action in response to the claim in due course.

Insurance

The Company maintains insurance policies with independent third parties in respect of buildings, goods in transit equipment, and certain inventories covering loss due to fire, explosion, earthquake, typhoon, flood and certain other risks. The Company also maintains product liability insurance for all its products and public liability insurance to cover claims in respect of bodily injury, property damage or environmental damage resulting from accidents on the Company's property or operations. While the Company believes its insurance policies to be adequate and in line with industry norms in Taiwan, significant damage to any of the Company's production facilities, whether as a result of fire or other causes, could have a material adverse effect on the Company. Insurance coverage on property, plant and equipment amounted to approximately NT\$360 million and NT\$551 million as of December 31, 2000 and 2001, respectively. The Company does not carry business interruption insurance or key-personnel insurance or any policy of a similar nature.

Subsidiaries and Affiliates

The information set forth below reflects Mobiletron's direct and indirect equity interests in these subsidiaries and affiliates as of February 28, 2003.

<u>Company</u>	<u>Main business</u>	<u>Place of incorporation</u>	<u>Total issued and paid-up capital</u>	<u>Mobiletron's direct and indirect equity interest⁽¹⁾</u>
Subsidiaries				
Stonewall Venture Inc.	Sales Agent	British Virgin Islands	U.S.\$ 4,000,000	100%
Mobiletron Electronics (NingBo) Co., Ltd.	Manufacturing power tools parts, flashlights, distributor, ignition coil, automotive starter and alternator and auto parts of alternator and starter	PRC	U.S.\$ 3,900,000	100%
Mobiletron UK Limited	Sale of automotive control device and manufacturing auto parts and accessories and power tools	UK	£900,000	100%
Regitar U.S.A. Inc.	Wholesale of auto parts, power tools and hardware stamping parts	Alabama, USA	U.S.\$ 1,500,000	100%
More Optotech Co., Ltd. . . .	Research and development of compound semiconductors	ROC	NT\$20,000,000	100%
Affiliate				
Media View Technology Corporation	Research and development of automobile multi-media system	California, USA	U.S.\$ 4,000,000	32.6%

(1) There has been no material change in Mobiletron's direct and indirect equity interests in each of its subsidiaries and affiliate referred to above since February 28, 2003.

As at December 31, 2002, there were no loans outstanding between Mobiletron and its subsidiaries. For the period ended December 31, 2002, Mobiletron did not receive any dividends from its subsidiaries.

Principal Operating Subsidiaries

Stonewall Ventures Inc. (“Stonewall”) was established in the British Virgin Islands on November 25, 1998. Its registered office is at Citco Building, P.O. Box, Road Town, Tortola, British Virgin Islands. The main business of Stonewall is the performance of import and export trading. Stonewall is also an investment holding company and Mobiletron’s investment in Mobiletron (Ningbo) Co., Ltd is held through Stonewall.

As of and for the year ended December 31, 2001, Stonewall had audited net assets, operating revenues and net profits of U.S.\$3.7 million, U.S.\$0 and U.S.\$0, respectively. As of December 31, 2001, Stonewall had paid-up capital and reserves of U.S.\$3.7 million and U.S.\$0, respectively.

Mobiletron Electronics (Ningbo) Co., Ltd (“Mobiletron (Ningbo)”) was established in the PRC on January 19, 1995. Mobiletron (Ningbo)’s plant produces power tools and related accessories and AE products. Its business address is at C6, Far East Industrial Park, Yu Yao City, Economical Development Zone A, Zhejiang Province, PRC. Mobiletron (Ningbo) also conducts sales and marketing of the Company’s products in the PRC. See “— Production Facilities”.

As of and for the year ended December 31, 2001, Mobiletron (Ningbo) had audited net assets, operating revenues and net profits of RMB3.0 million, RMB3.0 million and RMB0.2 million, respectively. As of December 31, 2001, Mobiletron (Ningbo) had paid-in capital and reserves of RMB3.6 million and RMB0.2 million, respectively.

Mobiletron UK Limited (“Mobiletron UK”) was established in the United Kingdom on January 11, 2000. Mobiletron UK is engaged in the distribution of automotive control device and manufacturing auto parts and accessories and power tools, primarily for the European market. Its business address is at 423 Oakshott Place, Walton Summit Centre, Bamber Bridge, Preston PR5 8AU, United Kingdom.

As of and for the year ended December 31, 2001, Mobiletron UK had audited net assets, operating revenues and net loss of £0.06 million, £1.6 million and (£90,000), respectively. As of December 31, 2001, Mobiletron UK had paid-up capital and reserves of £0.03 million and £0, respectively.

Regitar U.S.A. Inc. was established in the State of Alabama, USA on July 24, 1987. Regitar U.S.A. Inc. is engaged in the wholesale of auto parts, power tools and hardware stamping parts, primarily for the American market. Its business address is at 2575 Container Drive Montgomery, AL 36109, USA.

As of and for the year ended December 31, 2001, Regitar U.S.A. Inc. had audited net assets, operating revenues and net profits of U.S.\$1.4 million, U.S.\$7.5 million and U.S.\$0.05 million, respectively. As of December 31, 2001, Regitar U.S.A. Inc. had paid-up capital and reserves of U.S.\$1.5 million and U.S.\$0, respectively.

More Optotech Co., Ltd. (“More Opto”) was established in January 2003. Its principal business is in the research and development of compound semiconductors. Its business address is 1st Floor, No. 13, Lane 16, Chung Ching Road, Sec. 3, Ta Ya Hsiang, Taichung Hsien, Taiwan. As a result of the relatively short operating history of More Opto, there is no financial statements available as at the date of this Offering Circular. As at February 28, 2003, the Company has invested NT\$20,000,000 in More Opto. The Company has committed to invest approximately U.S.\$6.0 million in More Opto in the next two years. However, the Company has agreed to share incentives for certain key employees of More Opto, which may result in the reduction of the equity interest of the Company in More Opto in the near future.

Affiliate

Media View Technologies Corporation (“**Media View**”) was established in San Jose, the State of California, USA. Its registered office is at 1580 Oakland Road, Suite # C-208, San Jose, CA 95131, USA. As at December 31, 2002, the Company owned 32.6% of the equity interest in Media View. Media View is engaged in the research and development of automobile multi-media system. The Company has designed and developed a series of products, using the patented technology of Media View, which is known as Multimedia Display Mirror System, or DMS™. See “— New Product”.

Related Party Transactions

Mobiletron, its subsidiaries and certain of its affiliates have, in the ordinary course of business or from time to time, entered into transactions with each other. The Company believes that all such transactions were based on general commercial practice. See Note 5 of the “Notes to Non-Consolidated Financial Statements for the nine months ended September 30, 2001 and 2002”, and Note 5 of the “Notes to Non-Consolidated Financial Statements for the years ended December 31, 1999, 2000 and 2001”.

SELECTED FINANCIAL DATA

The following table presents selected financial data for the Company. The selected non-consolidated financial data for the years ended December 31, 2000 and 2001 presented in this table are derived from the Company's audited non-consolidated financial statements and notes thereto that are included elsewhere in this Offering Circular. The selected non-consolidated financial data for the nine months ended September 30, 2001 and 2002 have been derived from the Company's unaudited non-consolidated financial statements and notes thereto that are included elsewhere in this Offering Circular. In accordance with the ROC GAAP and rules promulgated by the ROC SFC, Mobiletron is not required to make its audited annual financial statements as at and for the year ended December 31, 2002 on either a consolidated or a non-consolidated basis available to the public until April 30, 2003. In addition, pursuant to the ROC GAAP and rules promulgated by the ROC SFC, Mobiletron only prepares quarterly financial statements on a non-consolidated basis, which is not required to be audited. The Company's financial statements were prepared using accounting principles, procedures and reporting practices generally accepted in the ROC and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions, including the U.S. ROC GAAP differs in many material respects from U.S. GAAP. For a discussion of these differences, see "Summary of Principal Differences Between ROC GAAP and U.S. GAAP" included elsewhere in this Offering Circular.

Audited, Non-consolidated Year ended December 31,			Unaudited, Non-consolidated Nine months ended September 30,		
2000	2001	2001	2001	2002	2002
NT\$	NT\$	U.S.\$	NT\$	NT\$	U.S.\$
(in millions, except per share data)					

Statement of Operations Data:

Net sales	1,788.3	1,788.1	51.2	1,243.1	1,553.8	44.5
Cost of goods sold	(1,286.1)	(1,258.0)	(36.0)	(890.8)	(1,057.6)	(30.3)
Gross profit	502.2	530.1	15.2	352.3	496.2	14.2
Total operating expenses	(189.3)	(216.1)	6.2	(145.3)	(161.9)	(4.6)
Operating income	312.9	314.0	9.0	207.0	334.3	9.6
Net non-operating income (loss)	28.9	76.9	2.2	58.1	(2.6)	(0.1)
Income before income tax	341.8	390.9	11.2	265.1	331.7	9.5
Income tax expenses	(74.4)	(86.1)	(2.5)	(60.3)	(74.3)	(2.1)
Net income	267.4	304.8	8.7	204.8	257.4	7.4

Per Share Data:

Earnings per share — net income						
(in dollars)	3.65	4.02	0.12	2.41	2.77	0.08

Audited, Non-consolidated			Unaudited, Non-consolidated		
As of December 31,			As of September 30,		
2000	2001	2001	2001	2002	2002
NT\$	NT\$	U.S.\$	NT\$	NT\$	U.S.\$
(in millions)					

Balance Sheet Data:

Cash and cash equivalents	459.0	244.2	7.0	146.6	216.6	6.2
Current assets	1,261.0	1,489.8	42.6	1,825.7	1,486.3	42.6
Long-term investments	165.7	328.1	9.4	305.2	586.4	16.8
Property, plant and equipment	432.9	670.3	19.2	656.3	665.9	19.1
Total assets	1,877.5	2,504.5	71.7	2,803.1	2,756.4	78.9
Current liabilities	554.6	1,030.9	29.5	1,425.2	657.3	18.8
Total liabilities	661.9	1,050.4	30.1	1,450.2	1,139.8	32.6
Stockholders' equity	1,215.6	1,454.1	41.6	1,352.9	1,616.6	46.3

Notes:

- (1) Translated into United States Dollars using the average of buying and selling rates published by the Bank of Taiwan at December 31, 2001 of NT\$34.95 = U.S.\$1.00, and at September 30, 2002 of NT\$34.92 = U.S.\$1.00. Such translation amounts are unaudited and should not be construed as representations that the NT Dollar amounts were, or have been, or could be, converted into U.S. Dollars at that or any other rate.
- (2) Earnings per Share are calculated by dividing net income by the weighted average number of Shares outstanding during each year after adjusting retroactively for the effect of stock dividends.
- (3) Earnings per Share are calculated by dividing net income by the weighted average number of shares outstanding during each nine-month period after adjusting retroactively for the effect of stock dividends.

MANAGEMENT AND EMPLOYEES

Directors

Mobiletron's board of directors is elected by the shareholders in a general meeting at which a quorum, consisting of a majority of all issued and outstanding common shares, is present. The Chairman is elected by the board from among the directors. Mobiletron's nine-member board of directors is responsible for the management of the Company's business.

The term of office for Mobiletron's directors is three years from the date of election. Directors may serve any number of consecutive terms and may be removed from office at any time for a valid reason by a resolution adopted by the shareholders in a general meeting. Normally, all board members are elected at the same time, except where the posts of one-third or more of the directors are vacant, at which time a special meeting of shareholders will be convened to elect directors to fill the vacancies.

The following table sets forth the name of each of Mobiletron's current directors, his position in the Mobiletron and the percentage of Shares held:

<u>Name⁽¹⁾</u>	<u>Other Positions within the Company</u>	<u>Percentage of Shares held⁽²⁾</u>
Yi-Hsiung Tsai	Chairman	1.61%
Yu-Ching Tsai	Chief Executive Officer	3.17%
Cheng-Cu Wei	Vice President	5.17%
Yu-Cheng Tsai ⁽³⁾	—	2.43%
Chu-Lan Tsai ⁽³⁾	Special Assistant to the Chairman	3.11%
Chi-Hui Tsai	Chief Engineer	2.06%
Hong-Chi Lin	—	0.07%
Kuo-Tze Tsai	—	0.07%
Jin Shyang Roan ⁽⁴⁾	—	0.0%

(1) The Directors of the Company can be contacted through the Company's registered office.

(2) As at December 31, 2002

(3) Nominated by Bao Fu Investment Co., Ltd.

(4) Independent director

Supervisors

The Company currently has three supervisors, each serving a three-year term. Supervisors are usually elected at the same time the directors are elected. The supervisors' duties and powers include investigation of Mobiletron's business condition, inspection of Mobiletron's corporate records, verification and review of financial statements presented by Mobiletron's board of directors at shareholders' meetings, convening of shareholders' meetings, representing Mobiletron in negotiations with Mobiletron's 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 Mobiletron's Articles of Incorporation. Each supervisor is elected by Mobiletron's shareholders and cannot concurrently serve as a director, management officer or staff member. The ROC Company Law requires that a supervisor's term of office be no more than three years.

The following table sets forth the name of each of Mobiletron's current supervisors, his or her position in Mobiletron and the percentage of Shares held by him or her:

Name⁽¹⁾	Position	Percentage of Shares held⁽²⁾
Wen-Jeng Tsai ⁽³⁾	Supervisor	2.66%
Tju Jun Chen	Supervisor	0.05%
Ping Jung Wu	Supervisor	0.05%

(1) The Supervisors of the Company can be contacted through the Company's registered office.

(2) As at December 31, 2002

(3) Nominated by Bao Fu Investment Co., Ltd

In accordance with the ROC law, each of Mobiletron's directors and supervisors owes fiduciary duties to all shareholders. Of the current directors and supervisors, two directors and one supervisor were nominated by Bao Fu Investment Co., Ltd; the remaining directors and supervisors serve in their capacity as individual shareholders.

Of the Company's current nine board seats, only one is occupied by an independent director. None of the Company's supervisors are independent. Directors and supervisors will be deemed "independent" only if, for at least one year prior to their election, they:

- ▶ do not serve as independent directors or supervisors of five or more other companies;
- ▶ are not employed by the Company or its affiliates and are not directors or supervisors of its affiliates;
- ▶ do not directly or indirectly hold over 1% of the Company's issued and outstanding shares and are not ranked among the top ten individual shareholders of the Company;
- ▶ are not married or related (father, mother, grandfather, grandmother, son, daughter, grandson or granddaughter) to employees of the Company or its affiliates, directors and supervisors, holders (directly or indirectly) of over 1% of the Company's shares or shareholders who are ranked among the top ten individual shareholders of the Company;
- ▶ are not directors, supervisors or employees of corporate shareholders that directly hold more than 5% of the Company's shares or ranked among the top five corporate shareholders of the Company;
- ▶ are not directors, supervisors, managers or holders of more than 5% of the shares of a company or institution with which the Company has a financial or business relationship; and
- ▶ are not a, or a spouse of a, partner, director, supervisor or manager of providers of financial, commercial or legal services to the Company or its affiliates.

In addition, to be deemed "independent", directors and supervisors must be elected in their individual capacities and have five years of experience in business, legal or financial matters or in the Company's business and provide proof of attending at least three hours of legal, financial or accounting training each year.

Executive Officers

The following table sets forth information relating to Mobiletron's executive officers.

Name ⁽¹⁾	Position	Years with the Company
Jyh-Peng Chang	Vice President — Investment Management	1
Chi-Chung Hwu	Vice President — Manufacturing	13
Ing-Zh Kuo	Senior Manager — Finance	2
Mao-Tsung Huang	Senior Manager — Power Tools Marketing and Sales	1
Huan-Wen Wu	Senior Manager — Quality Assurance	0.5

(1) The executive officers of Mobiletron can be contacted through the Company's registered office.

Biographies of Directors, Supervisors and Executive Officers

Directors

Yi Shiung Tsai, aged 82, has served as the Chairman of the Company since its inception. He has also served as the Chairman of Sin Gao Plastics Co., Ltd. for 30 years and has extensive management experience.

Yu-Ching Tsai, aged 47, has served as a director and the Chief Executive Officer of the Company since its inception. He holds a degree in electronics engineering from Taipei University of Technology. Mr. Tsai has more than 20 years of experience in enterprise management. From 1982 to 1987, he served as a supervisor in the sales and marketing division of USI Corp. in Nantou Hsien, Taiwan.

Cheng-Cu Wei, aged 49, has served as a director and Vice President of the Company since December 1983. He holds a Bachelors degree in physics from Fu Jen Catholic University. He has more than 20 years of experience in auto parts manufacturing. He administers and oversees the quality assurance policies of the Group. He has also previously worked with USI Corp.

Yu-Cheng Tsai, aged 55, has served as a director of the Company since 1999. He holds a degree in business administration from Chao-Gang Institute of Commerce.

Chu-Lan Tsai, aged 52, has served as a director of the Company since 1999. She holds a Bachelors degree in commerce from Feng-Chai University. She is also the special assistant to the Chairman.

Chi-Hui Tsai, aged 47, has served as a director and Chief Engineer of the Company since 1983. Mr. Tsai holds a Bachelors degree from the National Ching-Hwa University. Before joining the Company, he served as an industrial engineer in Sanyo Electronic (Taichung) Co., Ltd.

Hong-Chi Lin, aged 45, has served as a director of the Company since 1999. He graduated from Feng-Chai University in Taiwan.

Kuo-Tze Tsai, aged 54, has served as a director of the Company since 1999. He graduated from Chao-Chia Institute of Commerce with a vocational diploma.

Jin Shyang Roan, aged 40, has served as a director of the Company since 1999. He graduated from Louisiana State University with a Doctorate degree in business administration.

Supervisors

Wen-Jeng Tsai, aged 43, has served as a supervisor of the Company since 1999. He has a doctorate degree in health management from Tulane University in the U.S. He currently serves as an assistant professor in the Chinese Medical College in Taichung, Taiwan.

Tju Jun Chen, aged 50, has served as a supervisor of the Company since 2002. He holds a Bachelors degree in industrial engineering from Chung Yuan Christian University in Taiwan. He currently serves as the manager of Hsin-Chuan Co., Ltd.

Ping Jung Wu, aged 42, has served as a supervisor of the Company since 2002. He holds a diploma in statistics from Sing Tung College. He is currently the responsible person of Yo-Chen Co., Ltd.

Executive Officers

Jyh-Peng Chang, aged 46, has served as a Vice President of the Company since 2002. He holds a Masters degree in business administration from Tung Hai University in Taiwan. He has previously served as a senior manager of Long Bon Development Company and GPA Investment Co., Ltd., respectively, supervising their technology investments.

Chi-Chung Hwu, aged 49, joined the Company in November 1989. Mr. Hu holds a vocational diploma in electronics engineering from Wu-Feng Institute of Technology in Taiwan. He oversees the manufacturing operations of the Group. During the 20 years with the Company, he has been promoted from a production manager to his current position as Vice President of the Company. He previously served as the special assistant to the chief executive officer of US Toys Co., Ltd.

Ing-Zh Kuo, aged 43, has served as a senior manager in the Finance Department of the Company since 2000. He holds a Bachelors degree in enterprise management from Fu Jen Catholic University in Taiwan. His previous experience includes being an assistant chief financial officer of Caesar Park Hotel and a finance manager of Youn Yu Plastics Co., Ltd.

Mao-Tsung Huang, aged 41, has served as a senior marketing and sales manager for the Company's power tools division since 2000. He holds a Masters degree in manufacturing engineering from Auburn University in the U.S.A.. He has previously served as a sales manager of Hiwin Technologies Corp.

Huan-Wen Wu, aged 41, has served as a senior manager in the Quality Assurance Department of the Company since 2002. He holds a Masters degree in electronics engineering from National Taiwan University. His previous experience includes serving as technical manager of Lee Chi Enterprise Co., Ltd. and as the research and development manager of Taiwan Bicycle Co., Ltd.

Yi-Hsiung Tsai, the Chairman, is the father of Yu-Ching Tsai, Yu-Cheng Tsai, Chu-Lan Tsai and Wen-Jeng Tsai. Yu-Ching Tsai, Yu-Cheng Tsai, Chu-Lan Tsai and Wen-Jeng Tsai are siblings.

Compensation of Directors, Supervisor and Executive Officers

In 2001, Mobiletron paid to its directors, supervisors and executive officers approximately NT\$4.8 million in aggregate cash remuneration.

Interests of Management in Certain Transactions

Several of Mobiletron's directors, supervisors and executive officers also serve as directors, supervisors or executive officers of companies with which the Company does business. These companies include Mobiletron's affiliates. The Company conducts these transactions on an arms-length basis. See Note 5 to the Consolidated Financial Statements.

Employees

Overview

The Company had the following number of employees as of the period indicated:

	As of December 31,		
	1999	2000	2001
Administrative	43	41	47
Research and development	34	37	41
Engineering/technical operations	21	21	22
Sales & marketing	29	27	30
Total	127	126	140

As of December 31, 2002, all of the Company's employees worked on a full-time basis, of which 29.3% were engaged in research and product development, 55.0% in sales, marketing and general administration and 15.7% in engineering/technical operations. The average age of the employees is 34 years old. None of the Company's employees is represented by collective bargaining organization, such as a union, or subject to any bargaining agreements. The Company has not experienced any significant labor disputes in the past three years.

As of December 31, 2002, approximately 20% of the Company's research and development personnel held a bachelor's degree or higher educational qualification and approximately 29% of the Company's senior to mid-ranking management and administrative personnel held a bachelor's degree or higher educational qualification. The Company places considerable importance on the recruitment, training and retention of a team of qualified and experienced engineers to oversee and manage the Company's Taiwan and PRC's manufacturing operations.

Employee remuneration

The salaries of the Company's employees in the ROC are adjusted based on industry standards, inflation and individual performance. The Company pays year-end bonuses to the employees equivalent to an average of two months' salary. In addition, the Articles of Incorporation of the Company provide that the Company's employees are entitled to employee bonuses out of the Company's earnings (subject to compliance with the requirements of the ROC Company Law), which the Company has in the past paid in cash.

Employee retirement plan

The Company has established an employee retirement plan ("**Retirement Plan**"). The Retirement Plan provides for lump-sum payments to retiring employees in Taiwan based on the length of service and the base salary at the time of retirement. The Company deposits, on a monthly basis, at least 4% of employees' total monthly salaries with the Central Trust of China in accordance with the Retirement Plan. Actual payment of retirement benefits is financed by the pension fund, and any insufficiency will be paid by the Company.

All TSE listed companies are required to calculate their pension obligations based on actuarial valuation. Pursuant to ROC Financial Accounting Standard Statement No. 18, the Company's recognized net periodic pension cost which includes, based on an actuarial valuation, service cost, interest cost, expected return on plan assets, amortization of unrecognized transition obligation, pension gains/losses and prior service cost.

Employee Insurance

In accordance with the requirements of ROC laws and regulations, Mobiletron maintains health and general labour insurance for its employees. In addition, Mobiletron maintains, on its own account, travel accident insurance for its employees when they are on business trips.

SHARE CAPITAL

As of December 31, 2002, the authorized share capital of the Company was NT\$1,350,000,000 divided into 135,000,000 common shares with a par value of NT\$10 per common share (“**Share**”), of which 5,000,000 Shares have been reserved for its employee stock option plan and 3,000,000 Shares reserved for the conversion of the convertible bonds. As of December 31, 2002, the paid-in capital was NT\$866,478,900, all of which are issued, outstanding and fully paid in registered form.

The Company has not issued any warrants, options, convertible debt securities, exchangeable securities or debt securities with warrants attached, other than the Bonds offered hereby, the employee stock options granted pursuant to the employee stock option plan referred to above and the NT\$500,000,000 zero coupon unsecured domestic convertible bonds due 2006 issued in the ROC in 2001.

As of December 31, 2002, no shareholder held more than 10% of Mobiletron’s Shares except Bao Fu Investment Co., Ltd., which held 11,467,341 Shares (representing 13.2% of the total issued share capital of Mobiletron).

The following table shows the increases in the Company’s issued share capital since incorporation:

<u>Date of issue</u>	<u>Type of issue</u>	<u>Number of issued Shares</u>	<u>Number of Shares outstanding after issue</u>
June 1982	Incorporation		220,000
June 1983	Rights issue for capital increase by cash	780,000	1,000,000
April 1988.	Rights issue for capital increase by cash	1,000,000	2,000,000
April 1991.	Rights issue for capital increase by cash	1,000,000	3,000,000
July 1994	Capitalization of stock dividends	1,000,000	4,000,000
May 1996	Capitalization of stock dividends	2,000,000	6,000,000
November 1997.	Capitalization of stock dividends and rights issue — for capital increase by cash and for merging with Regitar Power Tools Co., Ltd.	13,200,000	19,200,000
October 1998	Rights issue for capital increase by cash and capitalization of legal reserves	14,800,000	34,000,000
September 1999	Capitalization of stock dividends	9,000,000	43,000,000
July 2000	Rights issue for capital increase by cash and capitalization of stock dividends	21,200,000	64,200,000
July 2001	Capitalization of stock dividends	11,556,000	75,756,000
September 2002	Capitalization of stock dividends	9,090,720	84,846,720
November 2002.	Conversion of bonds	1,267,192	86,113,912
December 2002.	Conversion of bonds	533,978	86,647,890

DESCRIPTION OF THE SHARES

The following is a summary of information relating to the share capital of the Company, including certain provisions of the Company's articles of incorporation (the "**Articles**"), the ROC Securities and Exchange Law (the "**Securities and Exchange Law**") and regulations promulgated thereunder and the ROC Company Law, all as currently in effect.

General

Under the ROC Company Law, any change in the Company's authorized share capital, including decreases in authorized share capital, requires an amendment to the Articles, which in turn requires approval at the shareholders' meeting. Authorized but unissued Shares may be issued subject to the ROC Company Law and the Articles, upon such terms as the board of directors may determine.

The Articles of Incorporation

Article two of the Company's Articles sets out the objects for which the Company was organized. These include the following:

- ▶ industrial plastic products manufacturing;
- ▶ machinery and equipment manufacturing;
- ▶ electronic parts and components manufacturing;
- ▶ retail sale of machinery and equipment; and
- ▶ any businesses other than those prohibited or restricted by laws and regulations.

Dividends and Distribution

Under the ROC Company Law, except under certain limited circumstances, the Company shall not distribute dividends or make any other distributions to shareholders if the Company has no surplus earnings.

The ROC Company Law also requires that, before distributing dividends or other distributions, 10% of the Company's annual surplus earnings, less prior years' losses, if any, and outstanding tax, be set aside as a legal reserve until the accumulated legal reserve equals the authorized capital. The Company may set aside a special reserve in accordance with applicable laws and regulations, the Articles or a resolution passed at a shareholders' meeting. The Articles provide that the Company may distribute surplus earnings to shareholders after having set aside the following items in the order they are listed:

- ▶ payment of all taxes;
- ▶ recovery of any past losses;
- ▶ allocation of 10% as a legal reserve and a special reserve according to the ROC Company Law;
- ▶ allocation of at least 3% as employee bonus; and
- ▶ allocation of 2% as remuneration for directors and supervisors.

At each annual ordinary shareholders' meeting, the board of directors of the Company submits to the shareholders for their approval any proposal for the distribution of a dividend or the making of any other distribution to shareholders from the Company's surplus earnings. All common shares outstanding and fully paid as of the relevant record date are entitled to share equally in any dividend or other distribution so approved. Dividends may be distributed in cash, in the form of Shares or a combination of the two, as determined by the shareholders at the meeting. The Articles provide that the distribution shall be no less than 30% of the Company's accumulated distributable earnings and the cash dividends shall be no less than 10% of the total dividends.

In addition, if the Company does not have losses, the Company is also permitted to make distributions to its shareholders of additional Shares by capitalizing reserves (including the legal reserve and capital surplus of premium from issuing stock and earnings from gifts received). However, the amounts to be capitalized from the legal reserve are limited to 50% of the total accumulated legal reserve and this capitalization can only be effected when the accumulated legal reserve exceeds 50% of the paid-in capital of the Company.

Any issuance of additional Shares capitalized from reserves (including the legal reserve and capital surplus of premium from issuing stock and earnings from gifts received) or stock dividends by a public company, such as the Company, to the shareholders is subject to the approval of the ROC SFC.

Preemptive Rights

New Shares may only be issued with the prior approval of the board of directors. If the issuance of any new Shares will result in any change in the authorized share capital, the Company is required under ROC laws to amend the Articles and obtain approval of the shareholders. The Company must also obtain the approval of, or submit a registration with, the ROC SFC and Ministry of Economic Affairs.

Under the ROC Company Law, when the Company issues new Shares for cash, existing shareholders who are listed on the shareholders' register as of the record date have preemptive rights to subscribe for the new issue in proportion to their existing shareholdings, while the Company's employees, whether or not they are existing shareholders, have a similar right to subscribe for 10% to 15% of the new issue. Any new Shares that remain unsubscribed at the expiration of the subscription period may be offered to the public or specified persons at the discretion of the board of directors of the Company.

In addition, in accordance with the Securities and Exchange Law, a public company listed on the TSE that intends to offer new shares for cash must conduct a public offering of at least 10% of the shares to be sold, except under certain circumstances or when exempted by the ROC SFC. This percentage can be increased by a resolution passed at a shareholders' meeting, which would diminish the number of new shares subject to the preemptive rights of existing shareholders. According to the amended Securities and Exchange Law which became effective on June 12, 2002, the preemptive right provisions will not apply to offerings of new shares through a private placement approved in a shareholders' meeting.

Meetings of Shareholders

The ordinary meeting of shareholders of the Company is usually held in Taichung Hsien, Taiwan, as determined by the board of directors, within six months after the end of each calendar year. Extraordinary meetings of shareholders may be convened by resolution of the board of directors whenever they consider it necessary, and they must do so if requested in writing by shareholders holding not less than 3% of the paid-in capital who have held these shares for more than a year.

Extraordinary meetings of shareholders may also be convened by a supervisor of the Company under certain circumstances. Notice in writing of ordinary and extraordinary shareholders' meetings stating the place, time and purpose thereof must be dispatched to each shareholder of the Company at least 30 days and 15 days, respectively, prior to the date set for the meeting.

Voting Rights

Under the ROC Company Law, a shareholder has one vote for each common share except for treasury shares. Except as otherwise provided by law, a resolution can be adopted by the holders of at least a majority of the Shares represented at a shareholders' meeting at which the holders of a majority of all issued and outstanding Shares are present. The election of directors and supervisors at a shareholders' meeting is by means of cumulative voting unless the Articles provide otherwise. Ballots for the election of directors are cast separately from those for the election of supervisors. Candidates for the offices of directors and supervisors may be nominated at the shareholders' meeting at which ballots for the election are cast. Under the ROC Company Law, the approval by at least a majority of the Shares represented at a shareholders' meeting in which a quorum of at least two-thirds of all issued and outstanding Shares are represented is required for major corporate actions, including:

- ▶ amendment to the Articles;
- ▶ transfer of the whole or essential part of the Company's business or assets;
- ▶ execution, amendment or termination of any contract that leases the Company's whole business, mandates the Company's operation to other persons, or operates frequently the business for the joint interest of the Company and other persons;
- ▶ taking over of the whole of the business or assets of any other company which would have a significant impact on the Company's operations;
- ▶ distribution of any stock dividend;
- ▶ dissolution or amalgamation of the Company;
- ▶ merger or spin-off; and
- ▶ removal of directors or supervisors.

Alternatively, the ROC Company Law provides that in the case of a public company, such as the Company, a resolution may be adopted by the holders of at least two-thirds of the Shares represented at a meeting of shareholders at which holders of at least a majority of issued and outstanding Shares are present. However, if a controlling company holds not less than 90% of its subordinate company's outstanding shares, the controlling company's merger with the subordinate company can be approved by board resolution adopted by majority consent at a meeting with two-thirds of the directors present.

A shareholder may be represented at an ordinary or extraordinary meeting by proxy if a valid proxy form is delivered to the Company five days before the commencement of the ordinary or extraordinary shareholders' meeting. Except for trust enterprises or stock affair agents approved by the ROC SFC, where one person is appointed as proxy by two or more shareholders who together hold more than 3% of the total issued Shares, the votes of those shareholders in excess of 3% of the outstanding Shares shall not be counted.

Under the ROC Company Law, the Company may, by giving advance public notice, set a record date and close the register of shareholders for a specified period in order to determine the shareholders and pledgees that are entitled to rights pertaining to the Shares. The specified period required is as follows:

- ▶ ordinary shareholders' meeting — 60 days
- ▶ extraordinary shareholders' meeting — 30 days
- ▶ relevant record date for distribution of dividends, bonuses or other interests — five days.

Other Rights of Shareholders

Under the ROC Company Law, dissenting shareholders of the Company are entitled to appraisal rights in the event of amalgamation, spin-off and various other major corporate actions within 20 days of the resolution approving the event. A dissenting shareholder may request the Company to redeem all of the shares owned by the shareholder at a fair price to be determined by mutual agreement. If an agreement cannot be reached, the valuation will be determined by a court order. For amalgamation or spin-off, a dissenting shareholder may exercise its appraisal right by serving written notice on the Company before or during the related shareholders' meeting or by raising and registering its objection at the shareholders' meeting. For other major corporate actions, a dissenting shareholder may exercise its appraisal right by serving written notice on the Company before the related shareholders' meeting and by raising and registering its objection at the shareholders' meeting.

In addition to appraisal rights, within 30 days after the date of the shareholders' meeting, any shareholder, except for those who attended the shareholder's meeting and voted in favor of the resolution, has the right to annul any resolution adopted at a shareholders' meeting where the procedures were legally defective. However, if the court is of the opinion that such violation is not material and does not affect the result of the resolution, the court may reject or dismiss the shareholder's lawsuit. One or more shareholders who have held more than 3% of the issued and outstanding Shares of the Company for over a year may require a supervisor to bring an action against a director for the director's liability to the Company as a result of the director's unlawful actions or failure to act. In addition, one or more shareholders who have held more than 3% of the issued and outstanding Shares of the Company for over a year may require the board of directors of the Company to convene an extraordinary shareholders' meeting by sending a written request to the board of directors.

Annual Financial Statements

Under the ROC Company Law, ten days before the ordinary shareholders' meeting, the Company's annual audited financial statements must be available at the principal office of the Company in Ta-Ya Taichung Hsien, for inspection by the shareholders.

Transfers of Common Shares

Under the ROC Company Law, a public company, such as the Company, may issue individual share certificates, one master certificate or no certificate at all to evidence ownership in common shares. The transfer of Shares (in registered form) is effected by endorsement and delivery of share certificates. In order to assert shareholders' rights against the Company, the transferee must have his name and address registered on the Company's register of shareholders. Shareholders are required to register their respective specimen seal or chop with the Company's share registrar, Sun-Fund Securities Ltd. The settlement of trading of the common stock is normally carried out on the book-entry system maintained by Taiwan Securities Central Depository Co., Ltd.

Acquisition by the Company of its own Common Shares

Under the ROC Company Law, the Company may purchase its common shares under certain limited purposes, including for transfer of shares to its employees. Any shares so purchased must be sold by the Company at the current market price within six months or, in the event of transferring such shares to its employees, be transferred to its employees within three years after its acquisition. Any shares not so sold or transferred will be deemed cancelled after the expiration of the stipulated period.

In addition, under the Securities and Exchange Law, a company whose shares are listed on the TSE may, pursuant to a board resolution adopted by a majority consent at a meeting attended by more than two-thirds of the directors and pursuant to the procedures prescribed by the ROC SFC, purchase its common shares on the TSE or by a tender offer for the following purposes:

- ▶ for transfer of shares to its employees;
- ▶ for conversion into shares from bonds with warrants, preferred shares with warrants, convertible bonds, convertible preferred shares or certificates of warrants issued by the company; and
- ▶ for maintaining its credit and its shareholders' equity; provided that the shares so purchased shall be cancelled thereafter.

Shares purchased by the Company for the purposes set out in the first two items of the preceding paragraph shall be deemed cancelled if not transferred to the intended transferees within three years of the relevant purchase. Shares purchased by the Company for the purpose set out in the last item of the preceding paragraph shall be cancelled, and the Company is required to amend the registration of its issued paid-in capital to reflect such cancellation within six months of such a purchase.

The total Shares purchased by the Company shall not exceed 10% of its total issued and outstanding Shares. In addition, the total amount for purchase of the Shares shall not exceed the aggregate amount of the retained earnings, the premium from stock issues and the realized portion of the capital reserve.

The Shares purchased by the Company shall not be pledged or hypothecated. In addition, the Company may not exercise any shareholders' rights attaching to such Shares. The Company's affiliates (as defined in Article 369-1 of the ROC Company Law), directors, supervisors, managers and their respective spouses and minor children and/or nominees are prohibited from selling the Shares held by them during the period in which the Company purchases its own shares.

As of the date hereof, the Company has not purchased any of its own Shares.

Liquidation Rights

In the event of the liquidation of the Company, the assets remaining after payment of all debts, liquidation expenses, taxes and distributions to preferred stockholders, will be distributed on a pro rata basis to the shareholders in accordance with the ROC Company Law.

Significant Shareholders and Transfer Restrictions

The Securities and Exchange Law currently requires (1) each director, supervisor, manager or significant shareholder (i.e., a shareholder who, together with his or her spouse, minor children or nominees, holds more than 10% of the shares of a public company) to report any change in that person's shareholding to the issuer of the shares, and (2) each director, supervisor, manager or

significant shareholder to report his or her intent to transfer any shares traded on the TSE to the ROC SFC at least three days before the intended transfer, unless the number of shares to be transferred is less than 10,000. The Securities and Exchange Law also limits the number of shares that can be sold or transferred on the TSE by each director, supervisor, manager or significant shareholder per day.

Limitation on Shareholdings in the Company and Reporting Obligations

The Securities and Exchange Law requires each director, supervisor, manager or significant shareholder (i.e., a shareholder who, together with his or her spouse, minor children or nominees, holds more than 10% of the Company's issued and outstanding shares) to report any change in that person's shareholding to the Company before the fifth day of each month and the Company shall report the same to the ROC SFC before the 15th day of each month. Such persons are also required to report to the Company immediately after the pledge of their shares in the Company and the Company shall report the same to the ROC SFC within five days from the pledge date. A person who, alone or along with other persons (as defined under the ROC SFC regulations), acquires more than 10% of the issued and outstanding Shares of the Company shall report to the ROC SFC, within 10 days from the acquisition date, the acquisition purpose, funding sources and other information required by the ROC SFC.

Employee Stock-Purchase Warrants

Under the ROC Company Law and relevant regulations promulgated by the ROC SFC, a company may issue employee stock-purchase warrants by a resolution adopted by at least a majority of the directors present at the board of directors' meeting in which a quorum of at least two-thirds of all directors are present. The warrants so subscribed by the employees may not be transferred except in the case of inheritance. Subject to the conditions set forth by the company, the company may issue new shares or, in the case that the company's shares are listed on the TSE, purchase its own shares for the warrants holders to subscribe.

Stock Transfer Agent

The stock transfer agent of Mobiletron's Shares is Grand Cathay Securities Corp. and its business address is at 5th Floor, 2 Chung Ching South Road, Sec. 1, Taipei 100, Taiwan.

TAXATION

The Bonds may be deemed by taxing authorities in various jurisdictions to be issued with original issue discount. Prospective investors should consult their own adviser concerning the tax consequences of an investment in Bonds or Shares.

Taxation of Non-ROC residents

The following is a summary under present law of the principal ROC tax consequences of the ownership and disposition of Bonds and Shares to a Non-ROC Resident Individual or Non-ROC Resident Entity that holds Bonds or Shares (each a “**Non-ROC Holder**”). As used in the preceding sentence, a “**Non-ROC Resident Individual**” is a foreign national individual who owns Bonds or Shares and is not physically present in the ROC for 183 days or more during any calendar year and a “**Non-ROC Resident Entity**” is a corporation or a non-corporate body that owns Bonds or Shares and is organized under the laws of a jurisdiction other than the ROC and has no fixed place of business or other permanent establishment in the ROC.

Withholding Tax on Payments of Premium and Interest

Premium (if any) and interest (if any) payable on the Bonds to Non-ROC Holders is subject to a withholding tax in the ROC currently equal to 20% of the gross amount of such premium (if any) and interest (if any) at the time of payment.

Dividends on the Shares

Dividends (whether in cash or Shares) declared by the Company out of retained earnings and paid out to holders of Shares are normally subject to ROC income tax collected by way of withholding at the time of distribution. The current rate of withholding for Non-ROC Holders of the Shares converted from the Bonds by the Non-ROC Holder adopted by the tax authorities is 20% of the amount of the distribution (in the case of cash dividends) or the par value of the Shares (in the case of stock dividends). Distributions of stock dividends declared by the Company out of capital reserves are currently not subject to ROC withholding tax. In accordance with the ROC Income Tax Law, a 10% retained earnings tax will be imposed on a company for its after-tax earnings generated after January 1, 1998 which are not distributed in the following year. The retained earnings tax so paid will further reduce the retained earnings available for future distribution. When the company declares dividends out of those retained earnings, a maximum amount of up to 10% of the declared dividends will be credited against the 20% withholding tax imposed on the Non-ROC Holder.

Capital Gains

Under current ROC law, a gain realized upon the sale or other disposition of securities is exempt from ROC income tax. This exemption will apply to a sale or other disposition of Bonds or Shares.

ROC law currently provides no specific provisions regarding the ROC income tax consequences of a conversion of Bonds into Shares. Without further clarification from the ROC tax authorities, it is impossible to conclude definitively that gain on the conversion of Bonds into Shares will not be deemed as taxable gain, additional interest income (subject to the 20% withholding tax) or otherwise subject to other ROC taxes. Transfers of Bonds by Non-ROC Holders are regarded as transactions outside the ROC and thus any gains derived therefrom are not subject to ROC income tax.

Securities Transaction Tax

The ROC Government imposes a securities transaction tax that will apply to sales of Bonds and Shares. The transaction tax, which is payable by the seller, is generally levied on sales of Shares at the rate of 0.3% of the transaction price and on sales of Bonds at the rate of 0.1% of the transaction price. However, according to a letter issued by the ROC MOF dated January 17, 2001, sales of the Bonds outside of the ROC are exempted from such securities transaction tax. According to the amended Statute for Upgrading Industries effective as of February 1, 2002, no securities transaction tax will be imposed on the sale of the Bonds. Such tax credit is valid from February 1, 2002 to December 31, 2009.

The securities transaction tax and/or gift tax may be imposed in relation to the converting Bondholder's designation of another person to be the holder of Shares upon conversion of the Bonds.

There is no ROC securities transaction, stamp, issue or registration tax imposed on the issuance of Shares upon conversion of the Bonds.

Estate Tax and Gift Tax

ROC estate tax is payable on any property within the ROC of a deceased Non-Resident Individual, and ROC gift tax is payable on any property within the ROC donated by a Non-Resident Individual. Estate tax is currently imposed at rates ranging from 2% of the first NT\$600,000 to 50% of amounts in excess of NT\$100 million. Gift tax is imposed at rates ranging from 4% of the first NT\$600,000 donated to 50% of amounts donated in excess of NT\$45 million. Under ROC estate and gift tax laws, the Bonds and Shares will be deemed to be located in the ROC without regard to the location of the owner.

Tax Treaty

At present, the ROC has income tax treaties with Australia, Gambia, Indonesia, Macedonia, Malaysia, New Zealand, Singapore, South Africa, Swaziland, The Netherlands and Vietnam. It is unclear whether a Non-ROC Holder will be considered to own Bonds or Shares for the purposes of such treaties. Accordingly, a holder of Bonds or Shares who is otherwise entitled to the benefit of a treaty should consult its own tax advisers concerning eligibility for benefit under the treaty with respect to Bonds or Shares.

Tax Reform

In order to increase Taiwan's competitiveness, an amendment to the ROC Income Tax Law ("**Amendment**") was enacted on January 1, 1998, to integrate the corporate income tax and the shareholder dividend tax with the aim of eliminating the double taxation effect for resident shareholders of ROC companies. The Amendment will have the following effect upon Non-ROC Holders of the Shares.

A 10% retained earnings tax will be imposed on the Company for its after-tax earnings generated after January 1, 1998 which are not distributed in the following year. The retained earnings tax so paid will further reduce the retained earnings available for future distribution. When the Company declares dividends out of those retained earnings, a maximum amount of up to 10% of the declared dividends will be credited against the 20% withholding tax imposed on the Non-ROC Holders of its Shares.

Preemptive Rights

Distributions of preemptive rights for the Shares in compliance with the ROC Company Law are not subject to ROC tax. Proceeds derived from sales of preemptive rights evidenced by securities are currently exempted from income tax but are subject to securities transaction tax, currently at the rate of 0.3% of the gross amount received. Proceeds derived from sales of statutory subscription rights that are not evidenced by securities are subject to capital gains tax at the rate of (i) 25% of the gains realized for Non-ROC Entity Holders, and (ii) 35% of the gains realised for Non-ROC Individual Holders. Subject to compliance with ROC law, the Company has the sole discretion to determine whether preemptive rights are evidenced by securities or not.

UNDERWRITING

GC Capital (Asia) Limited and Polaris Securities (Hong Kong) Limited (the “**Joint Bookrunners**” or the “**Managers**”) has, pursuant to a Subscription Agreement to be dated March 26, 2003 (the “**Subscription Agreement**”), agreed with the Company to subscribe and purchase the Bonds at the issue price of 100% of their principal amount less the combined management and underwriting commission and selling fees.

The obligations of the Managers to subscribe for the Bonds are subject to termination if certain conditions are not met prior to the time of delivery of the Global Certificate which is expected to be 6:00 p.m., Hong Kong time, on March 27, 2003.

The Company has agreed in the Subscription Agreement to indemnify the Managers against certain liabilities, including the liabilities under the Securities Act, in connection with the offering of the Bonds.

The Company has agreed in the Subscription Agreement that, for a period of 90 days from the date of the Subscription Agreement, neither it nor any person acting on its behalf will, without the prior written consent of the Managers, issue, offer or sell any equity securities, or any securities convertible or exchangeable for equity securities, or any rights, warrants or options to subscribe for equity securities of the Company, or announce plans or otherwise make public an intention to do any of the foregoing, in each case outside of Taiwan or denominated in a currency other than NT Dollars, other than those pursuant to employee benefits plans or employee stock option plans or distributions of dividends or employee bonuses in the form of Shares and conversion of the Bonds.

The Bondholders who purchase the Bonds from the Managers 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 issue price of the Bonds.

Selling Restrictions

No action has been or will be taken in any jurisdiction that would permit a public offering of the Bonds or the Shares issuable upon conversion of the Bonds, or the possession, circulation or distribution of this Offering Circular or any other material relating to the Company, the Bonds or the Shares issuable upon conversion of the Bonds, in any jurisdiction where action for the purpose is required. Accordingly, neither the Bonds nor any Shares issuable upon conversion of the Bonds may be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds or the Shares issuable upon conversion of the Bonds may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction.

United States

Each of the Managers has acknowledged and agreed that the Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the Securities Act, and may not (i) as part of their distribution at any time or (ii) prior to the 40th day after the closing of the offering of the Bonds be offered or sold within the United States or to, or for the account or benefit of, US persons. The Bonds are being offered and sold outside the United States to non-US persons in reliance on Regulation S.

In addition, until 40 days after the closing of the offering of the Bonds, an offer or sale of the Bonds or the Shares to be issued upon conversion of the Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each of the Managers has represented and agreed that:

- (1) it has not offered or sold and prior to the date six months after the issue of the Bonds and will not offer or sell any Bonds to 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 Offer of Securities Regulations 1995;
- (2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and
- (3) it has only issued or passed onto any person in the United Kingdom any document received by it in connection with the issue of the Bonds, if that person is of a kind described in Articles 19, 47 or 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on.

The ROC

Each of the Managers has acknowledged and agreed that the Bonds may not be offered, sold or delivered in the ROC, as part of the distribution of the Bonds.

Hong Kong

Each of the Managers has acknowledged and agreed that (1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not require the registration of a prospectus in accordance with the Companies Ordinance (Cap. 32) of Hong Kong; and (2) it has not issued and will not issue any invitation or advertisement relating to the Bonds in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are intended to be disposed of to persons outside Hong Kong or to be disposed of in Hong Kong only to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent.

Japan

The Bonds and Shares have not been and will not be registered under the Securities and Exchange Law of Japan. Accordingly, each of the Managers has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds or Shares in Japan or to, or for the benefit of, any resident of Japan, except that the Managers may offer and sell such Bonds or Shares pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Securities and Exchange Law of Japan and other applicable laws and regulations of Japan. As used in this paragraph, “resident of Japan” means any person resides in Japan, including any corporation or other entity organized under the laws of Japan.

Singapore

Each of the Managers has acknowledged and agreed that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (the “**MAS**”) under the Securities and Futures Act 2001 (Act 42 of 2001) of Singapore (the “**Securities and Futures Act**”). Accordingly, each of the Managers has acknowledged and agreed that it has not offered or sold or made the subject of an invitation for subscription or purchase nor circulated or distributed this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Bonds nor will it offer, sell or make the subject of an invitation for subscription or purchase or distribute this Offering Circular or any other document or material in connection with the subscription or purchase of the Bonds whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person falling within Section 274 of the Securities and Futures Act, (ii) to a sophisticated investor (as defined in Section 275 of the Securities and Futures Act) and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (iii) pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

LEGAL MATTERS

Certain legal matters with respect to the Bonds will be passed upon for the Company by LCS & PARTNERS, and for the Managers by Baker & McKenzie, Hong Kong. Baker & McKenzie, Hong Kong will rely upon LCS & PARTNERS with respect to certain matters of ROC law. LCS & PARTNERS will rely upon Baker & McKenzie, Hong Kong with respect to certain matters of United States federal laws and New York law.

INDEPENDENT AUDITORS

The non-consolidated financial statements of the Company as of and for the years ended December 31, 1999, 2000 and 2001, the consolidated financial statements of the Company as of and for the year ended December 31, 2001 and the non-consolidated financial statements of the Company as of and for the nine-month period ended September 30, 2002 included in this Offering Circular have been audited or reviewed by PricewaterhouseCoopers, independent auditors, as stated in their reports appearing herein.

GENERAL INFORMATION

Registered Office and Principal Place of Business

The Company is registered with the Ministry of Economic Affairs of the ROC under a uniform registration number of 04827138. The Company's registered office is located at 1st Floor, No.269, Ta-Ya Road, Yuan Lin Village, Ta-Ya, Taichung Hsien, Taiwan 428, ROC.

Company Confirmation

The Company, having made all reasonable inquiries, confirms that this Offering Circular contains all information with respect to the Company, the Bonds, and the Shares which is material in the context of the issue and offering of the Bonds (including all information required by applicable laws of the ROC), that the information contained herein (save as set out below) is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the Bonds, 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 respects, that all reasonable inquiries have been made by the Company to verify the accuracy of such information, and that 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. The Company accepts responsibility accordingly. Information provided herein with respect to the ROC, its political status and economy, has been derived from government and other public sources, and the Company accepts responsibility only for accurately extracting information from such sources.

Authorizations

The offering of the Bonds was authorized and approved by the Company's board of directors on December 20, 2002 and by the ROC SFC on February 25, 2003.

Listing

Application has been made to list the Bonds on the Luxembourg Stock Exchange. The legal notice relating to the issue of the Bonds, and the Articles of Incorporation of the Company will be registered prior to the listing with the Chief Registrar of the District Court in Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et É Luxembourg*), where such documents will be available for inspection and where copies thereof can be obtained upon request. According to Chapter VI, Article 3, point A/II/2 of the Rules and Regulations of the Luxembourg Stock Exchange the Bonds shall be freely tradable and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled.

Documents Available

Copies (and certified English translations where the documents are not in English) of the following documents may be inspected and freely obtainable at the specified office of the Paying and Conversion Agent in Luxembourg for as long as the Bonds are listed on the Luxembourg Stock Exchange:

- ▶ the Company's Articles of Incorporation;
- ▶ a copy of the annual reports of the independent accountants, containing the audited financial statements of the Company as at and for the years ended December 31, 1999, 2000 and 2001;

- ▶ the Subscription Agreement relating to the Bonds to be dated as of March 26, 2003; and
- ▶ the Indenture constituting the Bonds (which includes the form of the Global Certificate) and the Paying and Conversion Agency Agreement (which includes the Regulations concerning transfer of Bonds), both to be dated as of March 27, 2003.

In addition, copies of this Offering Circular and the most recent annual financial statements of the Company and the Company's quarterly and semi-annual financial statements (in each case in English), will be available at the specified office of Paying and Conversion Agent in Luxembourg free of charge for as long as the Bonds are listed on the Luxembourg Stock Exchange. All notices, including all financial notices concerning the Company and notices of the Company's general meetings, to holders of the Bonds will be published in a daily newspaper of general circulation (which is expected to be the *Luxemburger Wort*).

No Material Adverse Change

In accordance with the ROC GAAP and rules promulgated by the ROC SFC, the Company is not required to make its audited annual financial statements as at and for the year ended December 31, 2002 on either a consolidated or a non-consolidated basis available to the public until April 30, 2003. Except as disclosed herein, there has been no material adverse change in the financial position of the Company and its subsidiaries since December 31, 2001, the date of the latest audited consolidated financial statements contained herein.

Governing Law

The Subscription Agreement, the Paying and Conversion Agency Agreement and the Indenture in connection with the offering are governed by the laws of the State of New York.

Clearance

Trading of the Bonds on the Luxembourg Stock Exchange has been accepted for clearance by Euroclear and Clearstream, Luxembourg. Relevant trading information for the Bonds is set forth below:

Common Code	016544582
ISIN	XS0165445825

Paying and Conversion Agents

The Company will at all times maintain paying and conversion agents having specified offices in London and so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, an agent in Luxembourg. The names of the initial agents and their specified offices are set out at the end of this Offering Circular.

Litigation

The Company is not involved in any legal or arbitration proceedings which may have, or have had in the past twelve months, a significant adverse effect on the consolidated financial position of the Company and the Company's subsidiaries taken as a whole, nor is the Company aware that any such proceedings are pending or threatened, other than as described in "Business — Legal Proceedings".

Depository Receipt Facility

The Company has not at the date of this Offering Circular established or authorized the establishment of any depository receipt facility. Accordingly, conversion into DRs is not currently available. If in the future a depository receipt facility is established or authorized by the Company, the Company will, to the extent permitted by applicable laws and regulations, make arrangements satisfactory to the Trustee for Shares issued on conversion of Bonds to be accepted for deposit (at the option of the converting Bondholder) into such depository receipt facility, subject always to the terms of such depository facility, which terms may include certification or other requirements as conditions to the acceptance for deposit of Shares issued on conversion of Bonds. the Company will provide a supplement to this Offering Circular including the term, conversion rate and other information of such DRs if the DRs have been issued.

SUMMARY OF PRINCIPAL DIFFERENCES BETWEEN ROC GAAP AND U.S. GAAP

Financial statements prepared in accordance with “Rules Governing Preparation of Financial Statements of Securities Issuers” and generally accepted accounting principles in the Republic of China (collectively referred herein as “**ROC GAAP**”) differ in certain respects from US GAAP. The following is a summary of the principal differences between ROC GAAP and ROC SFC requirements, as applicable to the Company, and US GAAP. The summary below should not be considered to be exhaustive. Additionally, it may exclude certain differences that may affect the disclosure, presentation or classification of transactions or events in the Company’s financial statements. Further, this summary does not take into account numerous projects currently being undertaken by standard setting bodies in the United States and ROC which could have an impact on the comparison between ROC GAAP and US GAAP, which are applicable to the Company. Finally, no attempt has been made to identify all future differences between ROC GAAP and US GAAP that may affect the financial statements as a result of transactions or events that may occur in the future.

ROC GAAP	US GAAP
1. Presentation of Non-Consolidated Financial Statements	
Under ROC GAAP, non-consolidated financial statements of a 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.
2. Employee Stock Compensation	
It is a statutory requirement that bonuses paid to employees and remuneration paid to directors and supervisors out of retained earnings are not regarded as expenses, but instead are reported as a distribution from retained earnings in the year the shareholders approve the distribution of earnings. Under certain circumstances, employee bonuses may be paid in the form of newly issued stocks, in which case the stock issuance is recorded at par value and is reported as a distribution of retained earnings.	Under US GAAP, employee bonuses and remuneration issued to directors and supervisors are charged to income as compensation expenses in the year when related services are provided, irrespective of whether the bonuses are paid in the form of cash or stock. For bonuses paid in stock, the shares are valued using the fair value or the intrinsic value method.
The stock bonus to employees is given retroactive effect in the computation of earnings per share.	Under US GAAP, stock bonus to employees is given only prospective effect in the computation of earnings per share.
There is no specific standard under ROC GAAP which addresses the employee stock option.	Under US GAAP, employee stock option is accounted for using the fair value or the intrinsic value method.

3. Stock dividends

Under ROC GAAP, the issuance of stock dividends is recorded based on the par value of the shares, multiplied by the number of shares issued.

Under US GAAP, when the ratio of distribution is less than 25% of shares of the same class outstanding, stock dividends are generally recorded based on the fair value method, with the par value recorded in the capital stock accounts and the excess of fair value over the par value being recorded as additional paid-in capital. Distribution in excess of 25% is generally considered as stock split.

4. Employee share purchase

In connection with a number of new shares issued to shareholders, the Company also issue shares to employees at the same issue price, which usually represented a discount to the quoted market price. Under ROC GAAP, such issues are recorded as capital contribution for the cash amount received from the employees.

Under US GAAP, such issues would be recorded as capital contribution for the cash amount received from the employees. In addition, compensation expense would be recorded, for the difference between the shares issue price and the fair market value, during the period when such issues were made.

5. Consolidation

Under ROC GAAP, a company is required to include in its annual consolidated financial statements only those subsidiaries, which are directly or indirectly over 50% owned. For subsidiaries (i) with total assets or operating revenues which are less than 10% of the Company's non-consolidated total assets or operating revenues, or (ii) which are in a negative equity position, the Company has the option of whether or not to consolidate such subsidiaries. Irrespective of the above test, if the combined revenues and total assets of all such non-consolidated subsidiaries exceeds 30% of the Company's non-consolidated total assets or operating revenues, then each individual subsidiary with total assets or operating revenues greater than 3% of the Company's respective non-consolidated amounts shall be consolidated. In addition, under the Company Law in the Republic of China, the Company is required to include in its consolidated financial statements the financial statements of its less than majority owned investee companies if the Company has the ability to control the human resources, finance or operations of the investee companies.

Under US GAAP, the parent company's consolidated financial statements generally include the financial statements of majority-owned subsidiaries, unless (i) control is considered temporary or (ii) control does not rest with the majority owner.

Under ROC GAAP, a company is not required to prepare interim financial statements on consolidated basis. Instead, the company is only required to recognize investment income/loss in majority owned subsidiaries under the equity method. Under ROC GAAP, a company is not required to recognize in its three months and nine months interim financial statements investment income/loss on investee companies in which the company has, directly or indirectly, 20% to 50% ownership interest. Investment income/loss in these investee companies is required only to be recognized in the semi-annual and annual financial statements.

ROC GAAP provides that when a company's interest in a subsidiary changes from a majority interest to a minority interest, the investment in the subsidiary should be accounted for under the equity basis in the consolidated financial statements in the current year. In addition, ROC GAAP construes such change to be a change in the reporting entity which requires that in order to maintain consistency in the application of accounting standards, the prior year(s) comparative consolidated financial statements should be retroactively restated.

6. Business combination

Under ROC GAAP, business combinations are generally accounted for under purchase method, but pooling of interest method is still allowed if certain criteria are met. When business combinations are accounted for under purchase method and the consideration given up by the acquirer is in the form of shares, the cost to the acquirer is generally determined based on the fair value of the assets acquired and liabilities assumed. When business combinations are accounted for under pooling of interest method, the acquired company's income and loss accounts before the merger are included in the acquirer company's income, and then transferred to capital reserve pursuant to the Company Law and the related regulations in the ROC.

US GAAP requires that the accounting principles and practices used by an enterprise in the preparation of its interim statements be based on those used in its latest annual financial statements unless a change of accounting practice or policy has been adopted in the current year. Thus, if the enterprise's latest annual financial statements were prepared on consolidated basis, accordingly the interim financial statements shall also be prepared on a consolidated basis, except as discussed above.

Under US GAAP, for purposes of application of the consistency standard, a change in the reporting entity is not deemed to result from the creation, cessation, purchase, or disposition of a subsidiary or other business. Accordingly, when a company's interest in a specific subsidiary or investee affiliate changes during the year, that change is generally accounted for prospectively and retroactive restatement is not required.

Under US GAAP, all business combinations initiated after June 30, 2001 are accounted for under purchase method. The cost to the acquirer in a purchase business combination is the fair value of the consideration given or the fair value of the assets acquired, whichever is more clearly evident and more reliably measurable. When the consideration is the publicly traded equity securities issued by the acquirer, fair value is generally based on the market price of the equity securities issued. The market price is determined based on a reasonable period before and after the date of the terms of the acquisition are agreed to and announced. The cost of an acquired company should be allocated to the assets (both tangible and intangible) acquired and liabilities assumed on the basis of their estimated fair values at the date of acquisition.

Under ROC GAAP, goodwill is the excess of the investment cost over the fair value of acquired net assets. Goodwill is capitalized as an intangible asset and amortized to the income statement over five to twenty years. Negative goodwill is accounted for similarly.

Under US GAAP, goodwill acquired after June 30, 2001 shall not be amortized. Instead, it shall be tested for impairment at reporting unit level at least annually. Goodwill acquired before June 30, 2001 should continue be amortized through December 31, 2001 over its estimated useful life but not exceeding 40 years. Effective January 1, 2002, all goodwill are subject non-amortization provision as described above. Negative goodwill being the excess of fair value of acquired net assets over cost, after certain adjustments, is an extraordinary gain.

7. Equity investments of at least 20%

Under ROC GAAP, equity investments where the company has voting rights 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) until the subsequent year, unless the company meets 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 5% 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 chairperson or general manager was appointed by the investor company. If the company is required to prepare interim financial statements, such investment income (loss), which is calculated based on the proportionate share in the prior year's annual income (loss) of the investee company, has to be recognized in the semi-annual financial statements of the company in the subsequent year at the latest. In addition, such delay in recognition is not

Under US GAAP, the equity method of accounting is generally required for investments with an ownership percentage of at least 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. There are no provisions, which allow the investor company to delay recognition of its equity in the investee company's income (loss).

possible when the company has a direct or indirect control over the management of the personnel, financial or business operation of the investee company.

When the accounting treatment for a long-term equity investment is changed from cost method to equity method, the difference between the cost of investment and the Company's share of the investee company's equity at the time of the change is deferred and amortized over 5 years.

Under US GAAP, when the accounting treatment for a long-term equity investment is changed from cost method to equity method, retroactive restatement is required. If the Company is unable to relate the difference between the carrying amount of the investment and the Company's share of the investee company's equity to specific accounts of the investee, the difference should be considered to be goodwill and tested for impairment at least annually.

8. Equity investments of less than 20% or debt investments/short-term investment

Long-term investments of less than 20% of a company's shares are accounted for at the lower of cost or market value for listed investee companies and at cost for unlisted investee companies and if the company has no ability to exercise significant influence in the management of the investee company. Valuation allowance under this lower of cost or market value method is shown under stockholders' equity. When it becomes evidently clear that there has been a permanent impairment in investments value and the chance of recovery is minimal, loss is recognized in current year earnings.

Under ROC GAAP, investments in foreign investee companies, denominated in foreign currencies, accounted for at cost method are converted to New Taiwan dollars using the exchange rate prevailing at balance sheet date and the resulting exchange loss but not gain is recorded in stockholders' equity under the cumulative translation adjustment account.

Short-term investments are stated at the lower of cost or market value. In the subsequent period, recoveries of market value are recognized as other income to the extent of the original cost of the investments.

Equity investments of less than 20% that have readily determinable fair value and debt investments are classified in three categories and accounted as follows:

- a) Debt and equity securities classified as trading securities are marked to market at the end of the accounting period with unrealized gains or losses taken to current earnings.
- b) Debt securities classified as held to maturity are reported at amortized cost, with any premium or discount amortized over the period of the investment.
- c) Debt and equity securities classified as available for sale are marked to market at the end of the accounting period with unrealized gains or losses taken to a separate component of shareholders' equity, unless there is a permanent decline in the value of such investment in which case it is recorded against income.

Investments that have no readily determinable fair value are accounted for at historical cost subject to impairment test.

9. Accounting for changes in ownership interest in investee companies

Under ROC GAAP, when an investee company issues additional shares and the investor's ownership interest changes as a result, any resulting difference between the investor's investment balance and its proportionate share of the investee company's net equity is adjusted to its investment account with an offsetting entry to the investor's capital reserve or retained earnings if the related capital reserve balance is insufficient. 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 on disposal.

Under US GAAP, when an investee company issues additional shares at an amount over/under 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 company's net equity is adjusted to its investment account with an offsetting entry either to (i) gain or loss to record the deemed disposition of shares or (ii) to paid-in-capital. If an adjustment has been made to paid-in-capital to recognize investee capital transactions, US GAAP would not permit the adjustment of such amounts on the subsequent disposition of all or a part of the investments.

10. Impairment of long-lived assets or long-lived assets to be disposed

No specific standards address impairment of long-lived assets; normally such assets would be carried at cost less accumulated depreciation. However, when events or changes in circumstance indicate that a significant impairment occurs, an impairment loss should be recorded in the current period.

US GAAP requires that long-lived assets held for years and used by an entity be unaudited for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. For assets held for use, if the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset, an impairment loss is recognized for the difference between the carrying value and the fair value which is generally determined based on discounted cash flow.

Assets purchased for use in the business but not subsequently used for that purpose are generally recorded as idle assets and reclassified from fixed assets to other assets, in which case there is a requirement to assess the net realizable value such that idle assets are not recorded at an amount in excess of net realizable value.

11. Prepayment of fixed assets

Under ROC GAAP, prepayment of fixed assets is presented as part of fixed assets.

Under US GAAP, prepayment of fixed assets should be presented as other assets.

12. Depreciation of fixed assets

Depreciation is generally provided using the guideline service lives as prescribed by the ROC Tax Authorities plus one additional year as salvage value.

Depreciation is provided over the asset's estimated economic useful life. Salvage value, if any, is based on the estimated net realizable value of the asset at the end of its estimated economic useful life.

13. Convertible debt securities

When convertible bonds are issued, ROC GAAP does not recognize or account for any beneficial conversion feature embedded in the securities.

Under US GAAP, such beneficial conversion feature should be 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, multiplied by the number of shares into which the security is convertible.

14. Accounting for derivative instruments

There are no specific accounting standards under ROC GAAP which address measurement for derivative instruments except for foreign currency forward contracts. Such contracts are classified as hedge or speculative contracts.

Under US GAAP requires that all entities recognize derivative instruments as assets and liabilities in the statement of financial position and subsequently measure them at fair value. If certain conditions are met, entities may elect to designate a derivative instrument as one of the following:

Fair value hedge — a hedge of the exposures to changes (that are attributable to a particular risk) in the fair value of (1) a recognized asset or liability or (2) an unrecognized firm commitment;

Cash-flow hedge — a hedge of the exposure to variability (that is attributable to a particular risk) in the cash flows of a forecasted transaction; and

Foreign-currency hedge — a hedge of the foreign-currency exposure of (1) an unrecognized firm commitment, (2) an available-for-sale security, (3) a forecasted transaction, or (4) a net investment in a foreign operation.

15. 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.

16. Cost of sales

Under ROC GAAP, provisions for normal inventory scrap and obsolescence are recorded as non-operating expenses.

Under US GAAP, provisions for normal inventory scrap and obsolescence are generally charged to cost of sales.

Under ROC GAAP, the unrealized gross profit generated from downstream intercompany transactions is eliminated and presented as a reconciling item of gross profit in the statement of income. A corresponding liability is recorded for the amount of the unrealized gross profit in the balance sheet.

Under US GAAP, the unrealized gross profit generated from downstream transactions is generally charged against cost of sales and credited the investment account.

17. Concentration of risk

ROC GAAP has no specific disclosure requirements for concentration of risk.

Disclose concentration of risk on one or more parties, as appropriate, including such parties as sole/major customer, supplier, franchiser, distributor, general agent, borrower or lender is required.

18. Segment information

ROC GAAP requires disclosure of segment information in the footnotes information to the financial statements according to industry and geographic information, which need not necessarily be the same as the management's internal report to company decision-makers.

Under US GAAP, public business enterprise is required to present segment information based on operating segments. Several operating segments may, provided aggregation criteria are met, be aggregated to reportable segments for which the required information is disclosed. Disclosure is based on the management's approach for reporting segments information to Company chief operating decision makers that are used internally for evaluating segment performance and deciding resources allocation to segments.

19. Statement of cash flows

Under ROC GAAP, certificates of time deposits with original maturities of greater than three months are classified as cash.

Under US GAAP, certificates of time deposits with original maturities of over three months are classified as trading securities.

20. Pension

Under ROC GAAP, the amortization of unrecognized net gain/loss cannot exceed the excess of unrecognized net gain/loss and unrecognized net transition obligation.

Under US GAAP, no such limitation on the amortization of unrecognized net gain/loss is required.

With respect to the pension plan disclosure, under ROC GAAP, disclosure of changes in plan assets and benefit obligations is not required.

With respect to the pension plan disclosure, under US GAAP, changes in plan assets and benefit obligations are required to be disclosed.

21. Revenue recognition

Under ROC GAAP, revenue is recognized when realized or realizable.

According to ROC SFAS 32 issued in June 2002 in relation to revenue recognition, similar criteria for revenue recognition are adopted. This Statement is effective for financial statements issued for fiscal year ending after December 31, 2003 and early adoption is encouraged.

Under US GAAP, revenue recognition is usually prescriptive and revenue is generally recognized when it is realized or realizable and earned when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller's price to the buyer is fixed or determinable, and (iv) collectibility is reasonably assured.

22. 10% additional 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. In addition, the effect of the 10% tax on temporary differences is not recognized.

Under US GAAP, this 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.

23. Disclosure of new accounting pronouncements

Under ROC GAAP, disclosure of recently issued accounting standards but not yet effective as of the balance sheet date is not required.

US GAAP requires disclosure of the impact that recently issued accounting standards will have on the financial statement of the company when adopted in the future.

24. Comprehensive income

Under ROC GAAP, there is no standard for accounting and reporting of comprehensive income.

US GAAP requires that comprehensive income be displayed with the same prominence as other financial statements. Comprehensive income is composed of two subsets - "net income" and "other comprehensive income". Comprehensive income includes charges or credits to equity that are not the result of transactions with owners. (e.g. cumulative translation adjustments, minimum pension liabilities, unrealized gains or losses on available-for-sales securities and the effective portion of the change in the fair value of cash flow and net investment hedges)

25. Interim financial statements

Under ROC GAAP, the company is not required to present statement of changes in stockholders' equity in the three months and nine months interim financial statements.

Under US GAAP, the interim financial statements are prepared on the same basis as the latest annual financial statements, which requires the inclusion of the statement of changes in stockholders' equity.

INDEX TO FINANCIAL STATEMENTS

	Page
Report of Independent Accountants	F-3
Consolidated Balance Sheets as of December 31, 2001	F-5
Consolidated Statements of Income for the year ended December 31, 2001	F-7
Consolidated Statements of Changes in Stockholders' Equity for the year ended December 31, 2001	F-8
Consolidated Statements of Cash Flows for the year ended December 31, 2001	F-9
Notes to Consolidated Financial Statements for the year ended December 31, 2001	F-11
Report of Independent Accountants	N-2
Non-Consolidated Balance Sheets as of December 31, 1999, 2000 and 2001	N-3
Non-Consolidated Statements of Income for the years ended December 31, 1999, 2000 and 2001	N-5
Non-Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 1999, 2000 and 2001	N-6
Non-Consolidated Statements of Cash Flows for the years ended December 31, 1999, 2000 and 2001	N-8
Notes to Non-Consolidated Financial Statements for the years ended December 31, 1999, 2000 and 2001	N-10
Report of Independent Accountants	P-2
Non-Consolidated Balance Sheets as of September 30, 2001 and 2002	P-3
Non-Consolidated Statements of Income for the nine months ended September 30, 2001 and 2002	P-5
Non-Consolidated Statements of Cash Flows for the nine months ended September 30, 2001 and 2002	P-6
Notes to Non-Consolidated Financial Statements for the nine months ended September 30, 2001 and 2002	P-8

These English financial statements expressed in thousands of New Taiwan Dollars were translated from the financial statements prepared originally in the Chinese language.

**MOBILETRON ELECTRONICS CO., LTD.
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2001**

These English financial statements and report of independent accountants were translated from the financial statements and report of independent accountants originally prepared in Chinese.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and stockholders
of Mobiletron Electronics Co., Ltd.

We have audited the accompanying consolidated balance sheets of Mobiletron Electronics Co., Ltd. and its subsidiaries as of December 31, 2001, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the year then ended, expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Mobiletron U.K. Ltd., an investee accounted for under the equity method. Those statements were audited by other auditors whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the investments in Mobiletron U.K. Ltd., which amounted to NT\$3,094 thousand at December 31, 2001 and related investment losses of NT\$4,223 thousand for the year then ended is based solely on the report of the other auditors.

We conducted our audit in accordance with "Rules Governing Examination 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 a 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 audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mobiletron Electronics Co., Ltd. and its subsidiaries as of December 31, 2001, and the results of their operations and their cash flows for the year then ended, expressed in New Taiwan dollars, in conformity with the "Rules Governing the Preparation of Financial Statements of Securities Issuers" and accounting principles generally accepted in the Republic of China.

The consolidated financial statements for the year ended December 31, 2001 was first time prepared as the total assets or operating revenues of certain investee companies in which the Company's voting rights exceed 50% met the criteria of preparing the consolidated financial statements. In accordance with accounting principles generally accepted in the Republic of China, the prior year's non-consolidated financial statements are not required to be restated. Accordingly, the financial statements as of and for the year ended December 31, 2000 were presented on a non-consolidated basis and listed as references.

The consolidated financial statements of Mobiletron Electronics Co., Ltd. as of and for the year ended December 31, 2001 expressed in US dollars are presented solely for convenience of the reader and were translated from New Taiwan dollar financial statements using the exchange rate of NT\$34.95 to US\$1.00 at December 31, 2001. This basis of translation is not in accordance with generally accepted accounting principles in the Republic of China.

PricewaterhouseCoopers

Taipei Taiwan
Republic of China
February 19, 2002

The accompanying consolidated and non-consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The

standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated and non-consolidated financial statements and report of the independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic the China, and their applications in practice.

MOBILETRON ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(EXPRESSED IN THOUSANDS OF DOLLARS)

	December 31,		
	2000	2001	
	NT\$	NT\$	US\$
	(Non-consolidated)		Unaudited
	(Note 2)		(Note 2)
ASSETS			
Current Assets			
Cash and cash equivalents (Note 4 (1))	459,046	268,845	7,692
Short-term investments (Note 4 (2))	10,797	13,763	394
Notes receivable, net	3,264	4,903	140
Accounts receivable, net (Note 4 (3))	263,786	498,070	14,251
Inventories (Note 4 (4))	363,361	475,839	13,615
Restricted assets (Note 6)	135,423	259,330	7,420
Other current assets	25,343	51,184	1,465
	<u>1,261,020</u>	<u>1,571,934</u>	<u>44,977</u>
Long-term investments			
Long-term investments in stock (Note 4 (5))	159,532	270,136	7,729
Cash surrender value of life insurance	6,190	7,510	215
	<u>165,722</u>	<u>277,646</u>	<u>7,944</u>
Property, plant and equipment (Notes 4 (6), 6)			
Cost:			
Land	55,888	283,717	8,118
Buildings	109,497	122,369	3,501
Machinery equipment	204,941	262,262	7,504
Mold and equipment	128,609	155,281	4,443
Transportation equipment	13,638	16,813	481
Other equipment	29,203	51,710	1,479
	<u>541,776</u>	<u>892,152</u>	<u>25,526</u>
Accumulated depreciation	(167,640)	(225,714)	(6,458)
Construction in progress and prepayments			
for equipment	58,725	13,218	378
	<u>432,861</u>	<u>679,656</u>	<u>19,446</u>
Intangible Assets			
Deferred pension costs (Note 4 (10))	5,811	6,393	183
Other Assets			
Other assets — other	12,066	13,445	385
Total assets	<u><u>1,877,480</u></u>	<u><u>2,549,074</u></u>	<u><u>72,935</u></u>

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountant dated February 19, 2002.

MOBILETRON ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
(EXPRESSED IN THOUSANDS OF DOLLARS)

	December 31,		
	2000	2001	
	NT\$ (Non-consolidated)	NT\$	US\$ Unaudited (Note 2)
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Short-term loans (Note 4 (7))	130,783	342,780	9,808
Commercial paper (Note 4 (8))	139,890	289,586	8,286
Notes payable	65,249	137,465	3,933
Accounts payable	55,590	100,532	2,876
Income tax payable (Note 4 (14))	40,163	29,898	855
Accrued expenses	43,784	54,381	1,556
Forward exchange contract payable	23,049	—	—
Other payables	32,963	5,888	168
Current portion of long-term loans	—	104,944	3,003
Other current liabilities	23,156	9,958	285
	<u>554,627</u>	<u>1,075,432</u>	<u>30,770</u>
Long-term Liabilities			
Long-term loans (Note 4 (9))	102,000	13,584	389
Other liabilities			
Accrued pension liabilities (Note 4 (10))	5,247	5,945	170
Total Liabilities	<u>661,874</u>	<u>1,094,961</u>	<u>31,329</u>
Stockholders' Equity			
Capital stock (Note 4 (11))	642,000	757,560	21,676
Capital reserve (Note 4 (12))			
Additional paid-in capital in excess of par	200,000	200,000	5,723
Others	677	677	19
Retained earnings (Note 4 (13))			
Legal reserve	55,002	81,711	2,338
Unappropriated earnings	315,621	404,295	11,568
Cumulative translation adjustment	2,306	9,870	282
Total Stockholders' Equity	<u>1,215,606</u>	<u>1,454,113</u>	<u>41,606</u>
Commitments and Contingencies (Note 7)			
Significant Subsequent Event (Note 9)			
Total liabilities and stockholders' equity	<u><u>1,877,480</u></u>	<u><u>2,549,074</u></u>	<u><u>72,935</u></u>

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountant dated February 19, 2002.

MOBILETRON ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)

	For the years ended December 31,		
	2000	2001	
	NT\$ (Non-consolidated)	NT\$	US\$ Unaudited (Note 2)
Sales	1,797,671	1,989,928	56,936
Sales Return	(5,092)	(24,340)	(696)
Sales Allowance	(4,217)	(6,844)	(196)
Net Sales	1,788,362	1,958,744	56,044
Cost of Goods Sold	(1,286,128)	(1,388,576)	(39,730)
Gross Profit	502,234	570,168	16,314
Operating Expenses			
Selling expenses	(70,741)	(100,525)	(2,876)
Administrative expenses	(70,465)	(94,884)	(2,715)
Research and development expenses	(48,142)	(60,715)	(1,737)
	(189,348)	(256,124)	(7,328)
Operating Income	312,886	314,044	8,986
Non-operating Income			
Interest income	10,945	28,093	804
Foreign currency exchange gain	25,306	103,720	2,967
Others	23,807	25,692	735
	60,058	157,505	4,506
Non-operating Expenses			
Interest expenses	(7,466)	(34,681)	(992)
Investment loss (Note 4 (5))	(11,464)	(4,775)	(137)
Loss on inventory obsolescence and decline in market value	(3,461)	(14,357)	(410)
Others	(8,768)	(25,637)	(734)
	(31,159)	(79,450)	(2,273)
Income before income tax	341,785	392,099	11,219
Income tax expense (Note 4 (14))	(74,400)	(87,341)	(2,499)
Net income	267,385	304,758	8,720
Earnings per share (In dollars) (Note 4 (15))	3.65	4.02	0.12

The accompanying notes are an integral part of these consolidated financial statements.

See report of independent accountant dated February 19, 2002.

MOBILETRON ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(EXPRESSED IN THOUSANDS OF DOLLARS)

			Retained Earnings		Cumulative	
	Capital Stock	Capital Reserve	Legal Reserve	Unappropriated Earnings	Translation Adjustment	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
2000 (Non-consolidated)						
Balance at January 1, 2000	430,000	385	30,052	256,705	(3,539)	713,603
Issuance of common stock for						
cash	40,000	200,000	—	—	—	240,000
Appropriation for legal reserve .	—	—	24,950	(24,950)	—	—
Directors' and supervisors'						
remuneration.	—	—	—	(6,736)	—	(6,736)
Employees' bonus	—	—	—	(4,491)	—	(4,491)
Stock dividends	172,000	—	—	(172,000)	—	—
Net income	—	—	—	267,385	—	267,385
Transfer of gain on disposal of						
fixed assets to capital reserve .	—	292	—	(292)	—	—
Cumulative translation						
adjustment	—	—	—	—	5,845	5,845
Balance at December 31, 2000 . .	642,000	200,677	55,002	315,621	2,306	1,215,606
2001						
Appropriation for legal reserve .	—	—	26,709	(26,709)	—	—
Directors' and supervisors'						
remuneration.	—	—	—	(4,808)	—	(4,808)
Employees' bonus	—	—	—	(4,807)	—	(4,807)
Stock dividends	115,560	—	—	(115,560)	—	—
Cash dividends.	—	—	—	(64,200)	—	(64,200)
Net income	—	—	—	304,758	—	304,758
Cumulative translation						
adjustment	—	—	—	—	7,564	7,564
Balance at December 31, 2001 . .	<u>757,560</u>	<u>200,677</u>	<u>81,711</u>	<u>404,295</u>	<u>9,870</u>	<u>1,454,113</u>

The accompanying notes are an integral part of these consolidated financial statements.

See report of independent accountant dated February 19, 2002.

MOBILETRON ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN THOUSANDS OF DOLLARS)

	For the years ended December 31,		
	2000	2001	
	NT\$ (Non-consolidated)	NT\$	US\$ Unaudited (Note 2)
Cash flows from operating activities:			
Net income	267,385	304,758	8,720
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	39,912	59,979	1,716
Amortization	5,293	6,374	182
Provision for (reversal of) bad debt expense	(5,284)	3,703	106
Unrealized loss (recovery) on decline in market value of short-term investments	8,141	(2,966)	(85)
Provision for (reversal of) loss on obsolescence of inventory	(1,968)	14,357	411
Gain on physical inventory taking	(2,147)	(1,643)	(47)
Long-term investment loss accounted for under equity method	11,464	4,775	137
Loss on disposal of property, plant and equipment	201	876	25
Effect on foreign currency exchange	(30,911)	(23,388)	(669)
Unrealized loss (gain) on foreign currency exchange	23,049	(23,049)	(659)
(Increase) decrease in assets:			
Notes receivable	(1,334)	(1,639)	(47)
Accounts receivable	39,045	(218,289)	(6,246)
Inventories	(38,434)	(92,351)	(2,642)
Other current assets	(1,697)	(20,046)	(573)
Increase (decrease) in liabilities:			
Notes payable	(56,772)	72,216	2,066
Accounts payable	(46,853)	41,113	1,176
Income tax payable	(7,873)	(10,265)	(294)
Accrued expenses	(16,603)	8,247	236
Other current liabilities	6,811	7,127	204
Accrued pension liabilities	(909)	116	3
Deferred income tax liabilities	(830)	—	—
Net cash provided by operating activities	<u>189,686</u>	<u>130,005</u>	<u>3,720</u>

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

See report of independent accountant dated February 19, 2002.

MOBILETRON ELECTRONICS CO., LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(EXPRESSED IN THOUSANDS OF DOLLARS)

	For the years ended December 31,		
	2000	2001	
	NT\$ (Non-consolidated)	NT\$	US\$ Unaudited (Note 2)
Cash flows from investing activities:			
Proceeds from disposal of short-term investments . .	30,000	—	—
Payment for security deposits	(135,423)	(123,907)	(3,545)
Payment for long-term investments	(14,316)	(157,640)	(4,511)
Payment for cash surrender value of life insurance .	(6,190)	(1,320)	(38)
Acquisition of property, plant and equipment	(161,813)	(326,204)	(9,334)
Proceeds from disposal of property, plant and equipment	659	2,956	85
Payment for other assets	(13,431)	(2,910)	(83)
Net cash used in investing activities	<u>(300,514)</u>	<u>(609,025)</u>	<u>(17,426)</u>
Cash flows from financing activities:			
Proceeds from short-term loans	130,783	342,780	9,807
Repayment of short-term loans	(154,284)	(170,713)	(4,884)
Proceeds from commercial paper	139,890	149,696	4,283
Proceeds from long-term loans	101,000	20,000	572
Repayment of long-term loans	(1,360)	(3,472)	(99)
Proceeds from issuance of common stock	240,000	—	—
Payment of directors' and supervisors' remuneration and employees' bonus	(11,227)	(9,615)	(275)
Cash dividend	—	(64,200)	(1,837)
Net cash provided by financing activities	<u>444,802</u>	<u>264,476</u>	<u>7,567</u>
Effect on foreign currency exchange	<u>30,911</u>	<u>16,392</u>	<u>469</u>
Net increase (decrease) in cash and cash equivalents	364,885	(198,152)	(5,670)
Cash and cash equivalents at beginning of year . .	94,161	466,997	13,362
Cash and cash equivalents at end of year	<u>459,046</u>	<u>268,845</u>	<u>7,692</u>
Supplemental disclosures of cash flow information:			
Cash paid for interest (excluding capitalized interest)	<u>6,999</u>	<u>32,942</u>	<u>943</u>
Cash paid for income tax	<u>87,812</u>	<u>88,665</u>	<u>2,537</u>
Supplemental disclosures of partial cash paid investing activities:			
Acquisition of property, plant and equipment	177,958	299,129	8,559
Add: Payable at beginning of year	16,818	32,963	943
Less: Payable at end of year	<u>(32,963)</u>	<u>(5,888)</u>	<u>(168)</u>
Cash paid	<u>161,813</u>	<u>326,204</u>	<u>9,334</u>

*The accompanying notes are an integral part of these financial statements.
See report of independent accountant dated February 19, 2002.*

MOBILETRON ELECTRONICS CO., LTD. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 2001
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

- 1) Mobiletron Electronics Co., Ltd. (the "Company") was incorporated as a company limited by shares under the Company Law of the Republic of China (ROC) on July 19, 1982. As of December 31, 2001, the Company's issued and outstanding common stock was \$757,560. The Company is primarily engaged in the manufacture and sale of automotive control device (including ignition module, voltage regulator and charger), electric and pneumatic tools, corded flashlights and illuminating equipments. The shares of the Company have been listed on the Taiwan Stock Exchange since April 6, 2001.

- 2) Consolidated subsidiaries

<u>Name of subsidiaries</u>	<u>Established date</u>	<u>Main operating activities</u>	<u>Capital stock</u>	<u>% of shares held by the Company as of December 31, 2001</u>
Regitar U.S.A. Inc.	July 24, 1987	The same with the Company	USD 100,000	100%

- 3) Non-consolidated subsidiaries

<u>Name of subsidiaries</u>	<u>% of shares held by the Company as of December 31, 2001</u>	<u>Reasons for non-consolidation</u>
Stonewall Ventures Inc.	100%	The total assets and operating revenues of the subsidiary are less than 10% of non-consolidated total assets or operating revenues of the Company.
Mobiletron U.K. Ltd.	100%	The total assets and operating revenues of the subsidiary are less than 10% of non-consolidated total assets or operating revenues of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its majority owned subsidiaries. In accordance with the ROC GAAP and ROC Securities and Futures Commission (SFC) regulations, the Company prepares annual financial statements on both non-consolidated basis and consolidated basis, which include the accounts of the majority owned subsidiaries, except for subsidiaries with total assets and operating revenues less than 10% of the Company's non-consolidated total assets and operating revenues, respectively. Irrespective of the above test, if the combined total assets or operating revenues of all such non-consolidated subsidiaries exceed 30% of the Company's non-consolidated total assets or operating revenues, then each individual subsidiary with total assets or operating revenues greater than 3% of the Company's non-consolidated total assets or operating revenues, respectively, shall be consolidated. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements.

The consolidated financial statements for the year ended December 31, 2001 was first time prepared as the total assets or operating revenues of certain investee companies in which the Company's voting rights exceed 50% met the criteria of preparing consolidated financial statements. In accordance with ROC GAAP, the prior year's non-consolidated financial statements are not required to be restated. Accordingly, the financial statements as of and for the year ended December 31, 2000 were presented on a non-consolidation basis and listed as references.

The financial statements of foreign balance sheet are translated into New Taiwan dollars using the spot rate at the balance sheet date for asset and liability accounts, average exchange rate during the year for profit and loss accounts, spot rate for dividend and historical exchange rates for equity accounts, except for beginning retained earnings which are stated at the carrying amount of the prior year. The cumulative translation differences for subsidiaries using functional currencies other than New Taiwan dollar are recorded as "Cumulative Translation Adjustment" and included in the stockholders' equity.

Convenience Translation into US Dollars

The Company maintains its accounting records and prepares its financial statements in New Taiwan ("NT") dollars. The United States ("US") dollar amounts disclosed in the 2001 financial statements are presented solely for the convenience of the reader and were translated at the rate of NT\$34.95 to US\$1.00, the average of buying and selling exchange rate published by Bank of Taiwan on December 31, 2001. Such translation amounts are unaudited and should not be construed that the NT dollar amounts represent, or have been, or could be, converted into US dollars at that or any other rate.

Foreign Currency Transactions

The accounts of the Company are maintained in New Taiwan dollars. Transactions denominated in foreign currencies are translated into New Taiwan dollars at the exchange rates prevailing on the transaction dates. Receivables, other monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars at the exchange rates prevailing at the balance sheet date. Exchange gains or losses are included in the current year's results.

Foreign currency option contracts

Premiums on option contracts are recorded at cost. Premiums from option contracts entered into for hedging purposes are recorded as assets or liabilities and amortized over the contract period on a straight-line basis. Option contracts are stated at market value at balance sheet date. The resultant gains and losses from option contracts entered into for hedging the risk of assets or liabilities are recorded in current year's net income. Gain or loss on speculative option contracts is recognized in current operations.

Short-term Investments

Short-term investments are recorded at cost when acquired and are stated at the lower of aggregate cost or market value at the balance sheet date. The market value of listed stocks is determined by the average closing price during the last month of the accounting period. The market value of open-end mutual funds is based on the net asset value at the balance sheet date. The excess of aggregate cost over market value is reported as a loss in the current year. In subsequent periods, recoveries of market values are recognized as gains to the extent that the market value does not exceed the original cost of the investment.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based on the evaluation of collectibility and aging analysis of notes and accounts receivable and other receivables.

Inventories

Inventories are recorded at cost when acquired and are stated at the lower of aggregate cost, based on the weighted average method, or market value at the balance sheet date. The market values of raw materials and supplies are determined on the basis of replacement cost. The market values of finished goods and work in process are determined on the basis of net realizable value. The allowance for loss on obsolescence and decline in market value is provided, when necessary.

Long-term Investments in Stock

- A. Long-term equity investments in which the Company owns less than 20% of the voting rights of the investee company are accounted for at cost. Long-term equity investments in which the Company owns at least 20% of the voting rights of the investee company are accounted for under the equity method, unless the Company cannot exercise significant influence over the investee company, in which case, the investment is accounted for as cost method. The excess of the acquisition cost over the investee's net book value is capitalized and amortized over 5 years.
- B. The Company delays recognition of investment income (loss) on long-term equity investments in which the Company owns less than 50% of the voting rights of the investee company if the financial statements of the

investee for the same period are not available in time. The Company consistently recognizes the investment income (loss) in the subsequent year based on prior year's weighted average share holdings in the investee. However, if the investee meets certain criteria set by the ROC Securities and Futures Commission, delay in recognition of income (loss) is not permitted.

- C. The Company's proportionate share of the foreign investee's cumulative translation adjustment related to the translation of the foreign investee's financial statements into New Taiwan dollars is recognized by the Company and is included in shareholders' equity as "Cumulative Translation Adjustment."
- D. Unrealized intercompany gains and losses are eliminated under the equity method. Profit from sales of depreciable assets between the investee and the Company is amortized to income over the assets' economic service lives. Profit from other types of intercompany transactions is recognized when realized.

Cash Surrender Value of Life Insurance

Employee life insurance is provided with the Company as the prime beneficiary. Upon each payment, the cash surrender value of life insurance is recognized and a credit to insurance expense is recorded.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Interest incurred relating to the acquisition and construction of property, plant and equipment is capitalized and depreciated accordingly.

Depreciation is based on the straight-line method over the assets' estimated economic service lives, plus one additional year representing salvage value. Salvage values of fixed assets which are still in use after their estimated economic service lives are depreciated over their new estimated remaining service lives. The service lives of fixed assets are 2 to 20 years, except for machinery and equipment, which are 2 to 15 years, mold equipment, which are 2 to 5 years, and buildings, which are 50 years.

Depreciation for the fixed assets of the subsidiary is based on double declining balance method, the official method set by the US Internal Revenue Service. The service lives of fixed assets are 5 to 15 years, except for leasehold improvement, which is 39 years.

Maintenance and repairs are charged to expense as incurred. Significant renewals and improvements are treated as capital expenditures and are depreciated accordingly. When a fixed asset is disposed of, its original cost and accumulated depreciation is written-off. Gain or loss on disposal of fixed assets is recorded as non-operating income or loss.

Retirement Plan

The Company has a funded, defined benefit pension plan covering all regular employees. The net pension cost, which is computed based on an actuarial valuation, includes service cost, interest cost, expected return on plan assets and amortization of net asset/liability at transition. The unrecognized net asset or liability at transition is amortized on a straight-line basis over 15 years. The pension fund is managed by an independently administered pension fund committee. There is no pension plan established for the subsidiaries.

Product Warranty

The provision for product warranty is provided based on the evaluation of the possibility of realization and is recorded as current period's expense. The related obligation is recorded as current liability.

Income Tax

- A. In accordance with ROC FAS No 22, "Accounting for Income Taxes", the income tax effect resulting from temporary differences and investment credits is recorded as income tax assets or liabilities using the asset and liability method. Deferred tax assets or liabilities are further classified into current or non-current items and are presented on the financial statements as net balance. Valuation allowance on deferred tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized. The income tax expense and liability of Regitar USA Inc. are calculated based on US "Internal Revenue Code" and tax codes for the State of Alabama.
- B. The Company adopted ROC FAS No. 12, "Accounting for Investment Tax Credits" in determining the investment tax credit. The investment tax credits relating to the acquisition cost of qualifying machinery and technology, qualifying research and development, qualifying personnel training and qualifying investments in significant technology companies are recognized as income tax adjustments in the period the tax credits arise.

- C. Over or under provisions of prior years' income tax liabilities are included in the current period's income tax expense.
- D. The Taiwan imputation tax system requires that any undistributed earnings be subject to an additional 10% corporate income tax which is recognized as expense at the time the stockholders resolve that the company's earnings are retained.

Revenue Recognition

- A. Revenue is recognized when shipment is made and when payment is realized or realizable and the related cost is recognized when incurred.
- B. According to Explanation Rule No. 87-076 of the Accounting Research and Development Foundation of ROC, sale of raw materials to foreign subsidiary and repurchase of the related finished goods are accounted for as sub-contracting instead of sales.
- C. According to the rule set by the ROC Securities and Futures Commission, revenue is recognized only when the inventories shipped to foreign subsidiary has been sold to third parties.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those assumptions and estimates.

Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated by taking into consideration additional common shares that would have been outstanding if the dilutive share equivalents had been issued.

3. CHANGES IN ACCOUNTING PRINCIPLES

None.

4. DETAILS OF MAJOR ACCOUNTS

1) Cash and Cash Equivalents

	As of December 31,	
	2000	2001
	(Non-consolidated)	
	Note 2	
Cash on hand	\$ 343	\$ 338
Checking accounts	—	784
Saving accounts	24,455	6,447
Foreign accounts	14,848	39,556
Time deposits	419,400	221,720
	<u>\$ 459,046</u>	<u>\$ 268,845</u>

As of December 31, 2000 and 2001, the interest rates for time deposits ranged from 5.75% to 6.6% and from 1.7% to 5.35%.

2) **Short-term Investments**

	As of December 31,	
	2000	2001
	(Non-consolidated)	
	Note 2	
Stock	\$ 11,631	\$ 11,631
Open-end funds.	13,725	13,725
	25,356	25,356
Less: Provision for loss on decline in market value	(14,559)	(11,593)
	<u>\$ 10,797</u>	<u>\$ 13,763</u>

3) **Accounts Receivable**

	As of December 31,	
	2000	2001
	(Non-consolidated)	
	Note 2	
Accounts receivable	\$ 246,918	\$ 464,765
Less: Allowance for doubtful accounts.	(1,768)	(4,048)
	<u>\$ 245,150</u>	<u>\$ 460,717</u>

4) **Inventories**

	As of December 31,	
	2000	2001
	(Non-consolidated)	
	Note 2	
Raw materials and supplies	\$ 191,956	\$ 228,553
Raw materials — sub-contract by foreign subsidiary	12,225	13,400
Supplies	4,784	3,724
Work in process	25,139	12,071
Finished goods	62,321	195,250
Finished goods — available for sale held by foreign subsidiary.	64,960	28,000
Merchandise.	8,036	905
Inventory in transit	4,132	13,931
	373,553	495,834
Less: Allowance for loss on obsolescence and decline in market value . . .	(10,192)	(19,995)
	<u>\$ 363,361</u>	<u>\$ 475,839</u>

5) **Long-term Investments**

A. Details of long-term investments in stocks are summarized as follows:

Investee company	As of December 31,			
	2000		2001	
	Amount	Percentage of ownership	Amount	Percentage of ownership
	(Non-consolidated)			
	Note 2			
Equity method:				
Stonewall Ventures Inc.	\$ 67,674	100%	\$ 130,042	100%
Regitar U.S.A. Inc.	48,085	100%	—	—
Mobiletron U.K. Ltd.	6,773	100%	3,094	100%
	<u>122,532</u>		<u>133,136</u>	
Cost method:				
Asia Pacific Microsystem Co., Ltd.	—	—	100,000	6.97%
First Taiwan Venture Capital Co., Ltd.	30,000	9.37%	30,000	9.37%
Allied Financial Service Co., Ltd.	2,000	11.76%	2,000	11.76%
Asia Pacific Investment Co., Ltd. .	5,000	0.12%	5,000	0.12%
	<u>37,000</u>		<u>137,000</u>	
	<u>\$ 159,532</u>		<u>\$ 270,136</u>	

B. Details of long-term investment gain (loss), accounted for under the equity method are summarized as follows:

	For the years ended December 31,	
	2000	2001
	(Non-consolidated)	
	Note 2	
Stonewall Ventures Inc.	\$ (2,122)	\$ (552)
Regitar U.S.A. Inc.	(1,868)	—
Mobiletron U.K. Ltd.	(7,474)	(4,223)
	<u>\$ (11,464)</u>	<u>\$ (4,775)</u>

To extend the life cycle of low-value products by utilizing the abundant labor supply in China, the Company established a holding company — Stonewall Ventures Inc. and through it re-invested in Mobiletron Electronics (Ningbo) Co. Ltd. in 1999. In addition, to expand the European market, the Company invested in Mobiletron U.K. Ltd. in 2000.

6) **Property, Plant and Equipment**

As of December 31, 2000			
	Cost	Accumulated depreciation	Book value
(Non-consolidated) Note 2			
Land	\$ 55,888	\$ —	\$ 55,888
Buildings	109,497	(14,169)	95,328
Machinery and equipment	204,941	(55,027)	149,914
Mold equipment	128,609	(77,299)	51,310
Transportation equipment.	13,638	(6,651)	6,987
Other equipment	29,203	(14,494)	14,709
Prepayments for equipment.	58,725	—	58,725
	<u>\$ 600,501</u>	<u>\$ (167,640)</u>	<u>\$ 432,861</u>

As of December 31, 2001			
	Cost	Accumulated depreciation	Book value
Land	\$283,717	\$ —	\$283,717
Buildings	122,369	(18,291)	104,078
Machinery and equipment	262,262	(80,148)	182,114
Mold equipment	155,281	(96,416)	58,865
Transportation equipment.	16,813	(9,287)	7,526
Other equipment	51,710	(21,572)	30,138
Prepayments for equipment.	13,218	—	13,218
	<u>\$905,370</u>	<u>\$(225,714)</u>	<u>\$679,656</u>

For the years ended December 31, 2000 and 2001, total interest expense amounted to \$8,766 and \$35,781, respectively, of which \$1,300 and \$1,100, respectively, was capitalized to property, plant and equipment. The interest rates used to calculate the capitalized interest for the years ended December 31, 2000, and 2001 were both 6.85%.

7) **Short-term Loans**

As of December 31,		
	2000	2001
(Non-consolidated) Note 2		
Secured loans	\$ 123,000	\$ 256,940
Unsecured loans	—	50,000
Letter of credit loans	7,783	16,645
Other loans	—	19,195
	<u>\$ 130,783</u>	<u>\$ 342,780</u>

Interest rates on short-terms loans ranged from 5% to 8.15% and from 1.50% to 7.65% as of December 31, 2000 and 2001, respectively.

8) **Commercial Paper**

	As of December 31,	
	2000	2001
	(Non-consolidated) Note 2	
Commercial paper	\$ 140,000	\$ 290,000
Less: Discount on commercial paper	(110)	(414)
	<u>\$ 139,890</u>	<u>\$ 289,586</u>

The commercial paper is guaranteed by certain financial institutions. Interest rates on commercial paper ranged from 4.245% to 5.04% and from 1.87% to 2.17%, as of December 31, 2000 and 2001, respectively.

9) **Long-term Loans**

Creditors	Repayment period	As of December 31,	
		2000	2001
		(Non-consolidated) Note 2	
China Development Industrial Bank	Repayable by installments from September 27, 2000 to September 27, 2005	\$ 2,000	\$ 18,528
China Development Industrial Bank	Repayable on June 29, 2002	100,000	100,000
		102,000	118,528
Less: Current portion		—	(104,944)
		<u>\$ 102,000</u>	<u>\$ 13,584</u>

The interest rates on long-term loans ranged from 6.85% to 7.2% and from 6.67% to 6.85% as of December 31, 2000 and 2001, respectively.

10) **Pension Plan and Net Pension Cost**

- A. Substantially all of the regular employees of the Company are covered by the Company's pension plan. Under the funding policy of the plan, the Company contributes monthly an amount equal to 4% of the employees' monthly salaries and wages to the pension fund deposited with the Central Trust of China, the custodian. Pension benefits are generally based on service years (two units earned per year for the first 15 years of service, with one unit for each additional year of service with a maximum of 45 units). One unit represents the six month average wages or salaries before retirement of the employee. Retirement benefits are paid from the pension fund.

- B. The following tables set forth the actuarial assumptions, funded status and amounts recognized for the Company's defined benefit pension plan:

	<u>2000</u>	<u>2001</u>
Assumptions used in actuarial calculations as of December 31:		
Discount rate	5.75%	4.25%
Long-term rate of compensation increase	3.25%	3.00%
Expected return on plan assets	5.75%	4.00%
	<u>2000</u>	<u>2001</u>
	(Non-consolidated)	
	Note 2	
Funded status at December 31:		
Vested benefit obligation	\$ (10,321)	\$ (13,340)
Non-vested benefit obligation	(24,477)	(31,257)
Accumulated benefit obligation	(34,798)	(44,597)
Additional benefits based on future salaries	(12,724)	(15,733)
Projected benefit obligation	(47,522)	(60,330)
Fair value of plan assets	29,551	38,652
Funded status	(17,971)	(21,678)
Unrecognized net transition obligations	10,240	9,386
Unrecognized net actuarial loss	8,295	12,739
Minimum liabilities adjustment	(5,811)	(6,392)
Accrued pension liabilities	<u>\$ (5,247)</u>	<u>\$ (5,945)</u>
	<u>2000</u>	<u>2001</u>
	(Non-consolidated)	
	Note 2	
Components of net periodic cost for the years ended December 31:		
Service cost	\$ 4,562	\$ 5,166
Interest cost	2,371	2,732
Expected return on plan assets	(1,319)	(1,699)
Recognition of transition liabilities	853	854
Recognition of actuarial loss	195	354
Net periodic cost	<u>\$ 6,662</u>	<u>\$ 7,407</u>

11) **Capital Stock**

- A. On May 24, 2002, the stockholders of the Company resolved to capitalize the unappropriated earnings in the amount of \$172,000 by issuing 17,200 thousand new shares and to increase capital of \$40,000 by issuing 4,000 thousand new shares in the amount of NT\$60 (in dollars) per share. The registration of the capital increase has been approved by the Ministry of Economics Affairs. After the proceeding capital issuance, the Company's authorized capital and the issued capital were \$1,000,000 and \$642,000, respectively.
- B. On June 12, 2002, the stockholders of the Company resolved to capitalize the unappropriated earnings in the amount of \$90,907 by issuing 9,091 thousand new shares with par value of NT\$10 (in dollars) per share. The issuance of new shares has been approved by the ROC SFC on July, 23, 2002. The Board of Directors of the Company resolved the record date of the issuance to be on August 29, 2002. As a result of the issuance, the authorized capital of the Company was \$1,350,000 (inclusive of 5,000 thousand shares for employee stock option), and issued and outstanding capital was \$848,467.

12) Capital Reserve

- A. According to the ROC Company Law, the capital reserve arising from pain-in capital in excess of par on the issuance of stocks or from donation shall be exclusively used to cover accumulated deficit or be transferred to capital. Other capital reserve shall be exclusively used to cover accumulated deficits. The capital reserve can only be used to cover accumulated deficits when the legal reserve is insufficient to cover the deficits.
- B. According to the ROC Company Law, the capital reserve arising from paid-in capital in excess of par on the issuance of stocks can only be transferred to capital once every year. This capital reserve transfer to capital can not be made in the years when the Company issues new shares and the amount to be capitalized is limited to 10% of issued capital.

13) Retained Earnings

- (1) The Company's Articles of Incorporation requires that 10% of the current year's earnings, after paying taxes and offsetting prior year's operating losses, if any, shall be allocated as legal reserve. The remaining amount shall be allocated as bonus to employees, and remuneration to directors and supervisors based on the ratio of 2% and 2%, respectively. The remaining amount shall be distributed to stockholders in accordance with the resolution adopted by the Board of Directors and approved at the stockholders' meeting.
- (2) The Company is currently undergoing rapid growth and is expected to experience capital needs for expansion. To meet the future capital requirement, the Company adopts a dividend policy under which the distribution of dividend is subject to a limitation of 30% of unappropriated earnings and cash dividend should not be less than 10% of dividend distributed.
- (3) The appropriation for legal reserve can only be used to offset a deficit or increase capital. The legal reserve can be used to increase capital only when the reserve balance exceeds 50% of the capital stock, and the amount capitalized should be limited to 50% of the excess portion of the reserve.
- (4) The new Taiwan imputation tax system requires that any undistributed current earnings derived on or after January 1, 1998 be subject to an additional 10% of corporate income tax if the earnings are not distributed in the following year.
- (5) As of December 31, 2001, the unappropriated earnings of the Company are as follows:

Unappropriated earnings before 1998.	\$ 3,065
Unappropriated earnings in and after 1998	
Imposed of 10% income tax	96,472
Un-imposed of 10% income tax	304,758
	<u>\$404,295</u>

- (6) As of December 31, 2001, the balance of stockholders' imputation tax credit account was \$76,150. The ratio of stockholders' imputation tax credit to undistributed earnings is approximately 18.98%. However, the actual stockholders' imputation ratio is subject to change since the actual stockholders' tax credit ratio is based on the ratio on the dividend declaration day. The stockholders' tax credit ratio for dividend declared in 2001 was 29.64%.

14) **Income Tax**

	<u>2000</u>	<u>2001</u>
	(Non-consolidated)	
	Note 2	
Income tax expense per book calculated at the statutory tax rate (25%) . . .	\$ 85,436	\$ 98,003
Tax exempt income and other permanent differences	2,051	(721)
Investment tax credits	(17,554)	(18,925)
Prior year's under provision	90	2,741
Additional 10% tax on undistributed earnings	4,377	6,243
Income tax expense	74,400	87,341
Tax effect of temporary differences.	5,539	(8,941)
Adjustment of prior year's under provision	(90)	(2,741)
Prepaid income taxes	(39,686)	(45,761)
Income tax payable	<u>\$ 40,163</u>	<u>\$ 29,898</u>

A. As of December 31, 2001, the Company's income tax returns for the years through 1999 have been approved by the Tax Authority.

B. As of December 31, 2000 and 2001, deferred tax assets and liabilities were as follows:

	<u>December 31,</u>	
	<u>2000</u>	<u>2001</u>
	(Non-consolidated)	
	Note 2	
Deferred tax assets — current	\$ 8,649	\$ 856
Deferred tax assets — non-current	<u>\$ 2,007</u>	<u>\$ 3,048</u>

C. The details of deferred tax assets and liabilities as of December 31, 2000 and 2001 are as follows:

	<u>December 31, 2000</u>		<u>December 31, 2001</u>	
	<u>Amount</u>	<u>Tax Effect</u>	<u>Amount</u>	<u>Tax Effect</u>
	(Non-consolidated) Note 2			
Current:				
Temporary differences				
Unrealized loss (gain) on foreign				
currency exchange.	\$ 7,570	\$ 1,893	\$ (39,817)	\$ (9,955)
Allowance for bad debts.	4,891	1,222	—	—
Provision for loss on obsolescence of				
inventory	10,192	2,548	14,838	3,710
Unrealized inter-company profits	11,942	2,986	24,600	6,150
Loss carryforward — subsidiary	—	—	4,449	951
		<u>\$ 8,649</u>		<u>\$ 856</u>
Noncurrent:				
Temporary differences				
Unrealized loss on long-term investments	\$ 8,026	<u>\$ 2,007</u>	\$ 12,193	<u>\$ 3,048</u>

The income tax expense and tax liabilities of Regitar U.S.A. Inc. are calculated based on U.S. "Internal Revenue Code" and tax codes for the State of Alabama, in which operating loss can be carryforward without expiration.

15) **Earnings Per Share (share numbers in thousand)**

	For the years ended December 31,	
	2000	2001
	(Non-consolidated) Note 2	
Net income	\$ 267,385	\$ 304,758
Weighted average outstanding common stock	62,033	75,756
Retroactively adjusted outstanding common stock	73,199	
Earnings per share (in dollars).	\$ 4.31	\$ 4.02
Earnings per share (retroactively adjusted) (in dollars)	\$ 3.65	

Stocks dividends declared in 2001 have been considered in the calculation of retroactively adjusted 2000 outstanding shares of common stocks.

5. RELATED PARTY TRANSACTIONS

1) **Name and Relationship with Related Parties**

Name of Related Parties	Relationship with the Company
Regitar U.S.A. Inc. (REGITAR)	Investee company accounted for under the equity method
Mobiletron U.K., Ltd. (MOBILETRON)	Investee company accounted for under the equity method
Raccoon Industries Ltd. (RACCOON)	Company significantly influenced by the Company
Devo International Ltd. (DEVO)	Company significantly influenced by the Company
Sparco Trading Ltd. (SPARCO)	Company significantly influenced by the Company
Mobiletron Electronics (Ningbo) Co., Ltd. (Mobiletron Ningbo)	Indirect subsidiary of the Company
Sin Gao Plastics Co., Ltd. (Sin Gao)	Same Chairman of the Board
Yu Tueng Tsai	Relative of Chairman of the Board

2) **Significant Transactions with Related Parties**

A. *Sales*

	For the years ended December 31,			
	2000		2001	
	Amount	Percentage of net sales	Amount	Percentage of net sales
	(Non-consolidated) Note 2			
REGITAR	\$ 88,561	5	\$ —	—
MOBILETRON	23,365	1	49,550	3
	<u>\$ 111,926</u>	<u>6</u>	<u>\$ 49,550</u>	<u>3</u>

- a. The Company sells its products to America mainly through REGITAR. The collection term is within 180 days upon sales.
- b. The Company sells its products to UK mainly through MOBILETRON. The collection term is determined by evaluation of MOBILETRON's cash flow situation.
- c. The collection terms for other foreign customers are from 30 to 90 days after sales.

B. *Sub-Contracts*

2000				
Raw Material				
Beginning work in process	Addition	Ending work in process	Labor cost paid	
(Non-consolidated) Note 2				
Mobiletron Ningbo.	\$ 14,112	\$ 24,440	\$ 12,225	\$ 61,189

2001				
Raw Material				
Beginning work in process	Addition	Ending work in process	Labor cost paid	
Mobiletron Ningbo.	\$ 12,225	\$ 35,043	\$ 13,400	\$ 71,960

The production of the above mentioned products is manufactured by sub-contracting agreement with Mobiletron Ningbo through RACCON, in which raw material is provided by the Company. The Company then sells the finished goods through DEVO and SPARCO. Mobiletron Ningbo charges the Company 14% of cost of production as sub-contract fee. The payment term is within 90 days after month-end posting of transactions. RACCON, DEVO and SPARCO do not charge the Company for any service provided.

C. *Goods on Consignment*

December 31,		
	2000	2001
(Non-consolidated) Note 2		
REGIAR	\$ 57,560	\$ —
MOBILETRON	7,400	28,000
	<u>\$ 64,960</u>	<u>\$ 28,000</u>

Products are shipped to REGIAR and MOBILETRON for resale and are included in the Company's inventory account.

D. *Accounts Receivable*

	December 31, 2000		December 31, 2001	
	Amount	Percentage of accounts receivable	Amount	Percentage of accounts receivable
	(Non-consolidated) Note 2			
MOBILETRON	\$ 18,636	7	\$ 37,353	7

E. *Accounts Payable*

	December 31, 2000		December 31, 2001	
	Amount	Percentage of accounts payable	Amount	Percentage of accounts payable
	(Non-consolidated) Note 2			
Mobiletron Ningbo.	\$ 122	—	\$ 11,938	12
REGITAR	302	1	—	—
	<u>\$ 424</u>	<u>1</u>	<u>\$ 11,938</u>	<u>12</u>

F. *Property Transactions*

In November 2000, the Company entered into a contract to purchase the land and plant which were leased from Sin Gao. The purchase price of \$240,000 is negotiated based on the appraisal reports. The title has been transferred to the Company in August 2001.

G. *Rent Expense*

	For the years ended December 31,	
	2000	2001
	(Non-consolidated) Note 2	
Sin Gao	\$ 5,400	\$ 3,150
Yu Tueng Tsai	—	5,476
	<u>\$ 5,400</u>	<u>\$ 8,626</u>

The Company leased the land and building located in Taichung County for manufacturing plant and office. The rent was comparable to on the price level in the surrounding area. Payment is made on a monthly basis in the amount of \$450. The Company signed a contract to purchase the above plant and office in November 2000. The title has been transferred to the Company in August 2001.

REGITAR leased its office from Yu Tueng Tsai. The rent was comparable to the price level in the surrounding area. Payment is made on a monthly basis in the amount of USD13,500.

H. *Endorsements and Guarantees*

As of December 31, 2001, Yu Tueng Tsai has provided time deposit in the amount of USD 600,000 as collateral for Mobiletron Ningbo's bank loans.

6. ASSETS PLEDGED AS COLLATERAL

As of December 31, 2000 and 2001, the following assets have been pledged as collateral against certain obligations of the Company:

Assets	Book Value		Subject of collateral
	2000	2001	
	(Non-consolidated) Note 2		
Land	\$ 55,888	\$ 283,717	Short-term and long-term loans
Buildings	95,263	104,078	Short-term and long-term loans
Machinery and equipment	40,612	33,553	Long-term loans
Time deposits (shown in other assets — other).	2,977	2,977	Guarantees for foreign labors
Time deposits (shown in restricted assets). . . .	135,423	259,330	Guarantees for commercial paper
	<u>\$ 330,163</u>	<u>\$ 683,655</u>	

7. COMMITMENTS AND CONTINGENCIES

- A. As of December 31, 2001, the Company's unused letters of credit for imported raw materials were USD 245,000.
- B. As of December 31, 2001, the Company has entered into agreements with third parties to purchase machinery and equipments in the amount of \$19,017, the Company has outstanding obligation of approximately \$12,886 related to these contracts.

8. CATASTROPHE LOSS

None.

9. SUBSEQUENT EVENT

- A. The Company applied to issue five-year unsecured convertible bonds amounting to \$500,000 with an interest rate of 0%. The application has been approved by the Securities and Futures Commission on October 17, 2001 and the issuance has been completed in January 2002.
- B. The Company invested USD 4,000,000 by installment to acquire 32.61% of Media View Technologies Corporation's voting shares. Through the investment the Company formally engaged in the manufacture of DMS Car Multimedia Scope System and Information Management System. As of February 8, 2002, the total amount of the investment has been remitted.

10. OTHERS

A. Financial Instruments

	As of December 31, 2000	
	Book Value	Fair Value
<u>Non-derivative financial instruments</u>	(Non-consolidated) Note 2	
Financial Assets		
Financial assets with book value equal to fair value	\$ 874,551	\$ 874,551
Short-term investments	10,797	10,884
Long-term investments	159,532	149,367
Cash surrender value of life insurance	6,190	6,190
	<u>\$1,051,070</u>	<u>\$1,040,992</u>

	As of December 31, 2000	
	Book Value	Fair Value
	(Non-consolidated) Note 2	
Financial Liabilities		
Financial liabilities with book value equal to fair value	\$ 533,648	\$ 533,648
Long-term loans	102,000	102,000
Accrued pension liabilities	5,247	17,971
	<u>\$ 640,895</u>	<u>\$ 653,619</u>

	As of December 31, 2001	
	Book Value	Fair Value
<u>Non-derivative financial instruments</u>		
Financial Assets		
Financial assets with book value equal to fair value	\$1,334,924	\$1,334,924
Short-term investments	13,763	13,795
Long-term investments	270,136	267,381
Long-term loans	7,510	7,510
Cash surrender value of life insurance	\$1,626,333	\$1,623,610

	As of December 31, 2001	
	Book Value	Fair Value
Financial Liabilities		
Financial liabilities with book value equal to fair value	\$1,057,777	\$1,057,777
Long-term loans	13,584	13,584
Accrued pension liabilities	5,945	21,678
	<u>\$1,077,306</u>	<u>\$1,093,039</u>

- (1) Financial assets and liabilities with book value equal to fair value are cash and cash equivalents, notes receivable, accounts receivable, other current assets, refundable deposits, restricted assets, short-term loans, commercial paper, notes payable, accounts payable, income tax payable, accrued expenses, other payable, current portion of long-term loans and other current liabilities because of their short maturities.
- (2) The fair value of short-term investments and long-term investments is based on the market value of short-term and long-term investments. If the market value of short-term and long-term investments is unavailable, the net equity of the investee companies or other financial information is used as fair value.
- (3) The book value of long-term loans is stated as fair value because the loans bear floating interest rate.
- (4) The fair value of accrued pension liabilities equals the funded status as shown in the actuarial report measured at December 31, 2000 and 2001, respectively.

B. Information on derivative transactions:

Foreign option contracts transactions

1. Purpose of holding derivative products:

Foreign currency option contracts were entered into for trading activities.

2. Par value, contract amount or nominal principal and nature of the options

As of December 31, 2000 (non-consolidated, Note 2):

- (1) The Company's outstanding options contracts are as follows:

Item	(In thousand dollars)					
	Inception dates	Settlement dates	Callable amount	Put amount	Strike rate	Premium
Sell EUR callable option/ USD put option	December 22, 2000	May 28, 2001	EUR 6,122	USD 6,000	0.98	USD392
Sell EUR callable option/ USD put option	October 30, 2000	January 30, 2001	EUR 5,280	USD 6,000	0.88	USD 63
Sell EUR callable option/ USD put option	October 30, 2000	January 30, 2001	EUR 6,000	USD 6,000	1.0	USD 59

If the market rate is higher than strike rate on settlement date, the bank has right not to exercise the contract.

- (2) For the year ended December 31, 2000, the net premium received by the Company is USD 0.

As of December 31, 2001:

- (1) The Company's outstanding options contracts are as follows:

Item	(In thousand dollars)					
	Inception dates	Settlement dates	Callable amount	Put amount	Strike rate	Premium
Sell EUR callable option/ USD put option	December 24, 2001	June 26, 2002	EUR 4,000	USD 3,980	0.995	—
Sell EUR callable option/ USD put option	December 24, 2001	March 26, 2002	EUR 2,000	USD 1,990	0.995	—
Sell USD callable option/ EUR put option	December 24, 2001	June 26, 2002	USD 3,640	EUR 4,000	0.910	USD 462
Sell USD callable option/ EUR put option	December 24, 2001	March 26, 2002	USD 1,800	EUR 2,000	0.900	USD 192

If the market rate is higher than strike rate on settlement date, the bank has right not to exercise the contract.

- (2) For the year ended December 31, 2001, the net premium received by the Company is USD 10,000.

3. Terms of derivative products:

- (1) Credit risk:

As the counter party is bank of good credit standing, the credit risk is minimal.

- (2) Market risks:

Market risk is based on the future fluctuation in currency exchange rates.

- (3) Amount and timing of future cash flows:

Based on the exchange rate of December 31, 2000, the Company estimated that the net future cash outflow will be \$23,049 on January 30 and May 28, 2001.

Based on the exchange rate of December 31, 2001, the Company estimated to have a net cash of \$0 on March 26, May 30 and June 26, 2002.

- (4) The accounting policy:

Please refer to Note 2.

4. Fair value and book value:

As of December 31, 2000 (non-consolidated, Note 2):

- (1) Fair value: The balance of option contract payables is \$23,094.
 (2) Book value: The balance of option contract payables is \$23,094.

As of December 31, 2001:

- (1) Fair value: The balance of option contract payables is \$0.
 (2) Book value: The balance of option contract payables is \$0.

5. Additional disclosures:

For the years ended December 31, 2000 and 2001, the realized exchange loss from option contracts was \$1,529 (non-consolidated, Note 2) and \$346, respectively, and the unrealized exchange loss from option contracts was \$23,049 (non-consolidated, Note 2) and \$0, respectively, which is presented in the income statements as a non-operating income or expenses.

C. **Eliminated transactions between parent company and subsidiaries**

For the year ended December 31, 2001:

Transaction	Name of the counter party and amount	
	Mobiletron Electronics Co., Ltd.	Regitar U.S.A. Inc.
Eliminate long-term investment and stockholders' equity	\$ (50,433)	\$ 50,433
Eliminate (accrued expense) and accounts receivable	(10,859)	10,859
Eliminate (purchases) and sales	147,220	(147,220)

11. **SPECIAL DISCLOSURE ITEMS**

A. **Significant Transaction Information**

(1) Loans to third parties attributed to financial activities:

For the year ended December 31, 2001: None.

(2) The Company provided the following endorsement and guarantee to third parties:

For the year ended December 31, 2001: None.

(3) The ending balance of securities is summarized as follows:

As of December 31, 2001:

Investor	Type of securities	Name of securities	The relationship of the issuers with the Company	General ledger accounts	December 31, 2001		
					Number of shares	Book value	Percentage of ownership Market value
Mobiletron Electronics Co., Ltd.	Stock	Stonewall Ventures Inc.	Investee accounted for under equity method	Long-term investments	3,700,000	\$130,042	100% \$126,297
Mobiletron Electronics Co., Ltd.	Stock	Regitar U.S.A. Inc.	Investee accounted for under equity method	Long-term investments	100,000	50,433	100% 48,386
Mobiletron Electronics Co., Ltd.	Stock	Asia Pacific Microsystem Co., Ltd.	Investee accounted for under cost method	Long-term investments	10,000,000	100,000	6.97% 100,000
Mobiletron Electronics Co., Ltd.	Stock	First Taiwan Venture Capital Corp.	Investee accounted for under cost method	Long-term investments	3,000,000	30,000	9.37% 29,580
Mobiletron Electronics Co., Ltd.	Stock	Others (Note 1)	—	Long-term investments	—	10,094	— 11,504
						<u>\$320,569</u>	<u>\$315,767</u>
Mobiletron Electronics Co., Ltd.	Fund	Polaris Performance Fund	—	Short-term investments	234,412	\$ 5,010	— \$ 3,389
Mobiletron Electronics Co., Ltd.	Fund	Kwang Hua Fund	—	Short-term investments	430,000	7,035	— 5,745
Mobiletron Electronics Co., Ltd.	Fund	Others (Note 1)	—	Short-term investments	—	13,311	— 4,731
						<u>\$ 25,356</u>	<u>\$ 13,865</u>

(1) Combined for each specific security less than \$5,000 or less than 5% of the account.

- (4) Securities for which total buying or selling amount exceeded the lower of NT\$100,000 or 20 percent of the capital stock:

For the year ended December 31, 2001:

Investor	Name of the security	Accounts	Name of the counter party	The relationship of the issuers with the Company	Beginning balance		Addition		Disposal			Ending balance	
					Number of shares	Amount	Number of shares	Amount	Number of shares	Sale price	Book value	Number of shares	Amount
Mobiltron Electronics Co., Ltd.	Polaris Profit Fund	Short-term investments	Polaris International Securities Investment Trust Co., Ltd.	None	—	\$ —	9,586,377	\$130,000	9,586,377	\$131,330	\$130,000	—	—
Mobiltron Electronics Co., Ltd.	Asia Pacific Microsystem Co., Ltd.	Long-term investments	Asia Pacific Microsystem Co., Ltd.	None	—	—	10,000,000	100,000	—	—	—	10,000,000	100,000

- (5) Acquisition of real estate with an amount exceeded the lower of NT\$100,000 or 20 percent of the capital stock:

For the year ended December 31, 2001: None.

- (6) Disposal of real estate with an amount exceeding the lower of NT\$100,000 or 20 percent of the capital stock:

For the year ended December 31, 2001: None.

(7) Related party transactions for purchases and sales amounts exceeded the lower of NT\$100,000 or 20 percent of capital stock:

For the year ended December 31, 2001:

Description of the transaction			Description of and reasons for difference in transaction terms compared to non-related party transactions			Notes or accounts receivable/payable
Purchase/sales company	Name of the counter parties	Relationship with the counter parties	Percentage of net purchases/sales		Credit terms	Unit price
			Purchases/Sales	Amount		
Mobiletron Electronics Co., Ltd.	Regitar U.S.A. Inc.	Investee accounted for under equity method	Sales	147,220	8%	180 days
						Note 1
						30 days to 90 days
						\$10,859
						2%
						None

Note 1: Therefore, the Company sells its products to America mainly through Regitar U.S.A. Inc. Therefore, the selling price is non-comparable to those to non-related parties.

(8) Receivables from related parties exceeded the lower of NT\$100,000 or 20 percent of capital stock:

As of December 31, 2001: None.

(9) Transaction of Derivative financial instruments:

For the year ended December 31, 2001:

Please refer to Note 10 (2) for the details of the Company's transaction of derivative financial instruments.

B. Related information on investee companies

(1) Basic information on investee companies:

For the year ended December 31, 2001:

Investor	Name of Investee	Location	Main activities	Original investments		The Company/majority owned subsidiary owns			Current period	
				Current period ending balance	Prior period ending balance	Shares	Percentage of ownership	Book value	Net income (loss) of investee	Income (loss) recognized by the Company
Mobiletron Electronics Co., Ltd. Stonewall Ventures Inc.	Stonewall Ventures Inc.	British Virgin Islands	Sales agent	\$122,122	\$64,482	3,700,000	100%	\$ 130,042	\$ 1,320	\$ (552) (Note 1)
	Mobiletron Electronics (Ningbo) Co., Ltd.	China	Power tools parts, flashlights, distributor, ignition coil, automotive starter and alternator and auto parts of alternator and starter	122,122	64,482	3,600,000	100%	130,042	1,320	(Note 2)
Mobiletron Electronics Co., Ltd.	Regitar U.S.A. Inc.	USA	Auto parts, electric tools and hardware stamping parts wholesale	49,454	49,454	100,000	100%	50,433	1,631	608 (Note 1)
	Mobiletron U.K. Ltd.	UK	Automotive control device and manufacturing of auto parts and accessories and business electric tools	14,316	14,316	300,000	100%	3,094	(4,223)	(4,223)

Note 1: Amortization of premium or discount is included.

Note 2: Investment income (loss) recognized by the Company is not included.

(2) Loans to third parties attributed to financial activities:

None.

(3) The Company provided the following endorsement and guarantee to third parties:

None.

(4) The ending balance of securities held by investee companies is summarized as follows:

As of December 31, 2001:

September 30, 2001				
Investor	Type of securities	Name of securities	Relationship of the issuers with the Company	General ledger account
Stonewall Ventures Inc.	Stock	Mobiletron Electronics (Ningbo) Co., Ltd.	Investee accounted for under equity method by subsidiary of the Company	Long-term investments
				3,600,000
				\$130,042
				100%
				\$126,297

(5) Securities for which total buying or selling amount exceeded the lower of NT\$100,000 or 20% of the capital stock:

None.

(6) Acquisition of real estate with an amount exceeded the lower of NT\$100,000 or 20% of the capital stock:

None.

(7) Disposal of real estate with an amount exceeded the lower of NT\$100,000 or 20% of the capital stock:

None.

(8) Related party transactions for purchase and sales amount exceeded the lower of NT\$100,000 or 20% of the capital stock:

Please refer to Note 11 for the details of information.

(9) Receivables from related parties exceeded the lower of NT\$100,000 or 20% of the capital stock:

None.

C. Investment in Mainland China information:

(1) Information of investment in Mainland China:

As of December 31, 2001:

Name of investee in Mainland China	Main activities of investee	Capital	Investment method	Accumulated remittance as of December 31, 2000	Remitted or (collected) this period	Accumulated remittance as of December 31, 2001	Ownership held by the Company (Direct and indirect)	Investment income (loss) recognized by the Company during the period	Ending balance of investment	The investment income (loss) remitted back as of December 31, 2001
Mobiletron Electronics (Ningbo) Co., Ltd.	Power tools parts, distributor, ignition coil, flashlights, auto parts of alternator and starter	USD3,600,000	(Note 1)	\$64,482	\$57,640	\$122,122	100%	\$ (552) (Note 2)	\$130,042	\$ —

Note 1: The investment was made indirectly through the Company's investment in Stonewall Ventures Inc., a 100% owned subsidiary in British Virgin Islands.

Note 2: The investment income (loss) was recognized under the equity method based on the audited financial statements of the investee companies.

Accumulated remittance from Taiwan to Mainland China	The investment balance approved by Investment Commissions, Ministry of Economic Affairs	The ceiling of investment in Mainland China according to Investment Commissions, Ministry of Economic Affairs
USD 3,700,000 (Translated into NT\$122,122)	USD4,000,000	\$581,645

- (2) Material transactions occurred directly between the local company and its Mainland China investee companies and material transactions occurred indirectly between the local company and its Mainland China investee companies via enterprises in other areas:

For the year ended December 31, 2001				
	Raw Material			Labor cost paid
	Beginning work in process	Addition	Ending work in process	
Mobiletron Electronics (Ningbo) Co., Ltd.	\$12,225	\$35,043	\$13,400	\$71,960

The production of the above mentioned products is manufactured by the sub-contracting agreement with Mobiletron Ningbo through RACCON, in which raw material is provided by the Company. The Company then sells the finished goods through DEVO and SPARCO. Mobiletron Ningbo charges the Company 14% of cost of production as sub-contract fee. The payment term is within 90 days after month-end posting of transactions. RACCON, DEVO and SPARCO do not charge the Company for any service provided.

12. SEGMENT INFORMATION

A. Operation in Different Industries

	2000 (Non-consolidated) (Note 2)				2001			
	Electron	Electric	Adjustment & elimination	Total	Electron	Electric	Adjustment & elimination	Total
Revenues from external customers	\$ 447,091	\$ 1,341,271	\$ —	\$ 1,788,362	\$ 634,379	\$ 1,324,365	\$ —	\$ 1,958,744
Inter-segment revenues	—	—	—	—	—	—	—	—
Total revenues	\$ 447,091	\$ 1,341,271	\$ —	\$ 1,788,362	\$ 634,379	\$ 1,324,365	\$ —	\$ 1,958,744
Segment gross profit	\$ 78,222	\$ 234,664	\$ —	\$ 312,886	\$ 112,740	\$ 201,304	\$ —	\$ 314,044
General income of the Company				60,058				157,505
General expense of the Company				(12,229)				(39,994)
Loss from long-term investments				(11,464)				(4,775)
Interest expense				(7,466)				(34,681)
Income before income tax				\$ 341,785				\$ 392,099
Segment assets	\$ 484,307	\$ 578,965	\$ —	\$ 1,063,272	\$ 821,481	\$ 832,084	\$ —	\$ 1,653,565
Long-term investments				165,722				277,646
General assets of the Company				648,486				617,863
Total assets				\$ 1,877,480				\$ 2,549,074
Depreciation	\$ 17,914	\$ 21,998		\$ 39,912	\$ 28,055	\$ 31,924		\$ 59,979
Capital expenditure	\$ 111,156	\$ 66,802		\$ 177,958	\$ 229,743	\$ 69,386		\$ 299,129

B. **Financial Information by Geographic Areas**

	2001			
	ROC	USA	Adjustment & elimination	Consolidation
Revenues from unaffiliated customers	\$1,704,856	\$253,888	\$ —	\$1,958,744
Transfer between geographic area	147,220	—	(147,220)	—
Total revenues	<u>\$1,852,076</u>	<u>\$253,888</u>	<u>\$(147,220)</u>	<u>\$1,958,744</u>
Gross profit	<u>\$ 312,921</u>	<u>\$ 1,123</u>	<u>\$ —</u>	<u>\$ 314,044</u>
General income				157,505
General expense				(39,994)
Loss from long-term investment				(4,775)
Interest expense				(34,681)
Income before income tax				<u>\$ 392,099</u>
Identifiable assets	<u>\$2,504,493</u>	<u>\$105,873</u>	<u>\$ (61,292)</u>	<u>\$2,549,074</u>
Depreciation	<u>\$ 55,734</u>	<u>\$ 4,245</u>		<u>\$ 59,979</u>
Capital expenditure	<u>\$ 296,981</u>	<u>\$ 2,148</u>		<u>\$ 299,129</u>

C. **Export Sales**

Geographic	For the years ended December 31,	
	2000	2001
	(Non-consolidated) Note 2	
America	\$1,159,889	\$1,442,495
Europe	470,529	412,315
Asia	81,410	12,969
Africa	23,322	30,977
Other	14,164	26,660
	<u>\$1,749,314</u>	<u>\$1,925,416</u>

D. **Major Customers**

Customers	For the years ended December 31,			
	2000		2001	
	Amount	Percentage of net sale	Amount	Percentage of net sale
	(Non-consolidated) Note 2			
Customer A	<u>\$ 862,052</u>	<u>48</u>	<u>\$ 910,019</u>	<u>46</u>

A major customer is identified as the party that accounts for more than 10% of the Company's net sales in any given year.

**MOBILETRON ELECTRONICS CO., LTD.
NON-CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 1999, 2000 AND 2001**

These English financial statements and report of independent accountants were translated from the financial statements and report of independent accountants originally prepared in Chinese.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
of Mobiletron Electronics Co., Ltd.

We have audited the accompanying non-consolidated balance sheets of Mobiletron Electronics Co., Ltd. as of December 31, 1999, 2000 and 2001, and the related non-consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended, expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Mobiletron U.K. Ltd., an investee accounted for under the equity method. Those statements were audited by other auditors whose reports thereon have been furnished to us. Our opinion expressed herein, insofar as it relates to the investments in Mobiletron U.K. Ltd. which amounted to NT\$0 thousand, NT\$6,773 thousand and NT\$3,094 thousand at December 31, 1999, 2000 and 2001, respectively, and related investment losses of NT\$0 thousand, NT\$7,474 thousand and NT\$4,223 thousand for the years then ended, respectively, is based solely on the reports of the other auditors.

We conducted our audits in accordance with "Rules Governing Examination 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 a reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the accompanying non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mobiletron Electronics Co., Ltd. as of December 31, 1999, 2000 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, expressed in New Taiwan dollars, in conformity with the "Rules Governing the Preparation of Financial Statements of Securities Issuers" and accounting principles generally accepted in the Republic of China.

The non-consolidated financial statements of Mobiletron Electronics Co., Ltd. as of and for the years ended December 31, 2001 expressed in US dollars are presented solely for the convenience of the reader and were translated from the New Taiwan dollar financial statements using the exchange rate of NT\$34.95 to US\$1.00 at December 31, 2001. This basis of translation is not in accordance with generally accepted accounting principles in the Republic of China.

PricewaterhouseCoopers

Taipei Taiwan
Republic of China
February 19, 2002

The accompanying non-consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying non-consolidated financial statements and report of the independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic the China, and their applications in practice.

MOBILETRON ELECTRONICS CO., LTD.
NON-CONSOLIDATED BALANCE SHEETS
(EXPRESSED IN THOUSANDS OF DOLLARS)

	December 31,			
	1999	2000	2001	
	NT\$	NT\$	NT\$	US\$
				(Unaudited)
				(Note 2)
ASSETS				
Current Assets				
Cash and cash equivalents (Note 4 (1))	94,161	459,046	244,284	6,990
Short-term investments (Note 4 (2))	48,938	10,797	13,763	394
Notes receivable, net	1,930	3,264	4,903	140
Accounts receivable, net (Note 4 (3))	297,547	245,150	404,468	11,573
Accounts receivable, net — related parties (Note 5)	—	18,636	48,212	1,379
Inventories (Note 4 (4))	320,812	363,361	468,710	13,410
Restricted assets (Note 6)	—	135,423	259,330	7,420
Other current assets	23,646	25,343	46,120	1,320
	<u>787,034</u>	<u>1,261,020</u>	<u>1,489,790</u>	<u>42,626</u>
Long-term investments (Note 4 (5))				
Long-term investments in stocks	150,835	159,532	320,569	9,172
Cash surrender value of life insurance policy	—	6,190	7,510	215
	<u>150,835</u>	<u>165,722</u>	<u>328,079</u>	<u>9,387</u>
Property, Plant and Equipment (Notes 4 (6), 6)				
Cost:				
Land	55,888	55,888	283,717	8,117
Buildings	63,062	109,497	122,369	3,501
Machinery and equipment	126,156	204,941	255,329	7,306
Mold equipment	103,976	128,609	155,281	4,443
Transportation equipment	12,408	13,638	14,044	402
Other equipment	26,107	29,203	42,709	1,222
	<u>387,597</u>	<u>541,776</u>	<u>873,449</u>	<u>24,991</u>
Accumulated depreciation	(131,746)	(167,640)	(216,391)	(6,191)
Construction in progress and prepayments for equipment	39,824	58,725	13,218	378
	<u>295,675</u>	<u>432,861</u>	<u>670,276</u>	<u>19,178</u>
Intangible Assets				
Deferred pension cost (Note 4 (10))	5,570	5,811	6,392	182
Other Assets	3,928	12,066	9,956	285
Total assets	<u>1,243,042</u>	<u>1,877,480</u>	<u>2,504,493</u>	<u>71,659</u>

The accompanying notes are an integral part of these financial statements.
See report of independent accountant dated February 19, 2002.

MOBILETRON ELECTRONICS CO., LTD.
NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)
(EXPRESSED IN THOUSANDS OF DOLLARS)

	December 31,			
	1999	2000	2001	
	NT\$	NT\$	NT\$	US\$
				(Unaudited)
				(Note 2)
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Short-term loans (Note 4 (7))	154,284	130,783	302,645	8,659
Commercial paper (Note 4 (8))	—	139,890	289,586	8,286
Notes payable	122,021	65,249	137,465	3,933
Accounts payable	102,443	55,590	96,329	2,756
Income tax payable (Note 4 (14))	48,036	40,163	29,898	856
Accrued expenses	60,387	43,784	54,138	1,549
Forward exchange contract payable (Note 10 (2))	—	23,049	—	—
Other payables	16,818	32,963	5,888	168
Current portion of long-term loans (Note 4 (9))	1,360	—	104,944	3,003
Other current liabilities	16,345	23,156	9,958	285
	<u>521,694</u>	<u>554,627</u>	<u>1,030,851</u>	<u>29,495</u>
Long-term Liabilities				
Long-term loans (Note 4 (9))	1,000	102,000	13,584	389
Other liabilities				
Accrued pension liabilities (Note 4 (10))	5,915	5,247	5,945	170
Deferred tax liabilities	830	—	—	—
	<u>6,745</u>	<u>5,247</u>	<u>5,945</u>	<u>170</u>
Total Liabilities	<u>529,439</u>	<u>661,874</u>	<u>1,050,380</u>	<u>30,054</u>
Stockholders' Equity				
Capital stock (Note 4 (11))	430,000	642,000	757,560	21,675
Capital reserve (Note 4 (12))				
Additional paid-in capital in excess of par value	—	200,000	200,000	5,723
Others	385	677	677	19
Retained earnings (Note 4 (13))				
Legal reserve	30,052	55,002	81,711	2,338
Unappropriated earnings	256,705	315,621	404,295	11,568
Cumulative translation adjustment	(3,539)	2,306	9,870	282
Total Stockholders' Equity	<u>713,603</u>	<u>1,215,606</u>	<u>1,454,113</u>	<u>41,605</u>
Commitments and Contingencies (Note 7)				
Subsequent Event (Note 9)				
Total liabilities and stockholders' equity	<u><u>1,243,042</u></u>	<u><u>1,877,480</u></u>	<u><u>2,504,493</u></u>	<u><u>71,659</u></u>

The accompanying notes are an integral part of these financial statements.
See report of independent accountant dated February 19, 2002.

MOBILETRON ELECTRONICS CO., LTD.
NON-CONSOLIDATED STATEMENTS OF INCOME
(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)

	For the years ended December 31,			
	1999	2000	2001	
	NT\$	NT\$	NT\$	US\$
				Unaudited (Note 2)
Sales	1,813,733	1,797,671	1,812,682	51,865
Sales Returns	(12,490)	(5,092)	(18,329)	(525)
Sales Allowance	(34,490)	(4,217)	(6,233)	(178)
Net Sales	1,766,753	1,788,362	1,788,120	51,162
Cost of Goods Sold	(1,252,550)	(1,286,128)	(1,258,029)	(35,995)
Gross Profit	514,203	502,234	530,091	15,167
Operating Expenses				
Selling expenses	(73,583)	(70,741)	(82,216)	(2,352)
Administrative expenses	(62,541)	(70,465)	(73,215)	(2,095)
Research and development expenses	(59,238)	(48,142)	(60,715)	(1,737)
	(195,362)	(189,348)	(216,146)	(6,184)
Operating Income	318,841	312,886	313,945	8,983
Non-operating Income				
Interest income	3,265	10,945	27,559	788
Investment income (Note 4 (5))	3,438	—	—	—
Foreign currency exchange gain	—	25,306	103,720	2,968
Others	19,722	23,807	21,171	606
	26,425	60,058	152,450	4,362
Non-operating Expenses				
Interest expenses	(5,967)	(7,466)	(32,578)	(932)
Investment loss (Note 4 (5))	—	(11,464)	(4,167)	(119)
Foreign currency exchange loss	(4,932)	—	—	—
Loss on inventory obsolescence and decline in market value	—	(3,461)	(14,096)	(403)
Others	(18,700)	(8,768)	(24,693)	(707)
	(29,599)	(31,159)	(75,534)	(2,161)
Income before income tax	315,667	341,785	390,861	11,184
Income tax expense (Note 4 (14))	(66,169)	(74,400)	(86,103)	(2,464)
Net income	249,498	267,385	304,758	8,720
Earnings per share (In dollars) (Note 4 (15))	4.14	3.65	4.02	0.12

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

See report of independent accountant dated February 19, 2002.

MOBILETRON ELECTRONICS CO., LTD.
NON-CONSOLIDATED STATEMENTS OF
CHANGES IN STOCKHOLDERS' EQUITY
(EXPRESSED IN THOUSANDS OF DOLLARS)

	Capital Stock	Capital Reserve	Retained Earnings		Cumulative Translation Adjustment	Total
	NT\$	NT\$	Legal Reserve NT\$	Unappropriated Earnings NT\$	NT\$	NT\$
1999						
Balance at January 1, 1999	340,000	385	19,041	113,174	—	472,600
Appropriation for legal reserve .	—	—	11,011	(11,011)	—	—
Stock dividends	90,000	—	—	(90,000)	—	—
Employees' bonus	—	—	—	(1,983)	—	(1,983)
Directors' and supervisors' remuneration.	—	—	—	(2,973)	—	(2,973)
Net income	—	—	—	249,498	—	249,498
Cumulative translation adjustment	—	—	—	—	(3,539)	(3,539)
Balance at December 31, 1999 . .	430,000	385	30,052	256,705	(3,539)	713,603
2000						
Issuance of common stock for cash	40,000	200,000	—	—	—	240,000
Appropriation for legal reserve .	—	—	24,950	(24,950)	—	—
Stock dividends	172,000	—	—	(172,000)	—	—
Employees' bonus	—	—	—	(4,491)	—	(4,491)
Directors' and supervisors' remuneration.	—	—	—	(6,736)	—	(6,736)
Net income	—	—	—	267,385	—	267,385
Transfer of gain on disposal of fixed assets to capital reserve .	—	292	—	(292)	—	—
Cumulative translation adjustment	—	—	—	—	5,845	5,845
Balance at December 31, 2000 . .	<u>642,000</u>	<u>200,677</u>	<u>55,002</u>	<u>315,621</u>	<u>2,306</u>	<u>1,215,606</u>

The accompanying notes are an integral part of these financial statements.
See report of independent accountant dated February 19, 2002.

MOBILETRON ELECTRONICS CO., LTD.
NON-CONSOLIDATED STATEMENTS OF
CHANGES IN STOCKHOLDERS' EQUITY (CONTINUED)
(EXPRESSED IN THOUSANDS OF DOLLARS)

			Retained Earnings		Cumulative	
	Capital Stock	Capital Reserve	Legal Reserve	Unappropriated Earnings	Translation Adjustment	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
2001						
Balance at January 1, 2001	642,000	200,677	55,002	315,621	2,306	1,215,606
Appropriation for legal reserve .	—	—	26,709	(26,709)	—	—
Stock dividends	115,560	—	—	(115,560)	—	—
Cash dividends	—	—	—	(64,200)	—	(64,200)
Employees' bonus	—	—	—	(4,807)	—	(4,807)
Directors' and supervisors' remuneration	—	—	—	(4,808)	—	(4,808)
Net income	—	—	—	304,758	—	304,758
Cumulative translation adjustment	—	—	—	—	7,564	7,564
Balance at December 31, 2001 . .	<u>757,560</u>	<u>200,677</u>	<u>81,711</u>	<u>404,295</u>	<u>9,870</u>	<u>1,454,113</u>

The accompanying notes are an integral part of these financial statements.
See report of independent accountant dated February 19, 2002.

MOBILETRON ELECTRONICS CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN THOUSANDS OF DOLLARS)

	For the years ended December 31,			
	1999	2000	2001	
	NT\$	NT\$	NT\$	US\$
				(Unaudited)
				(Note 2)
Cash flows from operating activities:				
Net income	249,498	267,385	304,758	8,720
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	25,664	39,912	55,734	1,595
Amortization	1,739	5,293	5,021	144
Provision for (reversal of) bad debt expense . . .	4,800	(5,284)	395	11
Unrealized loss (recovery) on decline in market value of short-term investments	(4,082)	8,141	(2,966)	(85)
Provision for (reversal of) loss on obsolescence of inventory	14,268	(1,968)	14,096	403
Loss (gain) on physical inventory taking	3,197	(2,147)	(394)	(11)
Long-term investment (income) loss accounted for under equity method	(3,438)	11,464	4,167	119
Loss on disposal of property, plant and equipment	—	201	876	25
Effect on foreign currency exchange	(2,324)	(30,911)	(22,421)	(642)
Unrealized loss (gain) on foreign currency exchange	—	23,049	(23,049)	(660)
(Increase) decrease in assets:				
Notes receivable	2,628	(1,334)	(1,639)	(47)
Accounts receivable	(230,151)	39,045	(189,289)	(5,416)
Inventories	(195,237)	(38,434)	(119,051)	(3,406)
Other current assets	(7,391)	(2,527)	(20,777)	(594)
Increase (decrease) in liabilities:				
Notes payable	55,414	(56,772)	72,216	2,066
Accounts payable	99,661	(46,853)	40,739	1,166
Income tax payable	20,125	(7,873)	(10,265)	(294)
Accrued expenses	22,837	(16,603)	10,354	297
Other current liabilities	1,324	6,811	(13,198)	(378)
Accrued pension liabilities	(437)	(909)	117	3
Net cash provided by operating activities . . .	<u>58,095</u>	<u>189,686</u>	<u>105,424</u>	<u>3,016</u>

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

See report of independent accountant dated February 19, 2002.

MOBILETRON ELECTRONICS CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(EXPRESSED IN THOUSANDS OF DOLLARS)

	For the years ended December 31,			
	1999	2000	2001	
	NT\$	NT\$	NT\$	US\$ (Unaudited) (Note 2)
Cash flows from investing activities:				
Proceeds from disposal of short-term investments	35,000	30,000	—	—
Payment for security deposits	—	(135,423)	(123,907)	(3,545)
Payment for long-term investments	(143,936)	(14,316)	(157,640)	(4,510)
Payment for cash surrender value of life insurance	—	(6,190)	(1,320)	(38)
Acquisition of property, plant and equipment	(172,918)	(161,813)	(324,056)	(9,272)
Proceeds from disposal of property, plant and equipment	601	659	2,956	84
Payment for other assets	(3,413)	(13,431)	(2,911)	(83)
Net cash used in investing activities	(284,666)	(300,514)	(606,878)	(17,364)
Cash flows from financing activities:				
Proceeds from short-term loans	154,284	130,783	302,645	8,659
Repayment of short-term loans	(10,697)	(154,284)	(130,783)	(3,742)
Proceeds from commercial paper	—	139,890	149,696	4,283
Proceeds from long-term loans	1,000	101,000	20,000	572
Repayment of long-term loans	(2,808)	(1,360)	(3,472)	(99)
Proceeds from issuance of common stock	—	240,000	—	—
Payment of directors' and supervisors' remuneration and employees' bonus	(4,956)	(11,227)	(9,615)	(275)
Cash dividend	—	—	(64,200)	(1,837)
Net cash provided by financing activities	136,823	444,802	264,271	7,561
Effect on foreign currency exchange	2,324	30,911	22,421	642
Net (decrease) increase in cash and cash equivalents	(87,424)	364,885	(214,762)	(6,144)
Cash and cash equivalents at beginning of year	181,585	94,161	459,046	13,134
Cash and cash equivalents at end of year	<u>94,161</u>	<u>459,046</u>	<u>244,284</u>	<u>6,990</u>
Supplemental disclosures of cash flow information:				
Cash paid for interest (excluding capitalized interest)	<u>6,072</u>	<u>6,999</u>	<u>32,839</u>	<u>940</u>
Cash paid for income tax	<u>49,447</u>	<u>87,812</u>	<u>88,665</u>	<u>2,537</u>
Supplemental disclosures of partial cash paid investing activities:				
Acquisition of property, plant and equipment	189,736	177,958	296,981	8,497
Add: Payable at beginning of year	—	16,818	32,963	943
Less: Payable at end of year	(16,818)	(32,963)	(5,888)	(168)
Cash paid	<u>172,918</u>	<u>161,813</u>	<u>324,056</u>	<u>9,272</u>

The accompanying notes are an integral part of these financial statements.
See report of independent accountant dated February 19, 2002.

MOBILETRON ELECTRONICS CO., LTD.
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1999, 2000 AND 2001
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

Mobiletron Electronics Co., Ltd. (the "Company") was incorporated as a company limited by shares under the Company Law of the Republic of China (ROC) on July 19, 1982. As of December 31, 2001, the Company's issued and outstanding common stock was \$757,560. The Company is primarily engaged in the manufacture and sale of automotive control device (including ignition module, voltage regulator and charger), electric and pneumatic tools, corded flashlights and illuminating equipments. The shares of the Company have been listed on the Taiwan Stock Exchange since April 6, 2001.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign Currency Transactions

The accounts of the Company are maintained in New Taiwan dollars. Transactions denominated in foreign currencies are translated into New Taiwan dollars at the exchange rates prevailing on the transaction dates. Receivables, other monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars at the exchange rates prevailing at the balance sheet date. Exchange gains or losses are included in the current year's results.

Convenience Translation into US Dollars

The Company maintains its accounting records and prepares its financial statements in New Taiwan ("NT") dollars. The United States ("US") dollar amounts disclosed in the 2001 financial statements are presented solely for the convenience of the reader and were translated at the rate of NT\$34.95 to US\$1.00, using the exchange rate published by Bank of Taiwan at December 31, 2001. Such translation amounts are unaudited and should not be construed that the NT dollar amounts represent, or have been, or could be, converted into US dollars at that or any other rate.

Foreign Currency Option Contracts

Premiums on option contracts are recorded at cost. Premiums from option contracts entered into for hedging purposes are recorded as assets or liabilities and amortized over the contract period on a straight-line basis. Option contracts are stated at market value at balance sheet date. The resultant gains and losses from option contracts entered into for hedging the risk of assets or liabilities are recorded in current year's net income. Gain or loss on speculative option contracts is recognized in current operations.

Short-term Investments

Short-term investments are recorded at cost when acquired and are stated at the lower of aggregate cost or market value at the balance sheet date. The market value of listed stocks is determined by the average closing price during the last month of the accounting period. The market value of open-end mutual funds is based on the net asset value at the balance sheet date. The excess of aggregate cost over market value is reported as a loss in the current year. In subsequent periods, recoveries of market values are recognized as gains to the extent that the market value does not exceed the original cost of the investment.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based on the evaluation of collectibility and aging analysis of notes and accounts receivable and other receivables.

Inventories

Inventories are recorded at cost when acquired and are stated at the lower of aggregate cost, based on the weighted average method, or market value at the balance sheet date. The market values of raw materials and supplies are determined on the basis of replacement cost. The market values of finished goods and work in process are determined on the basis of net realizable value. The allowance for loss on obsolescence and decline in market value is provided, when necessary.

Long-term Investments in Stock

- A. Long-term equity investments in which the Company owns less than 20% of the voting rights of the investee company are accounted for at cost. Long-term equity investments in which the Company owns at least 20% of the voting rights of the investee company are accounted for under the equity method, unless the Company cannot exercise significant influence over the investee company, in which case, the investment is accounted for under cost method. The excess of the acquisition cost over the investee's net book value is capitalized and amortized over 5 years.
- B. The Company delays recognition of investment income (loss) on long-term equity investments in which the Company owns less than 50% of the voting rights of the investee company if the financial statements of the investee for the same period are not available in time. The Company consistently recognizes the investment income (loss) in the subsequent year based on prior year's weighted average share holdings in the investee. However, if the investee meets certain criteria set by the ROC Securities and Futures Commission (SFC), delay in recognition of income (loss) is not permitted.
- C. The Company's proportionate share of the foreign investee's cumulative translation adjustment related to the translation of the foreign investee's financial statements into New Taiwan dollars is recognized by the Company and is included in shareholders' equity as "Cumulative Translation Adjustment."
- D. Unrealized intercompany gains and losses are eliminated under the equity method. Profit from sales of depreciable assets between the investee and the Company is amortized to income over the assets' economic service lives. Profit from other types of intercompany transactions is recognized when realized.
- E. The Company also prepares consolidated financial statement as of and for the year ended December 31, 2001.

Cash Surrender Value of Life Insurance

Employee life insurance is provided with the Company as the prime beneficiary. Upon each payment, the cash surrender value of life insurance is recognized and a credit to insurance expense is recorded.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Interest incurred relating to the acquisition and construction of property, plant and equipment is capitalized and depreciated accordingly.

Depreciation is based on the straight-line method over the assets' estimated economic service lives, plus one additional year representing salvage value. Salvage values of fixed assets which are still in use after their estimated economic service lives are depreciated over their new estimated remaining service lives. The service lives of fixed assets are 2 to 20 years, except for machinery and equipment, which are 2 to 15 years, mold equipment, which are 2 to 5 year, and buildings which are 50 years.

Maintenance and repairs are charged to expense as incurred. Significant renewals and improvements are treated as capital expenditures and are depreciated accordingly. When a fixed asset is disposed of, its original cost and accumulated depreciation is written-off. Gain or loss on disposal of fixed assets is recorded as non-operating income or loss.

Retirement Plan

The Company has a funded, defined benefit pension plan covering all regular employees. The net pension cost, which is computed based on an actuarial valuation, includes service cost, interest cost, expected return on plan assets and amortization of net asset/obligation at transition. The unrecognized net asset or obligation at transition is amortized on a straight-line basis over 15 years. The pension fund is managed by an independently administered pension fund committee.

Product Warranty

The provision for product warranty is provided based on the evaluation of the possibility of realization and is recorded as current period's expense. The related obligation is recorded as current liability.

Income Tax

- A. In accordance with ROC FAS No 22, "Accounting for Income Taxes", the income tax effect resulting from temporary differences and investment credits is recorded as income tax assets or liabilities using the asset and liability method. Deferred tax assets or liabilities are further classified into current or non-current items and are presented on the financial statements as net balance. Valuation allowance on deferred tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized.
- B. The Company adopted ROC FAS No. 12, "Accounting for Investment Tax Credits" in determining the investment tax credit. The investment tax credits relating to the acquisition cost of qualifying machinery and technology, qualifying research and development, qualifying personnel training and qualifying investments in significant technology companies are recognized as income tax adjustments in the period the tax credits arise.
- C. Over or under provisions of prior years' income tax liabilities are included in the current period's income tax expense.
- D. The Taiwan imputation tax system requires that any undistributed earnings be subject to an additional 10% corporate income tax which is recognized as expense at the time the stockholders resolve that the company's earnings are retained.

Revenue Recognition

- A. Revenue is recognized when shipment is made and when payment is realized or realizable and the related cost is recognized when incurred.
- B. According to Explanation Rule No. 87-076 of the Accounting Research and Development Foundation of ROC, sale of raw materials to foreign subsidiary and repurchase of the related finished goods are accounted for as sub-contracting instead of sales.
- C. According to the rule set by the ROC Securities and Futures Commission, revenue is recognized only when the inventories shipped to foreign subsidiary has been sold to third parties.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those assumptions and estimates.

Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated by taking into consideration additional common shares that would have been outstanding if the dilutive share equivalents had been issued.

3. CHANGES IN ACCOUNTING PRINCIPLES

None.

4. DETAILS OF MAJOR ACCOUNTS

1) Cash and Cash Equivalents

	As of December 31,		
	1999	2000	2001
Cash on hand	\$ 503	\$ 343	\$ 321
Checking accounts	—	—	784
Savings accounts	268	24,455	6,447
Deposit in foreign accounts	30,570	14,848	15,012
Time deposits	62,820	419,400	221,720
	<u>\$ 94,161</u>	<u>\$ 459,046</u>	<u>\$ 244,284</u>

As of December 31, 1999, 2000 and 2001, the interest rates for time deposits ranged from 4.7% to 6.65%, from 5.75% to 6.6% and from 1.7% to 5.35%, respectively.

2) Short-term Investments

	As of December 31,		
	1999	2000	2001
Stock	\$ 11,631	\$ 11,631	\$ 11,631
Open-end funds	43,724	13,725	13,725
	55,355	25,356	25,356
Less: Provision for loss on decline in market value	(6,417)	(14,559)	(11,593)
	<u>\$ 48,938</u>	<u>\$ 10,797</u>	<u>\$ 13,763</u>

3) Accounts Receivable

	As of December 31,		
	1999	2000	2001
Accounts receivable	\$ 304,599	\$ 246,918	\$ 406,631
Less: Allowance for doubtful accounts	(7,052)	(1,768)	(2,163)
	<u>\$ 297,547</u>	<u>\$ 245,150</u>	<u>\$ 404,468</u>

4) Inventories

	As of December 31,		
	1999	2000	2001
Finished goods	\$ 51,312	\$ 62,321	\$ 86,764
Finished goods — available for sale held by foreign subsidiary	35,491	64,960	124,200
Work in process	31,441	25,139	12,071
Raw materials	158,746	191,956	228,553
Raw materials — sub-contract by foreign subsidiary . . .	14,112	12,225	13,400
Supplies	5,280	4,784	3,724
Merchandise	5,639	8,036	905
Inventory in transit	30,951	4,132	13,931
	332,972	373,553	483,548
Less: Allowance for loss on obsolescence and decline in market value	(12,160)	(10,192)	(14,838)
	<u>\$ 320,812</u>	<u>\$ 363,361</u>	<u>\$ 468,710</u>

5) **Long-term Investments**

A. Details of long-term investments in stocks are summarized as follows:

Investee company	As of December 31,					
	1999		2000		2001	
	Amount	Percentage of ownership	Amount	Percentage of ownership	Amount	Percentage of ownership
Equity method:						
Stonewall Ventures Inc.	\$ 66,839	100.00%	\$ 67,674	100.00%	\$ 130,042	100.00%
Regitar U.S.A. Inc.	46,996	100.00%	48,085	100.00%	50,433	100.00%
Mobiletron U.K. Ltd.	—	—	6,773	100.00%	3,094	100.00%
	<u>113,835</u>		<u>122,532</u>		<u>183,569</u>	
Cost method:						
Asia Pacific Microsystem Co., Ltd.	—	—	—	—	100,000	6.97%
First Taiwan Venture Capital Corp.	30,000	9.37%	30,000	9.37%	30,000	9.37%
Allied Financial Service Co., Ltd.	2,000	11.76%	2,000	11.76%	2,000	11.76%
Asia Pacific Investment Co., Ltd.	5,000	0.12%	5,000	0.12%	5,000	0.12%
	<u>37,000</u>		<u>37,000</u>		<u>137,000</u>	
	<u>\$ 150,835</u>		<u>\$ 159,532</u>		<u>\$ 320,569</u>	

B. Details of long-term investment gain (loss), accounted for under the equity method are summarized as follows:

	1999	2000	2001
Stonewall ventures Inc.	\$ 3,779	\$ (2,122)	\$ (552)
Regitar U.S.A. Inc.	(341)	(1,868)	608
Mobiletron U.K. Ltd.	—	(7,474)	(4,223)
	<u>\$ 3,438</u>	<u>\$ (11,464)</u>	<u>\$ (4,167)</u>

C. Except for Regitar U.S.A Inc., the above investee companies accounted for under equity method were not included in the consolidated statements, because the total assets and operating revenue of any individual investee company are less than 10% of respective non-consolidated amount of the Company and the total assets or operating revenue of all the investee companies are less than 30% of the total non-consolidated assets or operating revenue of the Company.

D. To extend the life period of low-value products, the Company established a holding company — Stonewall Ventures Inc. and through it re-invested in Mobiletron Electronics (Nsingbo) Co., Ltd. In addition, to provide warranty service to clients in the US and to expand the European markets, the Company invested in Regitar U.S.A. Inc., and Mobiletron U.K. Ltd. in 1999 and 2000, respectively.

6) **Property, Plant and Equipment**

As of December 31, 1999			
	Cost	Accumulated depreciation	Book value
Land	\$ 55,888	\$ —	\$ 55,888
Buildings	63,062	(8,302)	54,760
Machinery and equipment	126,156	(41,326)	84,830
Mold equipment	103,976	(61,985)	41,991
Transportation equipment	12,408	(6,859)	5,549
Other equipment	26,107	(13,274)	12,833
Prepayments for equipment	39,824	—	39,824
	<u>\$ 427,421</u>	<u>\$ (131,746)</u>	<u>\$ 295,675</u>

As of December 31, 2000			
	Cost	Accumulated depreciation	Book value
Land	\$ 55,888	\$ —	\$ 55,888
Buildings	109,497	(14,169)	95,328
Machinery and equipment	204,941	(55,027)	149,914
Mold equipment	128,609	(77,299)	51,310
Transportation equipment	13,638	(6,651)	6,987
Other equipment	29,203	(14,494)	14,709
Prepayments for equipment	58,725	—	58,725
	<u>\$ 600,501</u>	<u>\$ (167,640)</u>	<u>\$ 432,861</u>

As of December 31, 2001			
	Cost	Accumulated depreciation	Book value
Land	\$ 283,717	\$ —	\$ 283,717
Buildings	122,369	(18,291)	104,078
Machinery and equipment	255,329	(76,562)	178,767
Mold equipment	155,281	(96,416)	58,865
Transportation equipment	14,044	(7,861)	6,183
Other equipment	42,709	(17,261)	25,448
Prepayments for equipment	13,218	—	13,218
	<u>\$ 886,667</u>	<u>\$ (216,391)</u>	<u>\$ 670,276</u>

In 1999, 2000 and 2001, total interest expense amounted to \$6,442, \$8,766 and \$33,678, respectively, of which \$475, \$1,300 and \$1,100, respectively, was capitalized to property, plant and equipment. The interest rate used to calculate the capitalized interest was 6.85%.

7) **Short-term Loans**

	As of December 31,		
	1999	2000	2001
Secured loans	\$ 100,000	\$ 123,000	\$ 236,000
Unsecured loans	—	—	50,000
Letter of credit loans	54,284	7,783	16,645
	<u>\$ 154,284</u>	<u>\$ 130,783</u>	<u>\$ 302,645</u>

Interest rates on short-term loans ranged from 5.10% to 7.25%, from 5% to 8.15% and from 1.50% to 5.05% as of December 31, 1999, 2000 and 2001, respectively.

8) **Commercial Paper**

	As of December 31,		
	1999	2000	2001
Face value	\$ —	\$ 140,000	\$ 290,000
Less: Discount on commercial paper	—	(110)	(414)
	<u>\$ —</u>	<u>\$ 139,890</u>	<u>\$ 289,586</u>

The commercial paper is guaranteed by certain financial institutions. The interest rates on commercial paper ranged from 4.245% to 5.04% and from 1.87% to 2.17% as of December 31, 2000 and 2001, respectively.

9) **Long-term Loans**

		As of December 31,		
		1999	2000	2001
China Development Industrial Bank	Repayable by installments from September 27, 2000 to September 27, 2005	\$ 1,000	\$ 2,000	\$ 18,528
China Development Industrial Bank	Repayable on June 29, 2002	—	100,000	100,000
Taiwan Business Bank-Feng Yuan Branch	Repayable on April 3, 2000	1,360	—	—
		<u>2,360</u>	<u>102,000</u>	<u>118,528</u>
Less: Current portion		<u>(1,360)</u>	<u>—</u>	<u>(104,944)</u>
		<u>\$ 1,000</u>	<u>\$ 102,000</u>	<u>\$ 13,584</u>

The interest rates on long-term loans was 6.77% and ranged from 6.85% to 7.2% and from 6.475% to 6.85% as of December 31, 1999, 2000 and 2001, respectively.

10) **Pension Plan and Net Pension Cost**

- A. Substantially all of the regular employees of the Company are covered by the Company's pension plan. Under the funding policy of the plan, the Company contributes monthly an amount equal to 4% of the employees' monthly salaries and wages to the pension fund deposited with the Central Trust of China, the custodian. Pension benefits are generally based on service years (two units earned per year for the first 15 years of service, with one unit for each additional year of service with a maximum of 45 units). One unit represents the six month average wages or salaries before retirement of the employee. Retirement benefits are paid from the pension fund.

- B. The following tables set forth the actuarial assumptions, funded status and amounts recognized for the Company defined benefit pension plan:

	1999	2000	2001
Assumptions used in actuarial calculations as of December 31:			
Discount rate	6.00%	5.75%	4.25%
Long-term rate of compensation increase.	3.25%	3.25%	3.00%
Expected return on plan assets	6.00%	5.75%	4.00%
	1999	2000	2001
Funded status at December 31:			
Vested benefit obligation	\$ (9,240)	\$ (10,321)	\$ (13,340)
Non-vested benefit obligation	(18,655)	(24,477)	(31,257)
Accumulated benefit obligation	(27,895)	(34,798)	(44,597)
Additional benefits based on future salaries	(11,620)	(12,724)	(15,733)
Projected benefit obligation.	(39,515)	(47,522)	(60,330)
Fair value of plan assets	21,980	29,551	38,652
Funded status	(17,535)	(17,971)	(21,678)
Unrecognized net transition obligations	11,093	10,240	9,386
Unrecognized net actuarial loss	6,097	8,295	12,739
Minimum liabilities adjustment	(5,570)	(5,811)	(6,392)
Accrued pension liabilities	<u>\$ (5,915)</u>	<u>\$ (5,247)</u>	<u>\$ (5,945)</u>
	1999	2000	2001
Components of net periodic cost for the years ended December 31:			
Service cost	\$ 3,904	\$ 4,562	\$ 5,166
Interest cost	2,190	2,371	2,732
Expected return on plan assets	(890)	(1,319)	(1,699)
Recognition of transition liabilities	853	853	854
Recognition of actuarial loss	306	195	354
Net periodic cost	<u>\$ 6,363</u>	<u>\$ 6,662</u>	<u>\$ 7,407</u>

11) Capital Stock

- A. On June 24, 1999, the stockholders of the Company resolved to capitalize the unappropriated earnings in the amount of \$90,000 by issuing 9,000 thousand new shares. The registration of the capital increase has been approved by the Ministry of Economics Affairs. After the proceeding capital issuance, the Company's issued capital was \$430,000.
- B. On May 24, 2002, the stockholders of the Company resolved to capitalize the unappropriated earnings in the amount of \$172,000 by issuing 17,200 thousand new shares and to increase capital of \$40,000 by issuing 4,000 thousand new shares in the amount of NT\$60 (in dollars) per share. The registration of the capital increase has been approved by the Ministry of Economics Affairs. After the proceeding capital issuance, the Company's authorized capital and the issued capital were \$1,000,000 and \$642,000, respectively.
- C. On June 12, 2002, the stockholders of the Company resolved to capitalize the unappropriated earnings in the amount of \$90,907 by issuing 9,091 thousand new shares with par value of NT\$10 (in dollars) per share. The issuance of new shares has been approved by the ROC SFC on July, 23, 2002. The Board of Directors of the Company resolved the record date of the issuance to be on August 29, 2002. As a result of the issuance, the authorized capital of the Company was \$1,350,000 (inclusive of 5,000 thousand shares for employee stock option), and issued and outstanding capital was \$848,467.

12) **Capital Reserve**

- A. According to the ROC Company Law, the capital reserve arising from paid-in capital in excess of par on the issuance of stocks or from donation shall be exclusively used to cover accumulated deficit or be transferred to capital. Other capital reserve shall be exclusively used to cover accumulated deficits. The capital reserve can only be used to cover accumulated deficits when the legal reserve is insufficient to cover the deficits.
- B. According to the ROC Company Law, the capital reserve arising from paid-in capital in excess of par on the issuance of stocks can only be transferred to capital once every year. This capital reserve transfer to capital can not be made in the year when the Company issues the new shares and the amount to be capitalized is limited to 10% of issued capital.

13) **Retained Earnings**

- A. The Company's Articles of Incorporation requires that 10% of the current year's earnings, after paying taxes and offsetting prior year's operating losses, if any, shall be allocated as legal reserve. The remaining amount shall be allocated as bonus to employees, and remuneration to directors and supervisors based on the ratio of 2% and 2%, respectively. The remaining amount shall be distributed to stockholders in accordance with the resolution adopted by the Board of Directors and approved at the stockholders' meeting.
- B. The Company is currently undergoing rapid growth and is expected to experience capital needs for expansion. To meet the future capital requirement, the Company adopts a dividend policy under which the distribution of dividend is subject to a limitation of 30% of unappropriated earnings and cash dividend should not be less than 10% of dividend distributed.
- C. The appropriation for legal reserve can only be used to offset a deficit or increase capital. The legal reserve can be used to increase capital only when the reserve balance exceeds 50% of the capital stock, and the amount capitalized should be limited to 50% of the excess portion of the reserve.
- D. The new Taiwan imputation tax system requires that any undistributed current earnings derived on or after January 1, 1998 be subject to an additional 10% of corporate income tax if the earnings are not distributed in the following year.
- E. As of December 31, 2001, the unappropriated earnings are as follows:

Unappropriated earnings before 1998.	\$ 3,065
Unappropriated earnings in and after 1998	
Imposed of 10% income tax	96,472
Un-imposed of 10% income tax	304,758
Total	<u>\$404,295</u>

- F. As of December 31, 2001, the balance of stockholders' imputation tax credit account was \$76,150, an amount equal to 18.98% of unappropriated earnings in and after 1998. However, the actual stockholders' imputation ratio is subject to change since the actual stockholders' tax credit ratio is based on the ratio on the dividend declaration day. The stockholder tax credit ratio for dividend declared in 2001 was 29.64%.

14) **Income Tax**

	1999	2000	2001
Income tax expense per book calculated at the statutory tax rate (25%)	\$ 78,906	\$ 85,436	\$ 97,734
Tax exempt income and other permanent differences . . .	(950)	2,051	(1,690)
Investment tax credit	(16,264)	(17,554)	(18,925)
Prior year's under provision	1,883	90	2,741
Additional 10% tax on undistributed earnings	2,594	4,377	6,243
Income tax expense	66,169	74,400	86,103
Tax effect of temporary differences.	129	5,539	(7,703)
Adjustment of prior year's under provision	(1,833)	(90)	(2,741)
Adjustment of prior year's income tax payable.	3,274	—	—
Prepaid income taxes	(19,653)	(39,686)	(45,761)
Income tax payable	<u>\$ 48,036</u>	<u>\$ 40,163</u>	<u>\$ 29,898</u>

A. As of December 31, 2001, the Company's income tax returns for the years through 1999 have been approved by the Tax Authority.

B. As of December 31, 1999, 2000 and 2001, deferred tax assets and liabilities are as follows:

	December 31,		
	1999	2000	2001
Deferred tax assets (liabilities) — current.	<u>\$ 5,946</u>	<u>\$ 8,649</u>	<u>\$ (95)</u>
Deferred tax assets — non-current	<u>\$ 30</u>	<u>\$ 2,007</u>	<u>\$ 3,048</u>
Deferred tax liabilities — non-current	<u>(859)</u>	<u>—</u>	<u>—</u>
	<u>\$ (829)</u>	<u>\$ 2,007</u>	<u>\$ 3,048</u>

C. The details of deferred tax assets and liabilities as of December 31, 1999, 2000 and 2001 are as follows:

	December 31, 1999		December 31, 2000		December 31, 2001	
	Amount	Tax Effect	Amount	Tax Effect	Amount	Tax Effect
Current:						
Temporary differences						
Allowance for bad debts.	\$ 3,988	\$ 997	\$ 4,891	\$ 1,222	\$ —	\$ —
Provision for loss on obsolescence of inventories	12,160	3,040	10,192	2,548	14,838	3,710
Unrealized (gain) loss on foreign currency exchange	(684)	(171)	7,570	1,893	(39,817)	(9,955)
Unrealized inter company profits	7,804	1,951	11,942	2,986	24,600	6,150
Others.	517	129	—	—	—	—
		<u>\$ 5,946</u>		<u>\$ 8,649</u>		<u>\$ (95)</u>
Noncurrent:						
Temporary differences						
Employee welfare	\$ 120	\$ 30	\$ —	\$ —	\$ —	\$ —
Unrealized (gain) loss on long-term investments	(3,438)	(859)	8,026	2,007	12,193	3,048
	<u>\$ (3,438)</u>	<u>\$ (829)</u>	<u>\$ 8,026</u>	<u>\$ 2,007</u>	<u>\$ 12,193</u>	<u>\$ 3,048</u>

15) **Earnings Per Share (share numbers in thousands)**

	For the years ended December 31,		
	1999	2000	2001
Net income	\$ 249,498	\$ 267,385	\$ 304,758
Weighted average outstanding common stock	43,000	62,033	75,756
Retroactively adjusted outstanding common stock	71,036	73,199	
Earnings per share (in dollars).	\$ 5.80	\$ 4.31	\$ 4.02
Earnings per share (retroactively adjusted) (in dollars) . .	\$ 3.51	\$ 3.65	

Stock dividends declared in 2001 have been considered in the calculation of retroactively adjusted 1999 and 2000 outstanding shares of common stocks.

5. RELATED PARTY TRANSACTIONS

1) **Name and Relationship with Related Parties**

Name of Related Parties	Relationship with the Company
Regitar U.S.A. Inc. (REGITAR)	Investee company accounted for under the equity method
Mobiletron U.K., Ltd. (MOBILETRON)	Investee company accounted for under the equity method
Raccoon Industries, Ltd. (RACCOON)	Company significantly influenced by the Company
Devo International, Ltd. (DEVO)	Company significantly influenced by the Company
Mobiletron Electronics (Ningbo) Co., Ltd. (Mobiletron Ningbo)	Indirect subsidiary of the Company
Sin Gao Plastics Co., Ltd. (Sin Gao)	Same Chairman of the Board
TecSun Trading Limited (TecSun)	The general manager of the Company is the Chairman of the entity
Kim Yu Ching Tsai	General manager of the Company
Cheng Ku Wei	Director of the Company
Yu Cheng Tsai	Director of the Company
Chu Lan Tsai	Director of the Company
Yu Tueng Tsai	Relative of the Chairman of the Board
Chau Lee	Relative of the Chairman of the Board

2) **Significant Transactions with Related Parties**

A. *Sales*

	For the years ended December 31,					
	1999		2000		2001	
	Amount	Percentage of net sales	Amount	Percentage of net sales	Amount	Percentage of net sales
REGITAR	\$ 35,317	2	\$ 88,561	5	\$ 147,220	8
MOBILETRON .	—	—	23,365	1	49,550	3
TecSun	2,761	—	—	—	—	—
	<u>\$ 38,078</u>	<u>2</u>	<u>\$ 111,926</u>	<u>6</u>	<u>\$ 196,770</u>	<u>11</u>

- The Company sells its products to America mainly through RIGITAR. The collection term is within 180 days upon sales. As of December 31, 1999, 2000 and 2001, the cash advance received for sales were \$8,147, \$19,469 and \$0, respectively.
- The Company sells its products to UK mainly through MOBILETRON. The collection term is determined by evaluation of MOBILETRON's cash flow situation.

3. The sales price to TecSun is comparable to non-related parties, except for material, which is based on 105% of cost of goods sold. The collection term for TecSun is determined by evaluation of TecSun's cash flow situation.
4. The collection terms for other foreign customers are from 30 to 90 days after sales.

B. *Sub-contracts*

1999				
Raw Material				
	Beginning work in process	Addition	Ending work in process	Labor cost paid
Mobiletron Ningbo	\$ <u>—</u>	\$ <u>32,910</u>	\$ <u>14,112</u>	\$ <u>47,608</u>
2000				
Raw Material				
	Beginning work in process	Addition	Ending work in process	Labor cost paid
Mobiletron Ningbo	\$ <u>14,112</u>	\$ <u>24,440</u>	\$ <u>12,225</u>	\$ <u>61,189</u>
2001				
Raw Material				
	Beginning work in process	Addition	Ending work in process	Labor cost paid
Mobiletron Ningbo	\$ <u>12,225</u>	\$ <u>35,043</u>	\$ <u>13,400</u>	\$ <u>71,960</u>

The production of the above mentioned products is manufactured by sub-contracting agreement with Mobiletron Ningbo through RACCON, in which raw material is provided by the Company. The Company then sells the finished goods through DEVO and SPARCO. Mobiletron Ningbo charges the Company 14% of cost of production as sub-contract fee. The payment term is within 90 days after month-end posting of transactions. RACCON, DEVO and SPARCO do not charge the Company for any service provided.

C. *Good on Consignment*

December 31,			
	1999	2000	2001
REGITAR	\$ 35,491	\$ 57,560	\$ 96,200
MOBILETRON	<u>—</u>	<u>7,400</u>	<u>28,000</u>
	\$ <u>35,491</u>	\$ <u>64,960</u>	\$ <u>124,200</u>

Products are shipped to REGIAR and MOBILETRON for resale and are included in the Company's inventory account.

D. *Accounts Receivable*

	December 31, 1999		December 31, 2000		December 31, 2001	
	Amount	Percentage of accounts receivable	Amount	Percentage of accounts receivable	Amount	Percentage of accounts receivable
REGITAR	\$ —	—	\$ —	—	\$ 10,859	2
MOBILETRON . .	—	—	16,636	7	37,353	8
Others	161	—	—	—	—	—
	<u>\$ 161</u>	<u>—</u>	<u>\$ 18,636</u>	<u>7</u>	<u>\$ 48,212</u>	<u>10</u>

E. *Accounts Payable*

	December 31, 1999		December 31, 2000		December 31, 2001	
	Amount	Percentage of accounts payable	Amount	Percentage of accounts payable	Amount	Percentage of accounts payable
Mobiletron						
Ningbo	\$ 11,313	11	\$ 122	—	\$ 11,938	12
REGITAR	—	—	302	1	—	—
	<u>\$ 11,313</u>	<u>11</u>	<u>\$ 424</u>	<u>1</u>	<u>\$ 11,938</u>	<u>12</u>

F. *Property Transactions*

- a. The Company purchased the following long-term investments from the related parties in January and March 1999:

Name of securities	Name of the counter party	Amount
Mobiletron Ningbo stock	Kim Yu Ching Tsai	\$ 7,751
	Yu Cheng Tsai	6,459
	Chu Lan Tsai	6,459
	Cheng Ku Wei	5,168
		<u>\$ 25,837</u>
RIGITAR stock	Yu Cheng Tsai	\$ 1,634
	Chau Lee	1,634
		<u>\$ 3,268</u>

- b. The purchase price of Mobiletron Ningbo's stock is based on the original purchase price by the related counter parties plus the accrual interest. The purchase price of RIGITAR's stock is based on the original purchase price by the related counter parties.
- c. In March 1999, the Company entered into an agreement with Yu Cheng Tsai to purchase the land located in Taichung County for expansion. The contract price of \$9,592 is comparable to the price level in the surrounding area.
- d. In November 2000, the Company entered into a contract to purchase the land and plant which were leased from Sin Gao. The purchase price of \$240,000 is negotiated based on the appraisal reports. The title has been transferred to the Company in August 2001.

G. *Rent Expense*

	For the years ended December 31,		
	1999	2000	2001
Sin Gao	\$ 5,400	\$ 5,400	\$ 3,150

The Company leased the lands and building located in Taichung County for manufacturing plant and office. The rent was comparable to the rent level in the surrounding area. Payment is made on a monthly basis in the amount of \$450. The Company signed a contract to purchase the plant and office in November 2000. The title has been transferred to the Company in August 2001.

6. ASSETS PLEDGED AS COLLATERALS

As of December 31, 1999, 2000 and 2001 the following assets have been pledged as collateral against certain obligations of the Company:

Assets	Book Value			Subject of collateral
	1999	2000	2001	
Land	\$ 55,888	\$ 55,888	\$ 283,717	Short-term and long-term loans
Buildings	53,811	95,263	104,078	Short-term and long-term loans
Machinery and equipment . . .	—	40,612	33,553	Long-term loans
Time deposits (shown in other assets — other)	2,977	2,977	2,977	Guarantees for foreign labors
Time deposits (shown in restricted assets)	—	135,423	259,330	Guarantees for commercial paper
	<u>\$ 112,676</u>	<u>\$ 330,163</u>	<u>\$ 683,655</u>	

7. COMMITMENTS AND CONTINGENCIES

A. As of December 31, 2001, the Company's unused letters of credit for imported raw materials were USD 245,000.

B. As of December 31, 2001, the Company has entered into agreements with third parties to purchase machinery and equipment in the amount of \$19,017, the Company has outstanding obligation of approximately \$12,866 related to these contracts.

8. CATASTROPHE LOSS

None.

9. SUBSEQUENT EVENT

A. The Company applied to issue five-year unsecured convertible bonds amounted to \$500,000 with an interest rate of 0%. The application has been approved by the Securities and Future Commission on October 17, 2001 and the issuance has been completed in January 2002.

B. The Company invested USD 4,000,000 by installment to acquire 32.61% of Media View Technologies Corporation's voting shares. Through the investment, the Company formally engaged in the manufacture of DMS Car Multimedia Scope System and Information Management System. As of February 8, 2002, the total amount of the investment has been remitted.

10. OTHER

A. Disclosure On Financial Instruments

As of December 31, 1999		
	Book Value	Fair Value
<u>Non-derivative financial instruments</u>		
Financial Assets		
Financial assets with book value equal to fair value	\$ 407,577	\$ 407,577
Short-term investments	48,938	48,899
Long-term investments	150,835	150,835
Cash surrender value of life insurance	—	—
	<u>\$ 607,350</u>	<u>\$ 607,311</u>

As of December 31, 1999		
	Book Value	Fair Value
Financial Liabilities		
Financial liabilities with book value equal to fair value	\$ 508,661	\$ 508,661
Long-term loans	—	—
Accrued pension liabilities	5,915	17,535
	<u>\$ 514,576</u>	<u>\$ 526,196</u>

As of December 31, 2000		
	Book Value	Fair Value
<u>Non-derivative financial instruments</u>		
Financial Assets		
Financial assets with book value equal to fair value	\$ 874,551	\$ 874,551
Short-term investments	10,797	10,884
Long-term investments	159,532	149,367
Cash surrender value of life insurance	6,190	6,190
	<u>\$1,051,070</u>	<u>\$1,040,992</u>

As of December 31, 2000		
	Book Value	Fair Value
Financial Liabilities		
Financial liabilities with book value equal to fair value	\$ 533,648	\$ 533,648
Long-term loans	102,000	102,000
Accrued pension liabilities	5,247	17,971
	<u>\$ 640,895</u>	<u>\$ 653,619</u>

	As of December 31, 2001	
	Book Value	Fair Value
Non-derivative financial instruments		
Financial Assets		
Financial assets with book value equal to fair value	\$1,001,431	\$1,001,431
Short-term investments	13,763	13,795
Long-term investments	320,569	315,767
Cash surrender value of life insurance	7,510	7,510
	<u>\$1,343,273</u>	<u>\$1,338,503</u>

	As of December 31, 2001	
	Book Value	Fair Value
Financial Liabilities		
Financial assets with book value equal to fair value	\$1,026,524	\$1,026,524
Long-term loans	13,584	13,584
Accrued pension liabilities	5,945	21,678
	<u>\$1,046,053</u>	<u>\$1,061,786</u>

1. Financial assets and liabilities with book value equal to fair values are cash and cash equivalents, notes receivable, accounts receivable, other current assets, refundable deposits, restricted assets, short-term loans, commercial paper, notes payable, accounts payable, income tax payable, accrued expenses, other payable, current portion of long-term loans, and other current liabilities because of their short maturities.
2. The fair value of short-term investments and long-term investments is generally based on the market value of short-term and long-term investments. If the market value of short-term and long-term investments is unavailable, the net equities of the investee companies or other financial information are used as fair value.
3. The book value of long-term loans is used as fair value because the loans bear floating interest rate.
4. The fair value of accrued pension liabilities equals the funded status as shown in the actuarial report measured at December 31, 1999, 2000 and 2001, respectively.

B. Information on derivative transactions:

Foreign option contracts transactions

1. Purpose of holding derivative products:

Foreign currency option contracts were entered into for trading activities.

2. Par value, contract amount or nominal principal and nature of the options

As of December 31, 1999: None.

As of December 31, 2000:

- (1) The Company's outstanding options contracts are as follows:

Item	(In thousand dollars)					
	Inception dates	Settlement dates	Callable amount	Put amount	Strike rate	Premium
Sell EUR callable option/ USD put option	December 22, 2000	May 28, 2001	EUR 6,122	USD 6,000	0.98	USD392
Sell EUR callable option/ USD put option	October 30, 2000	January 30, 2001	EUR 5,280	USD 6,000	0.88	USD 63
Sell EUR callable option/ USD put option	October 30, 2000	January 30, 2001	EUR 6,000	USD 6,000	1.0	USD 59

If the market rate is higher than strike rate on settlement date, the bank has right not to exercise the contract.

- (2) For the year ended December 31, 2000, the net premium received by the Company is USD 0.

As of December 31, 2001:

- (1) The Company's options contracts are as follows:

Item	(In thousand dollars)					
	Inception dates	Settlement dates	Callable amount	Put amount	Strike rate	Premium
Sell EUR callable option/ USD put option	December 24, 2001	June 26, 2002	EUR 4,000	USD 3,980	0.995	—
Sell EUR callable option/ USD put option	December 24, 2001	March 26, 2002	EUR 2,000	USD 1,990	0.995	—
Sell USD callable option/ EUR put option	December 24, 2001	June 26, 2002	USD 3,640	EUR 4,000	0.910	USD 462
Sell USD callable option/ EUR put option	December 24, 2001	March 26, 2002	USD 1,800	EUR 2,000	0.900	USD 192

If the market rate is higher than strike rate on settlement date, the bank has right not to exercise the contract.

- (2) For the year ended December 31, 2001, the net premium received by the Company is USD 10,000.

3. Terms of derivative products:

- (1) Credit risk:

As the counter party is bank of good credit standing, the credit risk is minimal.

- (2) Market risks:

Market risk is based on the future fluctuation in currency exchange rates.

- (3) Amount and timing of future cash flows:

As of December 31, 1999: None.

Based on the exchange rate of December 31, 2000, the Company estimated that the net future cash outflow will be \$23,049 on January 30 and May 28, 2001.

Based on the exchange rate of December 31, 2001, the Company estimated to have a net cash flow of \$0 on March 26, May 30 and June 26, 2002.

- (4) The accounting policy:

Please refer to Note 2.

4. Fair value and book value:

As of December 31, 1999: None.

As of December 31, 2000:

- (1) Fair value: The balance of option contract payables is \$23,094.

- (2) Book value: The balance of option contract payables is \$23,094.

As of December 31, 2001:

- (1) Fair value: The balance of option contract payables is \$0.

- (2) Book value: The balance of option contract payables is \$0.

5. Additional disclosures:

For the years ended December 31, 1999, 2000 and 2001, the realized exchange loss from option contracts was \$0, \$1,529 and \$346, respectively, and the unrealized exchange loss from option contracts was \$0, \$23,049 and \$0, respectively, which is presented in the income statements as a non-operating income or expenses.

11. SPECIAL DISCLOSURE ITEMS

A. Significant Transaction Information

- (1) Loans to third parties attributed to financial activities:

For the year ended December 31, 2001: None.

- (2) The Company provided the following endorsement and guarantee to third parties:

For the year ended December 31, 2001: None.

(3) The ending balance of securities is summarized as follows:

As of December 31, 2001:

Investor	Type of securities	Name of securities	The relationship of the issuers with the Company	General ledger accounts	December 31, 2001		
					Number of shares	Book value	Percentage of ownership Market value
Mobiletron Electronics Co., Ltd.	Stock	Stonewall Ventures Inc.	Investee accounted for under equity method	Long-term investments	3,700,000	\$130,042	100% \$126,297
Mobiletron Electronics Co., Ltd.	Stock	Regitar U.S.A. Inc.	Investee accounted for under equity method	Long-term investments	100,000	50,433	100% 48,386
Mobiletron Electronics Co., Ltd.	Stock	Asia Pacific Microsystem Co., Ltd.	Investee accounted for under cost method	Long-term investments	10,000,000	100,000	6.97% 100,000
Mobiletron Electronics Co., Ltd.	Stock	First Taiwan Venture Capital Corp.	Investee accounted for under cost method	Long-term investments	3,000,000	30,000	9.37% 29,580
Mobiletron Electronics Co., Ltd.	Stock	Others (Note 1)	—	Long-term investments	—	10,094	— 11,504
						<u>\$320,569</u>	<u>\$315,767</u>
Mobiletron Electronics Co., Ltd.	Fund	Polaris Performance Fund	—	Short-term investments	234,412	\$ 5,010	— \$ 3,389
Mobiletron Electronics Co., Ltd.	Fund	Kwang Hua Fund	—	Short-term investments	430,000	7,035	— 5,745
Mobiletron Electronics Co., Ltd.	Fund	Others (Note 1)	—	Short-term investments	—	13,311	— 4,731
						<u>\$ 25,356</u>	<u>\$ 13,865</u>

(1) Combined for each specific security less than \$5,000 or less than 5% of the account.

- (4) Securities for which total buying or selling amount exceeded the lower of NT\$100,000 or 20 percent of the capital stock:

For the year ended December 31, 2001:

Investor	Name of the security	Accounts	Name of the counter party	The relationship of the issuers with the Company	Beginning balance		Addition		Disposal			Ending balance	
					Number of shares	Amount	Number of shares	Amount	Number of shares	Sale price	Book value	Number of shares	Amount
Mobiletron Electronics Co., Ltd.	Polaris Profit Fund	Short-term investments	Polaris International Securities Investment Trust Co., Ltd.	None	—	\$ —	9,586,377	\$130,000	9,586,377	\$131,330	\$130,000	—	—
Mobiletron Electronics Co., Ltd.	Asia Pacific Microsystem Co., Ltd.	Long-term investments	Asia Pacific Microsystem Co., Ltd.	None	—	—	10,000,000	100,000	—	—	—	10,000,000	100,000

- (5) Acquisition of real estate with an amount exceeded the lower of NT\$100,000 or 20 percent of the capital stock:

For the year ended December 31, 2001: None.

- (6) Disposal of real estate with an amount exceeding the lower of NT\$100,000 or 20 percent of the capital stock:

For the year ended December 31, 2001: None.

(7) Related party transactions for purchases and sales amounts exceeded the lower of NT\$100,000 or 20 percent of capital stock:

For the year ended December 31, 2001:

Purchase/sales company	Name of the counter parties	Relationship with the counter parties	Description of the transaction			Description of and reasons for difference in transaction terms compared to non-related party transactions			Notes or accounts receivable/payable	
			Purchases/Sales	Amount	Percentage of net purchases/sales	Credit terms	Unit price	Credit terms	Amount	Percentage of notes or accounts receivable/payable
Mobileron Electronics Co., Ltd.	Regitar U.S.A. Inc.	Investee accounted for under equity method	Sales	147,220	8%	180 days	Note 1	30 days to 90 days	\$10,859	2%
										None

Note 1: Therefore, the Company sells its products to America mainly through Regitar U.S.A. Inc. Therefore, the selling price is non-comparable to those to non-related parties.

(8) Receivables from related parties exceeded the lower of NT\$100,000 or 20 percent of capital stock:

As of December 31, 2001: None.

(9) Transaction of Derivative financial instruments:

For the year ended December 31, 2001:

Please refer to Note 10 (2) for the details of the Company's transaction of derivative financial instruments.

B. Related information on investee companies

(1) Basic information on investee companies:

For the year ended December 31, 2001:

Investor	Name of Investee	Location	Main activities	Original investments		The Company/majority owned subsidiary owns			Current period	
				Current period ending balance	Prior period ending balance	Shares	Percentage of ownership	Book value	Net income (loss) of investee	Income (loss) recognized by the Company
Mobiletron Electronics Co., Ltd. Stonewall Venture Inc.	Stonewall Venture Inc.	British Virgin Islands	Sales agent	\$122,122	\$64,482	3,700,000	100%	\$ 130,042	\$ 1,320	\$ (552)
	Mobiletron Electronics (Ningbo) Co., Ltd.	China	Power tools parts, flashlights, distributor, ignition coil, automotive starter and alternator and auto parts of alternator and starter	122,122	64,482	3,600,000	100%	130,042	1,320	(Note 2)
Mobiletron Electronics Co., Ltd.	Regitar U.S.A. Inc.	USA	Auto parts, electric tools and hardware stamping parts wholesale	49,454	49,454	100,000	100%	50,433	1,631	608
	Mobiletron U.K. Ltd.	UK	Automotive control device and manufacturing of auto parts and accessories and business electric tools	14,316	14,316	300,000	100%	3,094	(4,223)	(4,223)

Note 1: Amortization of premium or discount is included.

Note 2: Investment income (loss) recognized by the Company is not included.

(2) Loans to third parties attributed to financial activities:

None.

(3) The Company provided the following endorsement and guarantee to third parties:

None.

(4) The ending balance of securities held by investee companies is summarized as follows:

As of December 31, 2001:

September 30, 2001				
Investor	Type of securities	Name of securities	Relationship of the issuers with the Company	General ledger account
Stonewall Ventures Inc.	Stock	Mobiletron Electronics (Ningbo) Co., Ltd.	Investee accounted for under equity method by subsidiary of the Company	Long-term investments
				3,600,000
				\$130,042
				100%
				\$126,297

(5) Securities for which total buying or selling amount exceeded the lower of NT\$100,000 or 20% of the capital stock:

None.

(6) Acquisition of real estate with an amount exceeded the lower of NT\$100,000 or 20% of the capital stock:

None.

(7) Disposal of real estate with an amount exceeded the lower of NT\$100,000 or 20% of the capital stock:

None.

(8) Related party transactions for purchase and sales amount exceeded the lower of NT\$100,000 or 20% of the capital stock:

Please refer to Note 11 for the details of information.

(9) Receivables from related parties exceeded the lower of NT\$100,000 or 20% of the capital stock:

None.

C. Investment in Mainland China information:

(1) Information of investment in Mainland China:

As of December 31, 2001:

Name of investee in Mainland China	Main activities of investee	Capital	Investment method	Accumulated remittance as of December 31, 2000	Remitted or (collected) this period	Accumulated remittance as of December 31, 2001	Ownership held by the Company (Direct and indirect)	Investment income (loss) recognized by the Company during the period	Ending balance of investment	The investment income (loss) remitted back as of December 31, 2001
Mobiletron Electronics (Ningbo) Co., Ltd.	Power tools parts, distributor, ignition coil, flashlights, auto parts of alternator and starter	USD3,600,000	(Note 1)	\$64,482	\$57,640	\$122,122	100%	\$ (552)	\$130,042	\$ —

Note 1: The investment was made indirectly through the Company's investment in Stonewall Ventures Inc., a 100% owned subsidiary in British Virgin Islands.

Note 2: The investment income (loss) was recognized under the equity method based on the audited financial statements of the investee companies.

Accumulated remittance from Taiwan to Mainland China	The investment balance approved by Investment Commissions, Ministry of Economic Affairs	The ceiling of investment in Mainland China according to Investment Commissions, Ministry of Economic Affairs
USD 3,700,000 (Translated into NT\$122,122)	USD4,000,000	\$581,645

(2) Material transactions occurred directly between the local company and its Mainland China investee companies and material transactions occurred indirectly between the local company and its Mainland China investee companies via enterprises in other areas:

For the year ended December 31, 2001				
	Raw Material			Labor cost paid
	Beginning work in process	Addition	Ending work in process	
Mobiletron Electronics (Ningbo) Co., Ltd.	\$12,225	\$35,043	\$13,400	\$71,960

The production of the above mentioned products is manufactured by the sub-contracting agreement with Mobiletron Ningbo through RACCON, in which raw material is provided by the Company. The Company then sells the finished goods through DEVO and SPARCO. Mobiletron Ningbo charges the Company 14% of cost of production as sub-contract fee. The payment term is within 90 days after month-end posting of transactions. RACCON, DEVO and SPARCO do not charge the Company for any service provided.

12. SEGMENT INFORMATION

A. Operation in Different Industries

	1999				2000				2001			
	Electron	Electric	Adjustment & elimination	Total	Electron	Electric	Adjustment & elimination	Consolidation	Electron	Electric	Adjustment & elimination	Total
Revenues from external customers. \$	405,473	\$ 1,361,280	\$ —	\$ 1,766,753	\$ 447,091	\$ 1,341,271	\$ —	\$ 1,788,362	\$ 463,755	\$ 1,324,365	\$ —	\$ 1,788,120
Inter-segment revenues.	—	—	—	—	—	—	—	—	—	—	—	—
Total revenues	<u>\$ 405,473</u>	<u>\$ 1,361,280</u>	<u>\$ —</u>	<u>\$ 1,766,753</u>	<u>\$ 447,091</u>	<u>\$ 1,341,271</u>	<u>\$ —</u>	<u>\$ 1,788,362</u>	<u>\$ 463,755</u>	<u>\$ 1,324,365</u>	<u>\$ —</u>	<u>\$ 1,788,120</u>
Segment gross profit	<u>\$ 85,888</u>	<u>\$ 232,953</u>	<u>\$ —</u>	<u>\$ 318,841</u>	<u>\$ 78,222</u>	<u>\$ 234,664</u>	<u>\$ —</u>	<u>\$ 312,886</u>	<u>\$ 112,641</u>	<u>\$ 201,304</u>	<u>\$ —</u>	<u>\$ 313,945</u>
General income of the Company. . .				22,987				60,058				152,450
General expense of the Company .				(23,632)				(12,229)				(38,789)
Loss from long-term investments .				3,438				(11,464)				(4,167)
Interest expense				(5,967)				(7,466)				(32,578)
Income before income tax				<u>\$ 315,667</u>				<u>\$ 341,785</u>				<u>\$ 390,861</u>
Segment assets	<u>\$ 351,928</u>	<u>\$ 564,036</u>	<u>\$ —</u>	<u>\$ 915,964</u>	<u>\$ 484,307</u>	<u>\$ 578,965</u>	<u>\$ —</u>	<u>\$ 1,063,272</u>	<u>\$ 759,582</u>	<u>\$ 832,084</u>	<u>\$ —</u>	<u>\$ 1,591,666</u>
Long-term investments				150,835				165,722				328,079
General assets of the Company . .				176,243				648,486				584,748
Total assets.				<u>\$ 1,243,042</u>				<u>\$ 1,877,480</u>				<u>\$ 2,504,493</u>
Depreciation	<u>\$ 13,131</u>	<u>\$ 12,533</u>		<u>\$ 25,664</u>	<u>\$ 17,914</u>	<u>\$ 21,998</u>		<u>\$ 39,912</u>	<u>\$ 23,810</u>	<u>\$ 31,924</u>		<u>\$ 55,734</u>
Capital expenditure.	<u>\$ 111,740</u>	<u>\$ 77,996</u>		<u>\$ 189,736</u>	<u>\$ 111,156</u>	<u>\$ 66,802</u>		<u>\$ 177,958</u>	<u>\$ 227,595</u>	<u>\$ 69,386</u>		<u>\$ 296,981</u>

B. Operation in Different Geographic Areas

The Company has no significant foreign operations. Therefore, ROC FAS NO. 20 "Segmental Information Disclosure" is not applicable.

C. Export Sales

Geographic	For the years ended December 31,		
	1999	2000	2001
America	\$1,250,938	\$1,159,889	\$1,278,319
Europe	401,555	470,529	470,529
Asia	28,488	81,410	81,410
Africa	21,819	23,322	23,322
Other	21,524	14,164	14,164
	<u>\$1,724,324</u>	<u>\$1,749,314</u>	<u>\$1,867,744</u>

D. Major Customers

Customers	For the years ended December 31,					
	1999		2000		2001	
	Amount	Percentage of net sale	Amount	Percentage of net sale	Amount	Percentage of net sale
Customer A	<u>\$ 927,377</u>	<u>53</u>	<u>\$ 862,052</u>	<u>48</u>	<u>\$ 910,019</u>	<u>46</u>

A major customer is identified as the party that accounts for more than 10% of the Company's net sales in any given year.

**MOBILETRON ELECTRONICS CO., LTD.
FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT ACCOUNTANTS
SEPTEMBER 30, 2001 AND 2002**

These English financial statements and review report of independent accountants were translated from the financial statements and review report of independent accountants originally prepared in Chinese.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
of Mobiletron Electronics Co., Ltd.

We have reviewed the non-consolidated balance sheets of Mobiletron Electronics Co., Ltd. as of September 30, 2001 and 2002 and the related non-consolidated statements of income and of cash flows for the nine months 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 third paragraph, our reviews were made in accordance with the "Review of Financial Statements" and the "Rules Governing Review of Quarterly Financial Statements for Listed Companies" in the Republic of China for the financial statements for the nine months ended September 30, 2001 and 2002, respectively. A review consists principally of applying analytical review procedures to financial data, and making inquiries of the Company personnel responsible for financial and accounting matters. It is substantially less in scope than an examination 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 described in Note 4 (5), the financial statements included long-term investments in investee companies amounting to \$162,025 thousand and \$374,582 thousand as of September 30, 2001 and 2002, respectively, and related investment loss of \$3,778 thousand and investment income of \$6,883 thousand, respectively, for the nine months ended September 30, 2001 and 2002, respectively, which were accounted for under the equity method. These amounts and the information disclosed in Note 11 were based on the financial statements of investee companies that were not reviewed by independent accountants.

Based on our reviews, except for the effects on the financial statements of such adjustments, if any, that might have been determined to be necessary had the financial statements and related information of the investee companies been reviewed as explained in the third paragraph, we are not aware of any material modifications that should be made to be in conformity with the "Rules Governing the Preparation of Financial Statements of Securities Issuers" and accounting principles generally accepted in the Republic of China.

The non-consolidated financial statements of Mobiletron Electronics Co., Ltd. as of and for the nine months ended September 30, 2002 expressed in US dollars are presented solely for the convenience of the statements using the exchange rate of NT\$34.92 to US\$1:00 at September 30, 2002. This basis of translation is not in accordance with generally accepted accounting principles in the Republic of China.

PricewaterhouseCoopers

Taipei, Taiwan
Republic of China
October 18, 2001

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the review of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and review report of the independent accountants are not intended for use by those who are not informed about the accounting principle or review standards generally accepted in the Republic of China, and their applications in practice.

MOBILETRON ELECTRONICS CO., LTD.
NON-CONSOLIDATED BALANCE SHEETS
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

	September 30,		
	2001	2002	
	NT\$	NT\$	US\$ (Unaudited) (Note 2)
ASSETS			
Current Assets			
Cash and cash equivalents (Note 4 (1)).	146,626	216,643	6,204
Short-term investments (Note 4 (2))	163,618	266,749	7,639
Notes receivable, net	5,905	3,938	113
Accounts receivable, net (Note 4 (3))	360,500	311,352	8,916
Accounts receivable, net — related parties (Note 5 (2)).	88,231	80,767	2,313
Inventories (Note 4 (4))	402,972	470,668	13,478
Prepaid expense (Note 5 (2))	5,068	84,017	2,406
Restricted Assets (Note 6)	601,580	—	—
Other current assets	51,176	52,197	1,495
	<u>1,825,676</u>	<u>1,486,331</u>	<u>42,564</u>
Long-term Investments			
Long-term investment in stocks (Note 4 (5))	299,025	511,582	14,650
Cash surrender value of life insurance	6,190	7,510	215
Prepaid long-term investment in stocks	—	67,320	1,928
	<u>305,215</u>	<u>586,412</u>	<u>16,793</u>
Property, Plant and Equipment (Notes 4 (6) and 6)			
Cost:			
Land	283,718	283,718	8,125
Buildings.	122,283	122,445	3,506
Machinery and equipment	233,838	275,098	7,878
Mold equipment	150,989	175,004	5,012
Transportation equipment	13,638	14,910	427
Other equipment	42,598	43,326	1,241
	847,064	914,501	26,189
Accumulated depreciation	(203,630)	(263,002)	(7,532)
Construction in progress and prepayments for equipment	12,896	14,431	413
	<u>656,330</u>	<u>665,930</u>	<u>19,070</u>
Intangible Assets			
Deferred pension cost (Note 4 (12))	5,811	6,392	183
Other Assets			
Other assets — other	10,076	11,291	323
TOTAL ASSETS	<u>2,803,108</u>	<u>2,756,356</u>	<u>78,933</u>

The accompanying notes are an integral part of these financial statements.
See review report of independent accountants dated October 18, 2001.

MOBILETRON ELECTRONICS CO., LTD.
NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

	September 30,		
	2001		2002
	NT\$	NT\$	US\$ (Unaudited) (Note 2)
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Short-term loans (Note 4 (7))	232,722	107,985	3,092
Commercial paper (Note 4 (8))	768,954	49,945	1,430
Notes payable	93,692	113,300	3,244
Accounts payable	124,453	109,221	3,128
Income tax payable (Note 4 (16))	4,298	39,596	1,134
Accrued expenses	44,292	40,112	1,149
Other payables (Note 4 (9))	28,764	170,228	4,875
Current portion of long-term loans (Note 4 (10)) . .	100,000	6,180	177
Other current liabilities	28,034	20,765	595
	<u>1,425,209</u>	<u>657,332</u>	<u>18,824</u>
Long-term Liabilities			
Bonds payable (Note 4 (11))	—	467,891	13,399
Long-term loans (Note 4 (10))	19,764	8,640	247
	<u>19,764</u>	<u>476,531</u>	<u>13,646</u>
Other Liabilities			
Accrued pension liabilities (Note 4 (12))	5,247	5,945	170
Total Liabilities	<u>1,450,220</u>	<u>1,139,808</u>	<u>32,640</u>
Stockholders' Equity			
Capital stock (Note 4 (13))			
Common stock	757,560	861,139	24,660
Certificates exchangeable for common stock	—	133	4
Capital reserve (Note 4 (14))			
Additional paid-in capital in excess of par value .	200,000	236,726	6,779
Others	677	677	19
Retained earnings (Note 4 (15))			
Legal reserve	81,711	112,187	3,213
Unappropriated earnings	304,301	393,015	11,255
Cumulative translation adjustment	8,639	12,671	363
Total Stockholders' Equity	<u>1,352,888</u>	<u>1,616,548</u>	<u>46,293</u>
Commitments and Contingencies (Note 7)			
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>2,803,108</u></u>	<u><u>2,756,356</u></u>	<u><u>78,933</u></u>

*The accompanying notes are an integral part of these financial statements.
See review report of independent accountants dated October 18, 2001.*

MOBILETRON ELECTRONICS CO., LTD.
NON-CONSOLIDATED STATEMENTS OF INCOME
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT EARNINGS PER SHARE DATA)
(UNAUDITED)

	For the nine months ended September 30,		
	2001	2002	
	NT\$	NT\$	US\$ (Unaudited) (Note 2)
Sales	1,262,852	1,564,758	44,810
Sales Returns	(13,764)	(5,097)	(146)
Sales Allowances	(5,988)	(5,804)	(166)
Net Sales	1,243,100	1,553,857	44,498
Cost of Goods Sold	(890,757)	(1,057,643)	(30,288)
Gross Profit	352,343	496,214	14,210
Operating Expenses			
Selling expenses	(59,013)	(54,369)	(1,557)
Administrative expenses	(49,841)	(61,115)	(1,750)
Research and development expenses	(36,505)	(46,373)	(1,328)
	(145,359)	(161,857)	(4,635)
Operating Income	206,984	334,357	9,575
Non-operating Income			
Interest income	21,428	5,502	157
Investment income (Note 4 (5)) ..	—	6,883	197
Gain on disposal of investments ..	157	9,241	265
Foreign currency exchange gain ..	61,465	—	—
Others	11,708	15,977	457
	94,758	37,603	1,076
Non-operating Expenses			
Interest expenses	(21,583)	(28,565)	(818)
Investment loss (Note 4 (5))	(3,778)	—	—
Foreign currency exchange loss ..	—	(5,076)	(145)
Loss on inventory obsolescence and decline in market value. . .	(5,580)	(6,472)	(185)
Others	(5,719)	(87)	(3)
	(36,660)	(40,200)	(1,151)
Income Before Income Tax	265,082	331,760	9,500
Income Tax Expense (Note 4 (16)) ..	(60,318)	(74,324)	(2,128)
Net Income	204,764	257,436	7,372

	Before Tax	After Tax	Before Tax	After Tax	Before Tax	After Tax
Basic earnings per share						
(in dollars) (Note 4 (17))	3.12	2.41	3.90	3.03	0.11	0.09
Diluted earnings per share						
(in dollars) (Note 4 (17))	3.12	2.41	3.58	2.77	0.10	0.08

The accompanying notes are an integral part of these financial statements.
See review report of independent accountants dated October 18, 2001.

MOBILETRON ELECTRONICS CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

	For the nine months ended September 30,		
	2001	2002	
	NT\$	NT\$	US\$ (Unaudited) (Note 2)
Cash flows from operating activities:			
Net income	204,764	257,436	7,372
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	40,521	48,885	1,400
Amortization	4,205	1,322	38
Bad debt expense	145	3,792	109
Unrealized loss on decline in market value of short-term investments	1,183	197	6
Gain on disposal of investments	(157)	(9,241)	(265)
Provision for loss on obsolescence of inventory and decline in market value	5,580	6,472	185
Long-term investment (income) loss accounted for under equity method	3,778	(6,883)	(197)
Gain on disposal of property, plant and equipment	(275)	(330)	(9)
Unrealized loss (gain) from foreign exchange . . .	(5,546)	1,547	44
Compensation interest payable on bonds payable.	—	17,422	499
Effect on foreign currency exchange	(29,308)	(1,397)	(40)
(Increase) decrease in assets:			
Notes receivable	(2,641)	965	28
Accounts receivable	(185,090)	56,769	1,626
Inventories	(45,191)	(8,430)	(241)
Other current assets	(30,901)	(92,048)	(2,636)
Increase (decrease) in liabilities:			
Notes payable	28,443	(24,165)	(692)
Accounts payable	68,863	12,892	369
Income tax payable	(35,865)	9,698	278
Accrued expenses	507	(14,026)	(401)
Other current liabilities	(10,160)	13,508	387
Net cash provided by operating activities	<u>12,855</u>	<u>274,385</u>	<u>7,858</u>

The accompanying notes are an integral part of these financial statements.
See review report of independent accountants dated October 18, 2001.

MOBILETRON ELECTRONICS CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

	For the nine months ended September 30,		
	2001	2002	
	NT\$	NT\$	US\$ (Unaudited) (Note 2)
Cash flows from investing activities			
Payment for short-term investments	(153,847)	(243,942)	(6,986)
Refund (Payment) for security deposit	(466,157)	259,330	7,426
Payment for long-term investments in stock	(136,939)	(248,649)	(7,121)
Acquisition of property, plant and equipment	(282,021)	(34,332)	(983)
Proceeds from disposal of property, plant and equipment	2,029	2,882	83
Payment for deferred charges	(2,215)	(703)	(20)
Net cash used in investing activities	<u>(1,039,150)</u>	<u>(265,414)</u>	<u>(7,601)</u>
Cash flows from financing activities			
Proceeds from issuance of short-term loans	232,722	165,951	4,753
Repayment of short-term loans	(130,783)	(360,611)	(10,327)
Proceeds from issuance of commercial paper	768,954	49,945	1,430
Repayment of commercial paper	(139,890)	(289,586)	(8,293)
Proceeds from issuance of long-term loans	20,000	—	—
Repayment of long-term loans	(2,236)	(103,708)	(2,970)
Payment of cash dividend	(64,200)	—	—
Proceeds from issuance of bonds payable	—	500,000	14,318
Net cash (used in) provided by financing activities	<u>684,567</u>	<u>(38,009)</u>	<u>(1,089)</u>
Effect of foreign currency exchange	<u>29,308</u>	<u>1,397</u>	<u>40</u>
Net decrease in cash and cash equivalents	<u>(312,420)</u>	<u>(27,641)</u>	<u>(792)</u>
Cash and cash equivalents at beginning of period . .	<u>459,046</u>	<u>244,284</u>	<u>6,996</u>
Cash and cash equivalents at end of period	<u><u>146,626</u></u>	<u><u>216,643</u></u>	<u><u>6,204</u></u>
Supplemental disclosures of cash flow information:			
Interest paid (excluding capitalized interest)	<u>22,519</u>	<u>28,808</u>	<u>825</u>
Cash paid for income tax	<u>86,333</u>	<u>77,820</u>	<u>2,229</u>
Supplemental disclosures of partial cash paid for investing activities:			
Acquisition of property, plant and equipment	265,744	47,091	1,349
Add: Payable at beginning of period	32,963	5,888	169
Less: Payable at end of period	<u>(16,686)</u>	<u>(18,647)</u>	<u>(534)</u>
Cash paid	<u><u>282,021</u></u>	<u><u>34,332</u></u>	<u><u>983</u></u>
Noncash financing activities:			
Conversion of bonds to common stock	<u>—</u>	<u>49,531</u>	<u>1,418</u>

The accompanying notes are an integral part of these financial statements.
See review report of independent accountants dated October 18, 2001.

MOBILETRON ELECTRONICS CO., LTD.
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2001 AND 2002
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)
(UNAUDITED)

1. HISTORY AND ORGANIZATION

Mobiletron Electronics Co., Ltd. (the "Company") was incorporated as a company limited by shares under the Company Law of the Republic of China (ROC) on July 19, 1982. As of September 30, 2001, the Company's issued and outstanding common stock was \$861,139. The Company is primarily engaged in the manufacture and sale of automotive control device (including ignition module, voltage regulator and charger), electric and pneumatic tools, corded flashlights and illuminating equipments. The shares of the Company have been listed on the Taiwan Stock Exchange since April 6, 2002.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign Currency Transactions

The accounts of the Company are maintained in New Taiwan dollars. Transactions denominated in foreign currencies are translated into New Taiwan dollars at the exchange rates prevailing on the transaction dates. Receivables, other monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars at the exchange rates prevailing at the balance sheet date. Exchange gains or losses are included in the current year's results.

Convenience Translation into US Dollars

The Company maintains its accounting records and prepares its financial statements in New Taiwan ("NT") dollars. The United States ("US") dollar amounts disclosed in the 2002 financial statements are presented solely for the convenience of the reader and were translated at the rate of NT\$34.92 to US\$1.00, the average of buying and selling exchange rates published by Bank of Taiwan on September 31, 2001. Such translation amounts are unaudited and should not be construed that the NT dollar amounts represent, or have been, or could be, converted into US dollars at that or any other rate.

Foreign Currency Forward Contracts / Option Contracts

- A. The foreign currency amounts on non-speculative forward contracts are translated into New Taiwan dollars using the spot rate at the date of inception of the contract. The difference between the spot rates and contract forward rates is amortized over the contract period. The foreign currency amounts of outstanding contracts are also translated into New Taiwan dollars at the rate of exchange prevailing at the balance sheet date and the unrealized exchange gains and losses are included in the current year's result. Realized exchange gains or losses at settlement date are also included in the current year's result.
- B. Premiums on option contracts are recorded at cost. Premiums from option contracts entered into for hedging purposes are recorded as assets or liabilities and amortized over the contract period on a straight-line basis. Option contracts are stated at market value at balance sheet date. The resultant gains and losses from option contracts entered into for hedging the risk of assets or liabilities are recorded in current year's net income. Gain or loss on speculative option contracts is recognized in current operations.

Short-term Investments

Short-term investments are recorded at cost when acquired and are stated at the lower of aggregate cost or market value at the balance sheet date. The market value of listed stocks is determined by the average closing price during the last month of the accounting period. The market value of open-end mutual funds is based on the net asset value at the balance sheet date. The excess of aggregate cost over market value is reported as a loss in the current year. In subsequent periods, recoveries of market values are recognized as gains to the extent that the market value does not exceed the original cost of the investment.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based on the evaluation of collectibility and aging analysis of notes and accounts receivable and other receivables.

Inventories

Inventories are recorded at cost when acquired and are stated at the lower of aggregate cost, based on the weighted average method, or market value at the balance sheet date. The market values of raw materials and supplies are determined on the basis of replacement cost. The market values of finished goods and work in process are determined on the basis of net realizable value. The allowance for loss on obsolescence and decline in market value is provided, when necessary.

Long-term Investments in Stock

- A. Long-term equity investments in which the Company owns less than 20% of the voting rights of the investee company are accounted for at cost. Long-term equity investments in which the Company owns at least 20% of the voting rights of the investee company are accounted for under the equity method, unless the Company cannot exercise significant influence over the investee company, in which case, the investment is accounted for as cost method. The excess of the acquisition cost over the investee's net book value is capitalized and amortized over 5 years.
- B. The Company delays recognition of investment income (loss) on long-term equity investments in which the Company owns less than 50% of the voting rights of the investee company if the financial statements of the investee for the same period are not available in time. The Company consistently recognizes the investment income (loss) in the subsequent year based on prior year's weighted average share holdings in the investee. However, if the investee meets certain criteria set by the ROC Securities and Futures Commission, delay in recognition of income (loss) is not permitted.
- C. The Company's proportionate share of the foreign investee's cumulative translation adjustment related to the translation of the foreign investee's financial statements into New Taiwan dollars is recognized by the Company and is included in shareholders' equity as "Cumulative Translation Adjustment."
- D. Unrealized intercompany gains and losses are eliminated under the equity method. Profit from sales of depreciable assets between the investee and the Company is amortized to income over the assets' economic service lives. Profit from other types of intercompany transactions is recognized when realized.
- E. The Company is not required and does not prepare consolidated financial statements for interim periods.

Cash Surrender Value of Life Insurance Policy

Employee life insurance is provided with the Company as the prime beneficiary. Upon each payment, the cash surrender value of life insurance is recognized and a credit to insurance expense is recorded.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Interest incurred relating to the acquisition and construction of property, plant and equipment is capitalized and depreciated accordingly.

Depreciation is based on the straight-line method over the assets' estimated economic service lives, plus one additional year representing salvage value. Salvage values of fixed assets which are still in use after their estimated economic service lives are depreciated over their new estimated remaining service lives. The service lives of fixed assets are 2 to 20 years, except for machinery and equipment, which are 2 to 15 years, mold equipment, which are 2 to 5 year, and buildings, which are 50 years.

Maintenance and repairs are charged to expense as incurred. Significant renewals and improvements are treated as capital expenditures and are depreciated accordingly. When a fixed asset is disposed of, its original cost and accumulated depreciation is written-off. Gain or loss on disposal of fixed assets is recorded as non-operating income or loss.

Retirement Plan

The Company has a funded, defined benefit pension plan covering all regular employees. The net pension cost, which is computed based on an actuarial valuation, includes service cost, interest cost, expected return on plan assets and amortization of net asset/obligation at transition. The unrecognized net asset or obligation at transition is amortized on a straight-line basis over 15 years. The pension fund is managed by an independently administered pension fund committee.

Product Warranty

The provision for product warranty is provided based on the evaluation of the possibility of realization and is recorded as current period's expense. The related obligation is recorded as current liability.

Convertible Bonds

- A. The excess of the stated redemption price over the par value is recognized as interest expense and compensation interest payable using the effective interest method during the period from the issuance date to the last day of the redemption period.
- B. When a bondholder exercises his/her conversion rights, the book value of the bonds is credited to common stock at an amount equal to the par value of the stock and the excess is credited to capital reserve; no gain or loss is recognized on bond conversion.
- C. For convertible bonds with redemption options, the right of redemption becomes invalid if the bondholder failed to exercise his/her redemption right during the redemption period. The balance of the compensation interest payable is amortized over the period from the date following the redemption period to the maturity date using the effective interest method.

Income Tax

- A. In accordance with ROC FAS No 22, "Accounting for Income Taxes", the income tax effect resulting from temporary differences and investment credits is recorded as income tax assets or liabilities using the asset and liability method. Deferred tax assets or liabilities are further classified into current or non-current items and are presented on the financial statements as net balance. Valuation allowance on deferred tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized.
- B. The Company adopted ROC FAS No. 12, "Accounting for Investment Tax Credits" in determining the investment tax credit. The investment tax credits relating to the acquisition cost of qualifying machinery and technology, qualifying research and development, qualifying personnel training and qualifying investments in significant technology companies are recognized as income tax adjustments in the period the tax credits arise.
- C. Over or under provisions of prior years' income tax liabilities are included in the current period's income tax expense.
- D. The Taiwan imputation tax system requires that any undistributed earnings be subject to an additional 10% corporate income tax which is recognized as expense at the time the stockholders resolve that the company's earnings are retained.

Revenue Recognition

- A. Revenue is recognized when shipment is made and when payment is realized or realizable and the related cost is recognized when incurred.
- B. According to Explanation Rule No. 87-076 of the Accounting Research and Development Foundation of ROC, sale of raw materials to foreign subsidiary and repurchase of the related finished goods are accounted for as sub-contracting instead of sales.
- C. According to the rule set by the ROC Securities and Futures Commission, revenue is recognized only when the inventories shipped to foreign subsidiary has been sold to third parties.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those assumptions and estimates.

Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated by taking into consideration additional common shares that would have been outstanding if the dilutive share equivalents had been issued.

3. CHANGES IN ACCOUNTING PRINCIPLES

None.

4. DETAILS OF MAJOR ACCOUNTS

1) Cash and Cash Equivalents

	September 30,	
	2001	2002
Cash on hand	\$ 292	\$ 517
Savings accounts	—	5,443
Deposit in foreign currency	41,303	16,145
Time deposits	105,031	194,538
	<u>\$ 146,626</u>	<u>\$ 216,643</u>

As of September 30, 2001 and 2002, the interest rates for time deposits ranged from 3.05% to 3.13% and from 1.70% to 3.25%, respectively.

2) Short-term Investments

	September 30,	
	2001	2002
Stock	\$ 11,630	\$ 11,631
Open-end funds	167,730	266,907
	179,360	278,538
Less: Provision for loss on decline in market value	(15,742)	(11,789)
	<u>\$ 163,618</u>	<u>\$ 266,749</u>

3) Accounts Receivable

	September 30,	
	2001	2002
Accounts receivable	\$ 362,163	\$ 317,307
Less: Allowance for doubtful accounts	(1,663)	(5,955)
	<u>\$ 360,500</u>	<u>\$ 311,352</u>

4) **Inventories**

	September 30,	
	2001	2002
Finished goods	\$ 72,672	\$ 87,575
Finished goods — available for sale by foreign subsidiary.	103,100	131,400
Work in process	40,513	16,348
Raw materials	182,820	206,339
Raw materials — sub-contract by foreign subsidiary	8,900	19,500
Supplies	4,228	3,858
Merchandise.	2,043	11,036
Inventory in transit	3,573	5,067
	<u>417,849</u>	<u>481,123</u>
Less: Allowance for loss on obsolescence and decline in market value . . .	<u>(14,877)</u>	<u>(10,455)</u>
	<u>\$ 402,972</u>	<u>\$ 470,668</u>

5) **Long-term Investments**

A. Details of long-term investments in stocks are summarized as follows:

Investee company	September 30,			
	2001		2002	
	Amount	Percentage of ownership	Amount	Percentage of ownership
Equity method:				
Stonewall Ventures Inc.	\$ 106,335	100.00%	\$ 150,370	100.00%
Regitar U.S.A. Inc.	49,941	100.00%	68,565	100.00%
Mobiletron U.K. Ltd.	5,749	100.00%	28,095	100.00%
Media View Technologies Corporation	—	—	127,552	32.61%
	<u>162,025</u>		<u>374,582</u>	
Cost method:				
Asia Pacific Microsystem Co., Ltd.	100,000	6.97%	100,000	6.97%
First Taiwan Venture Capital Crop.	30,000	9.37%	30,000	9.37%
Allied Financial Service Corp. . . .	2,000	11.76%	2,000	11.76%
Asia Pacific Investment Co., Ltd. .	5,000	0.12%	5,000	0.12%
	<u>137,000</u>		<u>137,000</u>	
	<u>\$ 299,025</u>		<u>\$ 511,582</u>	
Prepaid long-term investment				
BCD Semiconductor Manufacturing Ltd.	\$ —	—	\$ 67,320	—

- B. Details of long-term investment gain (loss), accounted for under the equity method are summarized as follows:

	For the nine months ended September 30,	
	2001	2002
Stonewall Ventures Inc.	\$ (1,974)	\$ 10,551
Regitar U.S.A. Inc.	(171)	17,862
Mobiletron U.K. Ltd.	(1,633)	(7,495)
Media View Technologies Corporation	—	(14,035)
	<u>\$ (3,778)</u>	<u>\$ 6,883</u>

- C. Long-term investment gain (loss), accounted for under the equity method, were based on the investees' unaudited financial statements for the nine months ended September 30, 2001 and 2002, respectively.

6) **Property, Plant and Equipment**

	September 30, 2001		
	Cost	Accumulated depreciation	Book value
Land	\$ 283,718	\$ —	\$ 283,718
Buildings	122,283	17,229	105,054
Machinery and equipment	233,838	69,614	164,224
Mold equipment	150,989	92,767	58,222
Transportation equipment.	13,638	7,548	6,090
Other equipment	42,598	16,472	26,126
Prepayments for equipment.	12,897	—	12,897
	<u>\$ 859,961</u>	<u>\$ 203,630</u>	<u>\$ 656,331</u>

	September 30, 2002		
	Cost	Accumulated depreciation	Book value
Land	\$ 283,718	\$ —	\$ 283,718
Buildings	122,445	21,476	100,969
Machinery and equipment	275,098	98,700	176,398
Mold equipment	175,004	113,823	61,181
Transportation equipment.	14,910	8,870	6,040
Other equipment	43,326	20,133	23,193
Prepayments for equipment.	14,431	—	14,431
	<u>\$ 928,932</u>	<u>\$ 263,002</u>	<u>\$ 665,930</u>

For the nine months ended September 30, 2001 and 2002, total interest expense amounted to \$22,583 and \$28,565, respectively, of which \$1,000 and \$0, respectively, was capitalized to property, plant and equipment. The interest rate used to calculate the capitalized interest for the nine months ended September 30, 2002 was 6.85%.

7) **Short-term Loans**

	September 30,	
	2001	2002
Secured loans	\$ 158,000	\$ 50,000
Unsecured loans	50,000	50,000
Letter of credit loans	24,722	7,985
	<u>\$ 232,722</u>	<u>\$ 107,985</u>

The interest rates on the above short-terms loans ranged from 3.18% to 3.8% and from 2% to 2.17% as of September 30, 2001 and 2002, respectively.

8) **Commercial Paper**

	September 30,	
	2001	2002
Face value	\$ 769,700	\$ 50,000
Less: Discount on commercial paper	(746)	(55)
	<u>\$ 768,954</u>	<u>\$ 49,945</u>

The commercial paper is guaranteed by certain financial institutions. The interest rates on commercial paper ranged from 3.18% to 3.65% and was 1.67% as of September 30, 2001 and 2002, respectively.

9) **Other Payables**

	September 30,	
	2001	2002
Accrued cash dividend	\$ —	\$ 136,361
Accrued employees' bonuses	4,807	5,486
Accrued compensations to directors and supervisors	4,808	5,486
Payables on equipment	16,686	18,647
Others	2,463	4,248
	<u>\$ 28,764</u>	<u>\$ 170,228</u>

10) **Long-term Loans**

Creditors	Repayment period	September 30,	
		2001	2002
China Development Industrial Bank	Repayable on June 29, 2002	\$ 100,000	\$ —
China Development Industrial Bank	Repayable by installments from September 27, 2000 to September 27, 2005	19,764	14,820
		<u>119,764</u>	<u>14,820</u>
Less: Current portion		(100,000)	(6,180)
		<u>\$ 19,764</u>	<u>\$ 8,640</u>

The interest rates on long-term loans ranged from 6.67% to 6.85% and was 6.67% as of September 30, 2001 and 2002, respectively.

11) **Bonds Payable**

	September 30,	
	2001	2002
Convertible bonds payable	\$ —	\$ 451,800
Add: Compensation interest payable	—	16,091
	<u>\$ —</u>	<u>\$ 467,891</u>

On January 16, 2002, the Company issued five-year (from January 16, 2002 to January 15, 2007) unsecured convertible bonds amounting to \$500,000 with an interest rate of 0%. Main terms of the issue are as follows:

(1) **Redemption at the option of the Company:**

The Company may redeem the Bonds for cash on or after April 16, 2002 at an agreed redeemable price, if the market price of the shares of the company for a period of 30 consecutive trading days is at least 150% of the conversion price.

(2) **Redemption at the option of the bondholders:**

The Company will, at the option of the bondholders, redeem such Bonds for cash on January 15, 2005 and 2006 at its principal amount plus compensation interest of 5% of the principal amount annual.

(3) **Conversion period:**

At any time between April 16, 2002 and January 5, 2007.

(4) **Conversion price and adjustment:**

The conversion price was established on the issuance date at \$42.46 (in dollars) per share. The conversion price will be adjusted for capital increase in order to protect bondholders' interest against dilution. As a result of capital increase since the Bond issuance the conversion price was adjusted to 37.64 (in dollars) per share as of September 30, 2001.

12) **Pension Plan and Net Pension Cost**

- A. Substantially all of the regular employees of the Company are covered by the Company's pension plan. Under the funding policy of the plan, the Company contributes monthly an amount equal to 4% of the employees' monthly salaries and wages to the pension fund deposited with the Central Trust of China, the custodian. Pension benefits are generally based on service years (two units earned per year for the first 15 years of service, with one unit for each additional year of service with a maximum of 45 units). One unit represents the six-month average wages or salaries before retirement of the employee. Retirement benefits are paid from the pension fund.
- B. The pension cost, based on the actuarial reports, recognized by the Company for the nine months ended September 30, 2001 and 2002 were \$5,440 and \$6,647, respectively. As of September 30, 2001 and 2002, the balance of the retirement fund was \$36,691 and \$45,711, respectively.

13) **Capital Stock**

- A. On June 19, 2001, the stockholders of the Company resolved to capitalize the unappropriated earnings in the amount of \$115,560 by issuing 11,556 thousand new shares with par values of \$10 (in dollars) per share. The issuance of new shares has been registered by the Ministry of Economics Affairs. The issued and outstanding capital after the issuance was \$757,560.
- B. On June 12, 2002, the stockholders of the Company resolved to capitalize the unappropriated earnings in the amount of \$90,907 by issuing 9,091 thousand new shares with par value of \$10 (in dollars) per share. The issuance of new shares has been approved by the ROC Securities and Futures Commission (SFC) on July, 23, 2002. The Board of Directors of the Company resolved the record date of the issuance to be on August 29, 2002. As a result of the issuance, the authorized capital of the Company was \$1,350,000 (inclusive of 5,000 thousand shares for employee stock option), and issued and outstanding capital was \$848,467.

- C. As of September 30, 2002, the bonds in the amounts of \$48,200 has been converted into 12,805 thousand shares (inclusive of \$133 of certificates exchangeable for common stocks.)
- D. On December 25, 2001, the Board of Directors resolved to issue 3,000 unit of employee stock option. Significant terms of the issue are as follows:
 - 1. The exercise price of the employee stock option is based on the closing price at the grant date or the par value of the Company's share if the closing price is less than the par value.
 - 2. The employee stock option is valid to be exercised from February 26, 2002 to February 25, 2007 after the option is vested. New shares of the Company will be issued when the option is exercised.
 - 3. Following the approval of ROC Securities and Futures Commission on the issuance of 3,000 units of employee stock option, the Company plans to grant all units of option by December 31, 2002. As of September 30, 2002, 2,900 units of employee stock option have been granted and were outstanding. According to the employee stock option plan of the Company, two-year of service is required for the option to be vested.

14) Capital Reserve

- A. According to the ROC Company Law, the capital reserve arising from pain-in capital in excess of par on the issuance of stocks or from donation shall be exclusively used to cover accumulated deficit or be transferred to capital. Other capital reserve shall be exclusively used to cover accumulated deficits. The capital reserve can only be used to cover accumulated deficits when the legal reserve is insufficient to cover the deficits.
- B. According to the ROC Company Law, the capital reserve arising from paid-in capital in excess of par on the issuance of stocks can only be transferred to capital once every year. This capital reserve transfer to capital can not be made in the year when the Company issues new shares and the amount to be capitalized is limited to 10% of issued capital.

15) Retained Earnings

According to the Company's Articles of Incorporation, current year's earnings before tax, if any, shall be distributed in the following order:

- (1) Offset prior years' operating losses, if any;
- (2) Pay all taxes and dues;
- (3) Set aside 10% of the remaining amount after deducting (1) and (2) as legal reserve;
- (4) Set aside a special reserve in accordance with the ROC SFC regulation;
- (5) Set aside at least 3% of the remaining amount after deducting items (1), (2), (3) and (4) as employee bonus and 2% as directors' and supervisors' remunerations.
- (6) After deducting items (1), (2), (3), (4) and (5) above from the current year's earnings, the remaining amount may be allocated as stockholders' dividend;
- (7) The distribution of (6) above shall be made in accordance with the resolution adopted by the Board of Directors and approved at the stockholders' meeting.

The appropriation for legal reserve can only be used to offset a deficit or increase capital. The legal reserve can be used to increase capital only when the reserve balance exceeds 50% of the capital stock, and the amount capitalized should be limited to 50% of the excess portion of the reserve.

The new Taiwan imputation tax system requires that any undistributed current earnings derived on or after January 1, 1998 be subject to an additional 10% of corporate income tax if the earnings are not distributed in the following year.

As of September 30, 2002, the unappropriated earnings of the Company are as follows:

Unappropriated earnings before 1998.	\$ 3,065
Unappropriated earnings in and after 1998	
Imposed of 10% income tax	96,472
Un-imposed of 10% income tax	293,478
	<u>\$ 393,015</u>

As of September 30, 2002, the balance of stockholders' imputation tax credit account was \$36,021. The ratio of stockholders' imputation tax credit to undistributed earnings is approximately 9.24%. However, the actual stockholders' imputation ratio is subject to change since the actual stockholders' tax credit ratio is based on the ratio on the dividend declaration day. The stockholders' tax credit ratio for dividend declared in 2002 was 27.19%.

16) **Income Tax**

	For the nine months ended September 30,	
	2001	2002
Income tax expense per book calculated at the statutory tax rate	\$ 66,261	\$ 82,930
Tax exempt income and other permanent differences	273	(2,359)
Investment tax credits	(13,025)	(11,243)
Prior year's under provision	536	1,496
Additional tax on undistributed earnings.	6,273	3,500
Income tax expense	60,318	74,324
Tax effect of temporary differences.	(9,850)	13,194
Adjustment of prior year's under provision	(536)	(1,496)
Prepaid income taxes	(45,634)	(46,426)
Income tax payable	<u>\$ 4,298</u>	<u>\$ 39,596</u>

- A. Permanent difference represents an adjustment on gain on disposal of investments, which is exempt from income tax.
- B. As of September 30, 2002, the income tax returns of the Company through 1999 have been assessed and approved by the Tax Authority.
- C. As of September 30, 2001 and 2002, deferred tax assets and liabilities are as follows:

	September 30,	
	2001	2002
Deferred tax (liabilities) assets — current.	<u>\$ (2,145)</u>	<u>\$ 10,798</u>
Deferred tax assets — noncurrent	<u>\$ 2,951</u>	<u>\$ 5,351</u>

D. The details of deferred tax assets and liabilities as of September 30, 2001 and 2002 are as follows:

	September 30, 2001		September 30, 2002	
	Amount	Tax Effect	Amount	Tax Effect
Current:				
Temporary differences				
Allowance for bad debts	\$ 1,663	\$ 416	\$ —	\$ —
Provision for loss on obsolescence of inventory	14,877	3,719	10,455	2,614
Unrealized gain on foreign currency exchange	(42,041)	(10,510)	(6,663)	(1,666)
Unrealized intercompany profits	16,920	4,230	39,400	9,850
		<u>\$ (2,145)</u>		<u>\$ 10,798</u>
Noncurrent:				
Temporary differences				
Unrealized loss on long-term investments	\$ 11,805	\$ 2,951	\$ 5,311	\$ 1,328
Unrealized compensation interest on convertible bonds	—	—	16,091	4,023
		<u>\$ 2,951</u>		<u>\$ 5,351</u>

17) Earnings Per Share

For the nine months ended September 30, 2001					
	Amount		Weighted average outstanding common shares (in thousands)	Earnings per share (in dollars)	
	Before Tax	After Tax		Before Tax	After Tax
Net income	<u>\$ 265,082</u>	<u>\$ 204,764</u>	<u>84,847</u>		
Basic earnings per share				<u>\$ 3.12</u>	<u>\$ 2.41</u>
For the nine months ended September 30, 2002					
	Amount		Weighted average outstanding common shares (in thousands)	Earnings per share (in dollars)	
	Before Tax	After Tax		Before Tax	After Tax
Net income	\$ 331,760	\$ 257,436	85,001		
Basic earnings per share				<u>\$ 3.90</u>	<u>\$ 3.03</u>
Effect of potential diluted common stock:					
Convertible bonds	<u>17,422</u>	<u>13,066</u>	<u>12,546</u>		
Diluted earnings per share	<u>\$ 349,182</u>	<u>\$ 270,502</u>	<u>97,547</u>	<u>\$ 3.58</u>	<u>\$ 2.77</u>

Stock dividends which were allocated from unappropriated earnings in 2002 have been considered in the calculation of retroactively adjusted outstanding shares of common stock for the nine months ended September 30, 2001.

5. RELATED PARTY TRANSACTIONS

1) Name and Relationship with Related Parties

Name of Related Parties	Relationship with the Company
Regitar U.S.A. Inc. (REGITAR)	Investee company accounted for under the equity method
Mobiletron U.K., Ltd. (MOBILETRON)	Investee company accounted for under the equity method
Raccoon Industries, Ltd. (RACCOON)	Company significantly influenced by the Company
Devo International, Ltd. (DEVO)	Company significantly influenced by the Company
Sparco Trading Ltd. (SPARCO)	Company significantly influenced by the Company
Mobiletron Electronics (Ningbo) Co., Ltd. (Mobiletron Ningbo)	Indirect subsidiary of the Company
Sin Gao Plastics Co., Ltd. (Sin Gao)	Same Chairman of the Board

2) Significant Transactions with Related Parties

A. Sales

For the nine months ended September 30,				
2001		2002		
Amount	Percentage of net sales	Amount	Percentage of net sales	
REGITAR	\$ 119,984	10	\$ 139,293	9
MOBILETRON	34,501	2	69,302	4
	<u>\$ 154,485</u>	<u>12</u>	<u>\$ 208,595</u>	<u>13</u>

- a. The Company sells its products to America mainly through REGITAR. The collection term is within 180 days upon sales.
- b. The Company sells its products to UK mainly through MOBILETRON. The collection term is determined by evaluation of MOBILETRON's cash flow situation.
- c. The collection terms for other foreign customers is 30 to 90 days after sales.

B. Sub-Contracts

For the nine months ended September 30, 2001				
Raw Material				
	Beginning work in process	Addition	Ending work in process	Labor cost paid
Mobiletron Ningbo.	<u>\$ 12,225</u>	<u>\$ 34,971</u>	<u>\$ 8,900</u>	<u>\$ 43,613</u>

For the nine months ended September 30, 2002				
Raw Material				
	Beginning work in process	Addition	Ending work in process	Labor cost paid
Mobiletron Ningbo.	<u>\$ 13,400</u>	<u>\$ 141,588</u>	<u>\$ 19,500</u>	<u>\$ 116,748</u>

The production of the above mentioned products is manufactured by sub-contracting agreement with Mobiletron Ningbo through RACCOON, in which raw material is provided by the Company. The Company then sells the finished goods through DEVO and SPARCO. Mobiletron Ningbo charges the Company 14% of cost of production as sub-contract fee. The payment term is within 90 days after month-end posting of transactions. RACCOON, DEVO and SPARCO do not charge the Company for any service provided. As of September 30, 2001 and 2002, the Company's prepaid processing charges are \$4,493 and \$82,562, respectively.

C. *Goods on Consignment*

	September 30,	
	2001	2002
REGITAR	\$ 82,600	\$ 87,100
MOBILETRON	20,500	44,300
	<u>\$ 103,100</u>	<u>\$ 131,400</u>

Products are shipped to REGITAR and MOBILETRON for resale and are included in the Company's inventory account.

D. *Accounts Receivable*

	September 30,			
	2001		2002	
	Amount	Percentage of accounts receivable	Amount	Percentage of accounts receivable
REGITAR	\$ 47,258	11	\$ 11,074	3
MOBILETRON	40,973	9	69,693	18
	<u>\$ 88,231</u>	<u>20</u>	<u>\$ 80,767</u>	<u>21</u>

E. *Rent Expense*

	For the nine months ended September 30,	
	2001	2002
Sin Gao	<u>\$ 3,150</u>	<u>\$ —</u>

The Company leased the land and building located in Taichung County for manufacturing plant and office. The rent was comparable to the rent level in the surrounding area. Payment is made on a monthly basis in the amount of \$450. The Company signed a contract to purchase the above plant and office in November 2000. The title has been transferred to the Company in August 2002.

6. ASSETS PLEDGED AS COLLATERAL

As of September 30, 2001 and 2002, the following assets have been pledged as collateral against certain obligations of the Company:

Assets	Book Value		Subject of collateral
	2001	2002	
Land	\$ 55,888	\$ 283,718	Long-term loans
Buildings	91,265	100,970	Short-term and long-term loans
Machinery and equipment	34,184	29,497	Long-term loans
Time deposits (shown in other assets - other)	2,977	2,471	Guarantees for foreign labors
Time deposits (shown in restricted assets).	601,580	—	Guarantees for commercial paper
	<u>\$ 785,894</u>	<u>\$ 416,656</u>	

7. COMMITMENTS AND CONTINGENCIES

- A. As of September 30, 2002, the Company's unused letters of credit for imported raw materials were USD 1,195,000 and JPY 2,520,000.
- B. As of September 30, 2002, the Company has entered into agreements with third parties to purchase machinery and equipment in the amount of \$29,511, the Company has outstanding obligation of approximately \$14,002 related to these contracts.

8. CATASTROPHE LOSS

None.

9. SUBSEQUENT EVENT

None.

10. OTHER

A. Disclosure on Financial Instruments:

	September 30, 2001	
	Book Value	Fair Value
<u>Non-derivative financial instruments</u>		
Financial Assets		
Financial assets with book value equal to fair value	\$ 1,249,123	\$ 1,249,123
Short-term investments	163,618	163,515
Long-term investments in stock	299,025	294,441
Cash surrender value of life insurance	6,190	6,190
	<u>\$ 1,717,956</u>	<u>\$ 1,713,269</u>
Financial Liabilities		
Financial assets with book value equal to fair value	\$ 1,418,772	\$ 1,418,772
Long-term loans	19,764	19,764
Bonds payable	—	—
Accrued pension liabilities	5,247	17,971
	<u>\$ 1,443,783</u>	<u>\$ 1,456,507</u>

September 30, 2002		
	Book Value	Fair Value
Non-derivative financial instruments		
Financial Assets		
Financial assets with book value		
equal to fair value	\$ 663,073	\$ 663,073
Short-term investments	266,749	266,290
Long-term investments in stock	511,582	432,206
Cash surrender value of life insurance	7,510	7,510
	<u>\$1,448,914</u>	<u>\$1,369,079</u>

September 30, 2002		
	Book Value	Fair Value
Financial Liabilities		
Financial liabilities with book value equal to fair value	\$ 648,542	\$ 648,542
Long-term loans	8,640	8,640
Bonds payable	467,891	467,891
Accrued pension liabilities	5,945	21,678
	<u>\$1,131,018</u>	<u>\$1,146,751</u>

- (1) Financial assets and liabilities with book value equal to fair value are cash and cash equivalents, notes receivable, accounts receivable, restricted assets, other current assets, refundable deposits, short-term loans, commercial paper, notes payable, accounts payable, income tax payable, accrued expenses, other payable, current portion of long-term loans and other current liabilities because of their short maturities.
- (2) The fair value of short-term investments and long-term investments in stocks is based on the market value of short-term and long-term investments. If the market value of short-term and long-term investments is unavailable, the net equity of the investee companies or other financial information is used as fair value.
- (3) The fair value of bonds payable was based on market value.
- (4) The book value of long-term loans is stated as fair value because the loans have floating interest rate.
- (5) The fair value of the accrued pension liabilities is equal to the funded status as shown in the actuarial report measured at December 31, 2000 and 2001, respectively.

B. Information on derivative transactions:

Foreign currency option contracts

1. Purpose of holding derivative products: Foreign currency option contracts were entered into for trading activities.
2. Par value, contract amount or nominal principal and nature of the options

As of September 30, 2001:

- (1) The Company's outstanding options contracts are as follows:

Item	(In thousand dollars)					
	Inception dates	Settlement dates	Callable amount	Put amount	Strike rate	Premium
Sell EUR callable option/ USD put option	June 22, 2001	December 24, 2001	EUR 6,000	USD 5,970	0.9950	USD 855
Sell USD callable option/ EUR put option	June 22, 2001	December 24, 2001	USD 5,460	EUR 6,000	0.9100	USD 36
Sell EUR callable option/ USD put option	September 28, 2001	February 28, 2002	EUR 6,122	USD 6,000	0.9800	USD 400
Sell USD callable option/ EUR put option	September 28, 2001	March 26, 2002	USD 6,000	EUR 6,250	0.9600	USD 61
Buy USD callable option/ EUR put option	September 25, 2001	December 31, 2001	USD 6,000	EUR 6,107	0.9825	(USD461)

If the market rate is higher than the strike rate on settlement date, the bank has the right not to exercise.

- (2) For the nine months ended September 30, 2001, the net premium received by the Company is \$0.

As of September 30, 2002:

- (1) The Company's outstanding options contracts are as follows:

Item	(In thousand dollars)					
	Inception dates	Settlement dates	Callable amount	Put amount	Strike rate	Premium
Sell USD callable option/ EUR put option	September 30, 2002	March 28, 2003	USD 12,930	EUR 12,000	1.0775	EUR 952
Sell EUR callable option/ USD put option	September 30, 2002	March 28, 2003	EUR 12,000	USD 10,800	0.9000	EUR 532
Buy USD callable option/ EUR put option	September 30, 2002	December 27, 2002	USD 12,900	EUR 12,000	1.0750	(EUR 506)
Buy EUR callable option/ USD put option	September 30, 2002	December 27, 2002	EUR 12,000	USD 10,800	0.9000	(EUR 978)

If the market rate is higher than the strike rate on settlement date, the bank has the right not to perform the contract.

- (2) For the nine months ended September 30, 2002, the net premium received by the Company is \$0.

3. Terms of derivative products:

(1) Credit risk:

As the counter party is bank of good credit standing, the credit risk is minimal.

(2) Market risks:

Market risks is based on the future fluctuation in currency exchange rates.

(3) Amount and timing of future cash flows:

Based on the exchange rate of September 30, 2001, the Company estimated to have a net cash outflow of \$17,503 between December 24, 2001 and February 28, 2002.

Based on the exchange rate of September 30, 2002, the Company estimated that the net future cash flow will be \$0 on March 28, 2003.

(4) The accounting policy:

Please refer to Note 2.

4. Fair value and book value:

As of September 30, 2001:

(1) Fair value: The balance of option contract payables is \$17,503.

(2) Book value: The balance of option contract payables is \$17,503.

As September 30, 2002:

(1) Fair value: The balance of option contract payables is \$0.

(2) Book value: The balance of option contract payables is \$0.

5. Additional disclosures:

For the nine months ended September 30, 2001 and 2002, the realized exchange loss from option contracts was \$346 and \$0, respectively, and the unrealized exchange loss from option contracts was \$17,503 and \$0, respectively, which is presented in the income statements as a non-operating income or expenses.

Foreign currency forward contracts

1. Purpose of holding derivative products:

Forward contracts were entered into for hedging foreign currency assets.

2. Par value, contract amount or nominal principal and nature of the options.

As of September 30, 2001: None.

As of September 30, 2002:

The Company entered into a forward exchange contract with a bank on July 9, 2002 to purchase USD 1,00,000 with the forward rate of NTD 33.253: USD 1. The settlement date is October 9, 2001.

3. Terms of derivative products:

(1) Credit risk:

As the counter party is a bank of good credit standing, the credit risk is minimal.

(2) Market risks:

Market risks is based on the future fluctuation in currency exchange rates.

(3) Amount and timing of future cash flows:

The Company estimated that the net cash outflow will be \$1,167 on October 9, 2001.

(4) The accounting policy:

Please refer to Note 2.

4. Fair value and book value:

As of September 30, 2002 the fair value and book value of forward contract payables is approximately \$34,870 and the fair value and book value of forward contract receivable is approximately \$33,253.

5. Additional disclosures:

The unrealized exchange loss recognized for forward contract was \$1,547 for the nine months ended September 30, 2002.

C. Reclassification of accounts:

Certain accounts of September 30, 2001 financial statements have been reclassified to conform to the presentation adopted for September 30, 2002 financial statements.

11. SPECIAL DISCLOSURE ITEMS

A. Significant Transaction Information

(1) Loans to third parties attributed to financial activities:

For the nine months ended September 30, 2002: None.

(2) The Company provided the following endorsement and guarantee to third parties:

For the nine months ended September 30, 2002: None.

(3) The ending balance of securities is summarized as follows:

As of September 30, 2002:

Investor	Type of securities	Name of securities	The relationship of the issuers with the Company	General ledger accounts	September 30, 2002			
					Number of shares	Book value	Percentage of ownership	Market value (in dollars)
Mobiletron Electronics Co., Ltd.	Stock	Stonewall Venture Inc.	Investee accounted for under equity method	Long-term investments	4,000,000	\$150,370	100%	\$148,029
Mobiletron Electronics Co., Ltd.	Stock	Regitar U.S.A. Inc.	Investee accounted for under equity method	Long-term investments	100,000	68,565	100%	67,286
Mobiletron Electronics Co., Ltd.	Stock	Mobiletron U.K. Ltd.	Investee accounted for under equity method	Long-term investments	900,000	28,095	100%	28,095
Mobiletron Electronics Co., Ltd.	Stock	Media View Technologies Corporation	Investee accounted for under equity method	Long-term investments	3,636,364	127,552	32.61%	43,437
Mobiletron Electronics Co., Ltd.	Stock	Asia Pacific Microsystem Corporation	Investee accounted for under cost method	Long-term investments	10,000,000	100,000	6.97%	96,200
Mobiletron Electronics Co., Ltd.	Stock	First Taiwan Venture Capital Corp.	Investee accounted for under cost method	Long-term investments	3,000,000	30,000	9.37%	29,460
Mobiletron Electronics Co., Ltd.	Stock	Others (Note 1)	—	Long-term investments	—	7,000	—	19,699
						<u>\$511,582</u>		<u>\$432,206</u>
Mobiletron Electronics Co., Ltd.	Fund	Tiim Highyield Fund	—	Short-term investments	4,485,834	\$ 50,000	—	\$ 51,290
Mobiletron Electronics Co., Ltd.	Fund	Phoenix Bond Fund	—	Short-term investments	1,660,937	23,183	—	23,349
Mobiletron Electronics Co., Ltd.	Fund	Fuh-Hwa Bond Fund	—	Short-term investments	2,451,041	30,000	—	30,301
Mobiletron Electronics Co., Ltd.	Fund	Cathay Bond Fund	—	Short-term investments	9,679,324	100,000	—	100,268
Mobiletron Electronics Co., Ltd.	Fund	Kirin Bond Fund	—	Short-term investments	4,871,917	50,000	—	50,266
Mobiletron Electronics Co., Ltd.	Fund	Others (Note 1)	—	Short-term investments	—	25,355	—	11,093
						<u>\$278,538</u>		<u>\$266,567</u>

(1) Combined for each specific security less than \$10,000 or less than 5% of the account.

(2) The market value is not available; therefore, the net equity per share based on the unaudited financial statements as of September 30, 2001 was used.

- (4) Securities for which total buying or selling amount exceeded the lower of NT\$100,000 or 20 percent of the capital stock:
For the nine months ended September 30, 2002:

Investor	Name of the security	Accounts	Name of the counter party	The relationship of the issuers with the Company	Beginning balance			Addition			Disposal			Ending balance	
					Number of shares	Amount	Number of shares	Number of shares	Amount	Number of shares	Sale price	Book value	Gain (loss) from disposal	Number of shares	Amount
Mobiletron Electronics Co., Ltd.	Media View Technologies Corporation	Long-term investments	Media View Technologies	None	—	\$ —	3,636,364	—	\$140,091	—	\$ —	\$ —	\$ —	3,636,364	\$140,091 (Note)
Mobiletron Electronics Co., Ltd.	Truswell Bond Fund	Short-term investments	Truswell Securities Investment Trust Co., Ltd.	None	—	—	13,419,841	157,500	13,419,841	158,399	158,399	157,500	899	—	—
Mobiletron Electronics Co., Ltd.	Well Pool Fund	Short-term investments	Prudential Securities Investment Trust Co., Ltd.	None	—	—	10,739,859	124,000	10,739,859	124,076	124,076	124,000	76	—	—
Mobiletron Electronics Co., Ltd.	Prudential Financial Securities Investment Trust Fund	Short-term investments	Prudential Financial Securities Investment Trust Enterprise	None	—	—	21,976,745	299,500	21,976,745	300,474	299,500	299,500	974	—	—
Mobiletron Electronics Co., Ltd.	New Era Bond Fund	Short-term investments	E. Sun Securities Investment Trust Co., Ltd.	None	—	—	10,248,217	103,000	10,248,217	103,497	103,000	103,000	497	—	—
Mobiletron Electronics Co., Ltd.	Tim Bond Fund	Short-term investments	Taiwan International Investment Management Co., Ltd.	None	—	—	10,739,880	141,000	10,739,880	141,452	141,000	141,000	452	—	—
Mobiletron Electronics Co., Ltd.	Cathay Bond Fund	Short-term investments	Cathay Securities Investment Trust Co., Ltd.	None	—	—	16,542,877	170,000	6,863,553	70,685	70,000	70,000	685	9,679,324	100,000
Mobiletron Electronics Co., Ltd.	Transcend Fortune Bond Fund	Short-term investments	Transcend Securities Investment Trust Co., Ltd.	None	—	—	11,431,613	129,000	11,431,613	129,370	129,000	129,000	370	—	—
Mobiletron Electronics Co., Ltd.	Prudential Bond Fund	Short-term investments	Prudential Securities Investment Trust Co., Ltd.	None	—	—	1,069,399	144,076	1,069,399	144,838	144,076	144,076	762	—	—
Mobiletron Electronics Co., Ltd.	Phoenix Bond Fund	Short-term investments	Entrust Investment Trust Corp	None	—	—	10,278,345	143,000	8,617,408	120,392	120,000	120,000	392	1,660,937	23,183
Mobiletron Electronics Co., Ltd.	Jih Sun Bond Fund	Short-term investments	Jih Sun Securities Investment Trust Co., Ltd.	None	—	—	11,229,955	141,000	11,229,955	141,706	141,000	141,000	706	—	—

Note: The amount only represented the original cost excluding the investment income (loss) recognized under the equity method and the changes of cumulative translation adjustments.

- (5) Acquisition of real estate with an amount exceeded the lower of NT\$100,000 or 20 percent of the capital stock:

For the nine months ended September 30, 2002: None.

(6) Disposal of real estate with an amount exceeding the lower of NT\$100,000 or 20 percent of the capital stock:

For the nine months ended September 30, 2002: None.

(7) Related party transactions for purchases and sales amounts exceeded the lower of NT\$100,000 or 20 percent of capital stock:

For the nine months ended September 30, 2002:

Purchase/sales company	Name of the counter parties	Relationship with the counter parties	Description of the transaction			Description of and reasons for difference in transaction terms compared to non-related party transactions			Notes or accounts receivable/payable	
			Purchases/ Sales	Amount	Percentage of net purchases/sales	Credit terms	Unit price	Credit terms	Amount	Percentage of notes or accounts receivable/payable
Mobiletron Electronics Co., Ltd.	Regitar U.S.A. Inc.	Investee accounted for under equity method	Sales	\$139,293	9%	180 days	Note 1	30 days to 90 days	\$11,074	3%
Mobiletron Electronics Co., Ltd.	Mobiletron Electronics (Ningbo) Co., Ltd.	Indirect subsidiary of the Company	Purchase	116,748	12%	90 days	Note 2	60 days	—	—
										None
										None

Note 1: The selling price to related party is incomparable to non-related parties.

Note 2: The price is based on the cost plus 14%.

(8) Receivables from related parties exceeded the lower of NT\$100,000 or 20 percent of capital stock:

As of September 30, 2002: None.

(9) Transaction of derivative financial instruments:

For the nine months ended September 30, 2002:

Please refer to Note 10 for the details of the Company's transaction of derivative financial instruments.

B. Related information on investee companies

(1) Basic information on investee companies:

For the nine months ended September 30, 2002:

Investor	Name of Investee	Location	Main activities	Original investments		The Company/majority owned subsidiary owns			Current period	
				Current period ending balance	Prior period ending balance	Shares	Percentage of ownership	Book value	Net income (loss) of investee	Income (loss) recognized by the Company (Note 5)
Mobiletron Electronics Co., Ltd.	Stonewall Venture Inc.	British Virgin Islands	Sales agent	\$132,376	\$122,122	4,000,000	100%	\$150,370	\$ 11,956	\$ 10,551 (Note 1)
Stonewall Ventures Inc.	Mobiletron Electronics (Ningbo) Co., Ltd.	China	Power tools parts, flashlights, distributor, ignition coil, automotive starter and alternator and auto parts of alternator and starter	132,376	122,122	4,000,000	100%	150,370	11,956	— (Note 2)
Mobiletron Electronics Co., Ltd.	Regitar U.S.A. Inc.	USA	Auto parts, electric tools and hardware stamping parts wholesale	49,454	49,454	100,000	100%	68,565	18,629	17,862 (Note 1)
Mobiletron Electronics Co., Ltd.	Mobiletron U.K. Ltd.	UK	Automotive control device and manufacturing of auto parts and accessories and business electric tools	31,056	14,316	900,000	100%	28,095	(7,495)	(7,495)
Mobiletron Electronics Co., Ltd.	Media View Technologies America Corporation	USA	DMS car multimedia scope system	140,091	—	3,636,364	32.61%	127,552	(17,008)	(14,035) (Note 1)

Note 1: Amortization of premium or discount is included.

Note 2: Indirect subsidiary of the Company. Investment income (loss) recognized by the Company is not included.

(2) Loans to third parties attributed to financial activities:

For the nine months ended September 30, 2002:

None.

(3) The Company provided the following endorsement and guarantee to third parties:

For the nine months ended September 30, 2002:

None.

(4) The ending balance of securities held by investee companies is summarized as follows:

As of September 30, 2002:

September 30, 2002				
Investor	Type of securities	Name of securities	Relationship of the issuers with the Company	General ledger account
Number of shares	Book value	Percentage of ownership	Market value (in dollar)	
Stonewall Ventures Inc.	Stock	Mobiletron Electronics (Ningbo) Co., Ltd.	Investee accounted for under equity method by subsidiary of the Company	Long-term investments
4,000,000	\$150,370	100%	\$148,029	

(5) Securities for which total buying or selling amount exceeded the lower of NT\$100,000 or 20 percent of capital stock:

For the nine months ended September 30, 2002: None.

(6) Acquisition of real estate with an amount exceeded the lower of NT\$100,000 or 20 percent of the capital stock:

For the nine months ended September 30, 2002: None.

(7) Disposal of real estate with an amount exceeded the lower of NT\$100,000 or 20 percent of the capital stock:

For the nine months ended September 30, 2002: None.

(8) Related party transactions for purchases and sales amounts exceeded the lower of NT\$100,000 or 20 percent of capital stock:

Please refer to Note 5 for the details of information.

(9) Receivables from related parties exceeded the lower of NT\$100,000 or 20 percent of capital stock:

As of September 30, 2002: None.

C. Investment in Mainland China information:

(1) Information of investment in Mainland China:

As of September 30, 2002:

Name of investee in Mainland China	Main activities of investee	Capital	Investment method	Accumulated remittance as of December 31, 2001	Remitted or (collected) this period	Accumulated remittance as of September 30, 2002	Ownership held by the Company (Direct and indirect)	Investment income (loss) recognized by the Company during the period	Ending balance of investment	The investment income (loss) remitted back as of September 30, 2002
Mobileron Electronics (Ningbo) Co., Ltd.	Power tools parts, distributor, ignition coil, flashlights, auto parts of alternator and starter	USD4,000,000	(Note 1)	\$122,122	\$10,254	\$132,376	100%	\$ 10,551 (Note 2)	\$150,370	\$ —

Note 1: The investment was made indirectly through the Company's investment in Stonewall Ventures Inc., a 100% owned subsidiary.

Note 2: The investment income (loss) was recognized under the equity method based on the unaudited financial statements of the investee companies for the nine months ended September 30, 2001.

Accumulated remittance from Taiwan to Mainland China	The investment balance approved by Investment Commissions, Ministry of Economic Affairs	The ceiling of investment in Mainland China according to Investment Commissions, Ministry of Economic Affairs
USD 6,000,000 (Translated into NT\$199,696)	USD 6,000,000 (Note)	\$646,619

Note: The amount of USD 2,000,000 is the prepayment for shares because the capital increase has not been completed. Therefore, the related information of investment in Mainland China has not been disclosed in C (1) above.

- (2) Material transactions occurred directly between the local company and its Mainland China investee companies and material transactions occurred indirectly between the local company and its Mainland China investee companies via enterprises in other areas:

For the nine months ended September 30, 2002			
Raw Material			
	Beginning work in process	Addition	Ending work in process
Mobiletron Electronics (Ningbo) Co., Ltd.	\$ 13,400	\$ 141,588	\$ 19,500
			\$ 116,748

The production of the above mentioned products is manufactured by sub-contracting agreement with Mobiletron Ningbo through RACCON, in which raw material is provided by the Company. The Company then sells the finished goods through DEVO and SPARCO. Mobiletron Ningbo charges the Company 14% of cost of production as sub-contract fee. The payment term is within 90 days after month-end posting of transactions. RACCOON, DEVO and SPARCO do not charge the Company for any service provided. As of September 30, 2001 and 2002, the Company's prepaid processing charges are \$4,493 and \$82,562, respectively.

12. SEGMENT INFORMATION

Not applicable.

APPENDIX A — FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC

The information presented in this appendix has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Managers, the Trustee or any of their respective affiliates or advisors in connection with the offering.

Foreign Investment

Historically, foreign investment in the ROC securities market has been restricted. From 1983 onwards, however, the ROC Government has from time to time enacted legislation and adopted regulations to permit foreign investment in the ROC securities market.

Overseas Corporate Bonds

Since 1989, the ROC SFC has approved a series of overseas corporate bond issues (“OCBs”) by ROC companies listed on the TSE in offerings directed outside the ROC. Since December 1994, the ROC SFC has also permitted ROC companies whose shares are traded on the GTSM to issue and offer OCBs. In 2002, the ROC SFC further permitted public-issue companies to issue OCBs on a private placement basis.

Under the current ROC laws and policies, OCBs can be converted by bondholders (other than PRC persons) into shares of the relevant ROC companies or (subject to the ROC SFC approval) may be converted into depositary receipts issued under the sponsorship of the same ROC company or the shares of other companies, in case of exchangeable bonds. Public issuing companies may issue corporate debt in offerings outside the ROC. Proceeds from sales of the shares converted from OCBs may be used for re-investment in securities listed on the TSE or traded on the GTSM. These reinvestments will need to comply with the limitations and restrictions which apply to qualified foreign institutional investors or general foreign investors discussed below.

Under current ROC law, a converting bondholder when exercising the conversion right to convert the bonds into shares of an ROC company is required to 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 shareholders’ rights and perform such other actions as may be designated by such converting bondholder, on behalf of and as agent for such converting bondholder. In addition, the converting bondholder is required to appoint a custodian bank to hold the securities and cash proceeds in safekeeping, make confirmations and settle trades and report all relevant information and such converting bondholder is also required to appoint a tax agent, who also serves as the 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 currencies, including U.S. Dollars, in respect of the proceeds of the redemption of the Bonds or payment of interest on, or the repayment of principal upon maturity of, the Bonds.

In addition, a non-ROC converting bondholder may, through its local agent and without obtaining prior approval from the CBC, convert NT Dollars into foreign currencies of net proceeds realized from the sale of the converted shares or any stock dividends relating to such shares, or any cash dividend or other cash distribution in respect of such shares, as well as for inward remittances of subscription payments in connection with a rights offering and tax payment.

Any such cash received by the converting bondholder (qualified as a QFII or General Foreign Investor) may be used for further investment in ROC securities subject to the requirements and restrictions generally applicable to QFIIs and General Foreign Investors (as applicable). Such further investment will be used in calculating the applicable investment quota.

Depository Receipts

In April 1992, the ROC SFC promulgated regulations permitting ROC companies with securities listed on the TSE, with the prior approval of the ROC SFC, to sponsor the issuance and sale to foreign investors of depository receipts. Depository receipts evidence depository shares representing deposited shares of ROC companies. In December 1994, a series of new regulations (the “**Regulations**”) was promulgated by the ROC Ministry of Finance allowing companies whose shares are traded on the GTSM or listed on the TSE to sponsor, upon approval by the ROC SFC, the issuance and sale of depository receipts. Any such approval will be granted (1) if the underlying shares are newly issued shares, for a fixed number of depository receipts or (2) if the underlying shares are not newly issued shares, for a maximum number of depository receipts and, with limited exceptions (as described below), may not be increased without additional approvals by the ROC SFC. In 2002, the ROC SFC further permitted public companies to participate the issuance of depository receipts on a private placement basis.

The Regulations, as amended, provide that any depository receipt holder may, from three months after the issue date of the depository receipts (in the case that the deposited shares are new shares) or immediately (in the case that the deposited shares are existing shares), request the depository bank either to cause the underlying shares to be sold in the ROC and distribute the proceeds of such sale to the depository receipt holder or to withdraw the underlying shares from the depository receipt facility and deliver such shares to such holder. A citizen of the PRC or an entity organized under the laws of the PRC is not permitted to withdraw and hold the Shares.

Under existing ROC laws and regulations, a depository may, without obtaining further approvals from the CBC or any other government authority or agency of the ROC, convert NT Dollars into other currencies, including U.S. Dollars, in respect of the proceeds of the sale of shares represented by depository receipts or received as stock dividends in respect of such shares and deposited into the depository receipt facility and any cash dividends or distributions received in respect of such shares. In addition, a depository may convert inward remittances of payments into NT Dollars for purchases of underlying shares for deposit in the depository receipt facility against the creation of additional depository receipts. With respect to conversion from NT dollars into foreign currencies in respect of the proceeds from the sale of subscription rights for new shares, proceeds in excess of U.S.\$100,000 per remittance may not be remitted overseas unless CBC approval is obtained. In addition, a depository receipt holder may, after becoming a holder of shares, convert NT dollars into other currencies for proceeds from the sale of any underlying shares withdrawn from the depository receipt facility and delivered to the depository receipt holder and for conversion from foreign currencies into NT dollars for subscription payments in respect of rights offering. A depository must obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT Dollars into foreign currencies in respect of the proceeds from the sale of subscription rights for new shares or the depository’s conversion from foreign currencies into NT Dollars for subscription payments in respect of rights offerings. It is expected that the Central Bank of China will grant such foreign exchange approval as a routine matter.

A depository receipt holder wishing to withdraw shares represented by depository receipts in order to hold the shares is required to appoint a qualified local agent to, among other things, open a securities account with a local securities brokerage firm, remit funds and exercise shareholders’ rights. In addition, the withdrawing holder 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. Without making these appointments and opening these accounts, the withdrawing holder would be unable to hold or subsequently sell shares withdrawn from a depository receipt facility on the TSE or otherwise. Furthermore, the withdrawing holder is required to appoint a tax guarantor in the ROC for filing tax returns and making tax payments.

In addition, any such cash received by the depositary receipt holder (qualified as a QFII (as hereinafter defined) or a non-ROC resident foreign investor (“**General Foreign Investor**”)) may be used for further investment in ROC securities, subject to the requirements and restrictions generally applicable to QFIIs and General Foreign Investors (as applicable). Such further investment will be calculated towards the applicable investment quota.

Direct Share Offerings

The ROC Government has permitted ROC companies listed on the TSE or the GTSM to issue shares directly (not through depositary receipt facilities) overseas. In addition, public-issue companies may issue shares directly overseas on a private placement basis.

Qualified Foreign Institutional Investors

The Executive Yuan has approved guidelines for direct investment in ROC securities listed on the TSE, GTSM or emerging stocks or other ROC securities approved by the ROC SFC by certain qualified foreign institutional investors (each a “**QFII**”) that applied for and received, ROC SFC and, if applicable, CBC approval. According to the ruling letter issued by the ROC SFC on January 7, 2003, the ROC SFC has relaxed restrictions on the qualifications of QFIIs by reducing the asset requirement and canceling the expertise requirement. According to such new ruling, QFIIs include:

- (i) banks which hold securities assets of at least U.S.\$100 million;
- (ii) insurance companies which hold securities assets of at least U.S.\$100 million;
- (iii) fund management institutions which manage securities assets of at least U.S.\$100 million;
- (iv) offshore fund management companies in respect of which more than 50% of their capital are owned by a ROC securities investment trust enterprise provided that the funds to be invested do not come from sources in the ROC or PRC and are not owned by such offshore fund management companies;
- (v) general securities firms which have a net worth of at least U.S.\$50 million;
- (vi) offshore subsidiary securities firms in respect of which more than 50% of their capital are owned by a ROC securities firm, or other offshore securities firms which are wholly owned by such offshore securities firms;
- (vii) offshore subsidiary securities firms which are wholly-owned by a ROC securities firms, or other offshore securities firms in respect of which more than 51% of their capital are owned by such offshore securities firms;
- (viii) foreign government-owned investment institutions provided that all the funds to be invested shall be owned by the foreign government;
- (ix) pension funds;
- (x) mutual funds, unit trusts or investment trusts which have assets of at least U.S.\$100 million;
- (xi) trust companies which hold securities assets in trust of at least U.S.\$100 million and have experience in safekeeping or management of securities or assets and in international financial or trust businesses;

- (xii) academic or charitable institutions whose by-laws or articles of incorporation state that their own internal funds may be used in investments and the management of the investments are delegated to external managers; and
- (xiii) any other professional institutional investors which hold securities or assets of at least U.S.\$100 million.

In addition, the new regulation, subject to the restrictions and qualifications imposed thereby, also relaxes restrictions on QFIIs' trading activities of futures and permits the QFIIs to trade the financial derivatives relating to the interest rate of New Taiwan Dollars.

Each QFII who wishes to invest directly in the ROC securities market is required to apply for an investment permit from the ROC SFC, provided that any application for investment exceeding U.S.\$50 million will require approvals from both the CBC and the ROC SFC. QFIIs who receive the permit(s) may currently invest up to U.S.\$3 billion, with certain limited exceptions. Except for some restrictions imposed by specific law and regulation, from January 1, 2001, the individual and aggregate foreign ownership of the issued share capital in a TSE listed company or a GTSM traded company is not restricted. ROC custodians for QFIIs are required to submit to the CBC and the ROC SFC a report of trading activities and status of assets under custody and other matters every month. Capital remitted to the ROC under these guidelines may be remitted out of the ROC at any time after the date such capital is remitted to the ROC. Capital remitted out of the ROC may be returned to the ROC within the approved two-year period without ROC SFC approval so long as its aggregate inward remittance after netting off its aggregate outward remittance does not exceed the investment amount approved by the ROC SFC and the CBC (if applicable). Capital gains and income on investments may be remitted out of the ROC at any time.

General Foreign Investors

Except for QFIIs, General Foreign Investors may currently invest in ROC securities up to U.S.\$5 million (in the case of individual investors) and U.S.\$50 million (in the case of institutional investors) after obtaining approval issued by the TSE. General Foreign Investors are also subject to the foreign ownership limitations on certain specified industries as described in "Prohibited and Restricted Industries".

Foreign Investment Approval

With the exception of QFIIs, General Foreign Investors and investors in OCBs and depositary receipts, under existing ROC laws and regulations relating to foreign investment, investors (both institutional and individual) who are not ROC persons and wish to make direct investment in the shares of ROC companies are required to submit a Foreign Investment Approval ("FIA") application to the Investment Commission of the MOEA or other government authority. The Investment Commission or such other government authority reviews each FIA application and approves or disapproves each application after consultation with other government agencies (such as the CBC and the ROC SFC). Under current law, any non-ROC person possessing an FIA may remit capital for the approved investment and is entitled to repatriate annual net profits, interest and cash dividends attributable to such investment. Stock dividends, investment capital and capital gains attributable to such investment may be repatriated after approvals of the Investment Commission or other government authorities have been obtained.

Prohibited and Restricted Industries

In addition to the general restriction against direct investment by non-ROC persons in shares of ROC companies, non-ROC persons are currently prohibited from investing in certain industries in the ROC pursuant to the Negative List as amended by the Executive Yuan from time to time. The prohibition on foreign investment in the prohibited industries specified in the Negative List is absolute and provides no specific exemption from its application. Pursuant to the Negative List, certain other industries are restricted so that non-ROC persons 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. The business of the Company is not in a prohibited or restricted industry under the Negative List.

Exchange Controls

The ROC's Foreign Exchange Control Statute and regulations thereunder provide that all foreign exchange transactions must be executed by banks designated to handle such business by the ROC MOF and by the CBC. Current regulations favor trade-related foreign exchange transactions.

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 import of merchandise and services may be purchased freely from the designated banks for conducting foreign exchange.

ROC companies, foreign companies recognized by the ROC, foreigners with an alien resident certificate and resident individuals may also, without foreign exchange approval, remit into and out of the ROC foreign currencies of up to U.S.\$50 million (or its equivalent) and U.S.\$5 million (or its equivalent), respectively, in each calendar year. The above limits apply to remittances involving a conversion between NT Dollars and U.S. Dollars or other foreign currencies. 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 remittance involving a conversion between NT Dollars and U.S. Dollars or other foreign currencies. A requirement is also imposed on all enterprises to register medium-and-long-term foreign debt with the Central Bank of China.

In addition, foreign persons may, subject to certain required documents, 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 only to remittances involving a conversion between NT Dollars and U.S. Dollars or other foreign currencies.

APPENDIX B — THE SECURITIES MARKET OF THE ROC

The information presented in this appendix has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Managers, the Trustee or any of their respective affiliates or advisors in connection with the offering.

In 1960, the ROC Government established the Securities and Exchange Commission to supervise and control all aspects of the securities market. The Securities and Exchange Commission of the ROC was restructured in early 1997 and renamed as the ROC SFC. In the 1970's and the early 1980's, the ROC Government implemented a number of steps designed to upgrade the quality and importance of the ROC securities market, such as encouraging listing on the TSE and establishing an over-the-counter market. In the mid-1980's, the ROC Government began to revise its laws and regulations in a manner designed to facilitate the gradual internationalization of the ROC securities market.

The Taiwan Stock Exchange

In 1961, the ROC SFC established the TSE to provide a marketplace for securities trading. The TSE is a corporation owned by government-controlled entities 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 637 by February 28, 2003. As of February 28, 2003, the market capitalization of companies listed on the TSE was NT\$9,066 billion.

Historically, Taiwan companies have listed only shares and bonds 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 the Taiwan's first convertible bonds. Since 1989, there have been offerings of domestic convertible bonds and convertible preferred shares. In addition, beneficiary units evidencing beneficiary interests in closed-end investment funds and Dragon Bonds issued by Asian Development Bank are also listed on the TSE or traded on the GTSM. 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, two foreign issuers have listed their equity securities on the TSE through the use of depositary receipts in accordance with these regulations.

The TSE requirements for listing are based on the following company attributes:

- ▶ he number and distribution of stockholders;
- ▶ length of time in business;
- ▶ amount of capital; and
- ▶ profitability.

However, special listing criteria apply to technology companies and key businesses engaging in national economic development.

The GreTai Securities Market

To complement the TSE, the GTSM was established in September 1982 on the initiative of the ROC SFC to encourage the trading of securities of companies who do not qualify for listing on the TSE. As of February 28, 2003, 408 companies have listed equity securities on the GTSM and the total market capitalization of those companies was NT\$876 billion.

In addition, the Emerging Market was established on January 2, 2002 on the initiative of the ROC SFC to encourage trading of securities of companies that do not qualify for listing on the TSE or the GTSM. The price of shares is decided by negotiation between securities firms and investors. As of March 11, 2003, 233 companies have registered equity securities on the Emerging Market.

The following table sets forth, for the periods indicated, certain information relating to the GTSM Index:

Period ended	Number of listed companies at period end	Trading value (in millions of NT Dollars)	Index high	Index low	Index at period end
1995	41	2,796	101.96	94.02	101.96
1996	79	453,509	234.83	99.92	233.09
1997	114	2,310,659	343.99	210.22	245.05
1998	176	1,198,158	281.41	163.89	165.80
1999	264	1,899,925	207.18	138.99	207.18
2000	300	4,479,663	329.47	99.86	104.93
2001	333	2,326,889	136.23	106.74	136.23
2002	384	2,794,771	104.91	93.64	94.38
2003 (through February 28)	408	181,880	97.83	92.23	92.23

Sources: GTSM Monthly Review; GTSM Data Base; Taiwan Economic Journal.

Taiwan Stock Exchange 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 shows for the periods indicated information relating to the TSE Index.

Period Ended	Number of listed companies at period end	Index high	Index Low	Index at period End
1991	221	4,305.22	3,316.26	3,377.06
1992	56	5,391.63	3,327.67	4,600.67
1993	285	6,070.56	3,135.56	6,070.56
1994	313	7,183.75	5,194.63	7,124.66
1995	347	7,051.49	4,503.37	5,173.73
1996	375	6,982.81	4,690.22	6,933.94
1997	404	10,116.84	6,820.35	8,187.27
1998	437	9,277.09	6,251.38	6,418.43
1999	462	8,608.91	5,475.00	8,448.84
2000	474	10,202.20	8,349.91	8,842.63
2001	584	6,104.24	3,446.26	5,551.24
2002	638	6,462.3	3,850.04	4,452.45
2003 (through February 28)	637	5,078.8	4,833.58	4,432.46

Source: Status of Securities Listed on Taiwan Stock Exchange.

As indicated above, the performance of the Taiwan Stock Exchange 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. Transactions that involve 500 trading lots or more must be registered and executed pursuant to certain TSE guidelines. Fluctuations in the price of stock traded on the TSE are currently subject to a restriction of 7% above and below the previous day's closing price (or reference price set by the TSE if the previous day's closing price is not available because of lack of trading activity) in the case of equity securities, and 5% in the case of debt securities. Brokerage commissions are proposed by the TSE and approved by the ROC SFC. The current approved maximum brokerage commission is 0.1425% of the transaction price for equity securities; however, a lower rate may be charged to clients by securities firms at their sole discretion, provided that they must report such rate to the TSE. A securities transaction tax, currently levied at the rate of 0.3% of the transaction price, is payable by the seller of equity securities and a tax at the rate of 0.1% of the transaction price is payable by the seller of debt securities other than government bonds. Such securities transaction taxes are withheld at the time of the transaction giving rise to such taxes. According to the amended Statute for Upgrading Industries effective as of February 1, 2002, no securities transaction tax will be imposed on the sale of the Bonds from February 1, 2002 to December 31, 2009. Sales of shares of companies listed on the TSE are currently sold in lots of 1,000 shares. Odd lot trading, or the purchase or sale of less than 1,000 shares, can be conducted in after-hours trading. Investors who desire to sell odd lots of shares of a listed company occasionally experience delays in effecting such sales.

Regulation and Supervision

The ROC SFC has been under the jurisdiction of the Ministry of Finance since 1981. The ROC SFC has extensive regulatory authority over companies listed on the TSE, companies whose shares are traded on the GTSM and unlisted public-issue companies. Such companies are generally required to obtain approval from, or registration with, the ROC SFC for all securities offerings. The ROC SFC has promulgated regulations requiring, unless otherwise exempted, periodic reporting of financial and operating information by all public-issue companies. In addition, the ROC SFC is responsible for the establishment of standards for financial reporting and carries out licensing and supervision with respect to the other participants in the ROC securities markets. The ROC SFC has responsibility for implementation of the ROC Securities and Exchange Law and for overall administration of governmental policies in the ROC securities markets. It has extensive regulatory authority over the offering, issuing and trading of securities. In addition, the ROC Securities and Exchange Law specifically empowers the ROC SFC to promulgate rules under certain circumstances.

The ROC Securities and Exchange Law prohibits market manipulation. It permits a company to recover certain short swing trading profits made through purchases and sales within six months by directors, managerial personnel, supervisors and shareholders, together with their spouses, minor children and nominees, holding 10% or more of the shares of the company, as well as spouses, minor children and nominees of these parties. The ROC Securities and Exchange Law prohibits trading by “insiders” based on non-public information that materially affects share price movement. Pursuant to the ROC Securities and Exchange Law, the term “insiders” includes directors, supervisors, managers and shareholders (together with their spouses, minor children and nominees) having more than 10% or more shareholding, as well as spouses, minor children and nominees of the parties, or any person who has learned such information due to an occupational or controlling relationship with the issuing company and any person who has learned such information from any of the foregoing. Sanctions can include prison terms. 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 a company’s contracts, reports and other evidentiary documents that are related to securities transactions. 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.

The ROC Securities and Exchange Law also provides for, among other things, regulations relating to public offerings of securities; measures to strengthen the capital structure of issuers; civil liability for material misstatements or omissions made by issuers; more stringent regulation of the securities activities of officers, supervisors, directors and major shareholders of issuers; regulations regarding tender offers; and a significant expansion of the prohibitions against insider trading, including the imposition of treble civil damages and criminal sanctions.

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 prosecutors. Under ROC law, civil actions may only be brought by plaintiffs who assert that they have suffered damages. The ROC SFC is directly empowered to curb abuses and violations of applicable laws and regulations only through administrative measures.

In addition to providing a market for securities trading, the TSE has primary responsibility for reviewing applications by issuers to list securities on the TSE and the GTSM has primary responsibility for reviewing applications by issuers to list securities on the GTSM. The ROC SFC reviews all securities offerings by listed companies. If issuers of listed securities violate relevant laws and regulations or encounter significant difficulties, the TSE and the GTSM may, with the approval of the ROC SFC, delist securities of such issuers.

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