



TA CHEN STAINLESS PIPE CORPORATION

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

US\$10,000,000

Zero Coupon Convertible Bonds due 2008

Issue Price: 100 percent

The US\$10,000,000 Zero Coupon Convertible Bonds due 2008 (the "Bonds") will be issued in registered form by Ta Chen Stainless Pipe Co., Ltd. (the "Company"). Unless previously redeemed, converted or repurchased and cancelled, the Bonds will be redeemed on December 11, 2008, at 113.14% of their principal amount. See "Terms and Conditions of the Bonds - Redemption, Repurchase and Cancellation".

The Company will, at the option of the holder of any Bond (the "Bondholder"), redeem such Bond on December 11, 2005 at its Early Redemption Amount (as defined herein). The Bonds may be redeemed, in whole or in part, at the option of the Company at any time on or after December 11, 2005, at their Early Redemption Amount in certain circumstances relating to the then prevailing Closing Price of the Shares relative to the Conversion Price. See "Terms and Conditions of the Bonds - Redemption, Repurchase and Cancellation". The Bonds may be redeemed, in whole but not in part at the option of the Company, at their Early Redemption Amount, at any time if more than 90 percent in principal amount of the Bonds has already been converted, redeemed or repurchased and cancelled. See "Terms and Conditions of the Bonds - Redemption, Repurchase and Cancellation".

The Bonds may be converted at any time after January 10, 2004 and prior to the close of business (at the place the Bond is deposited for conversion) on November 26, 2008 into Shares unless previously redeemed, converted or purchased and cancelled and except during a Closed Period (as defined herein).

Investing in the Bonds involves certain risks. See the section on "Risk Factors".

The Conversion Price will initially be NT\$8.24 per Share subject to adjustment in the manner provided herein and with a fixed rate of exchange applicable on conversion of the Bonds of NT\$34.240 = US\$1.00. In addition, the Conversion Price will be adjusted on the Reset Date (as defined herein) in certain circumstances relating to the then prevailing Closing Price of the Shares relative to the Conversion Price. Further, in certain circumstances relating to the then prevailing Closing Price of the Shares, the Conversion Price shall be further adjusted downwards during an Alternative Reset Period (as defined herein). See "Terms and Conditions of the Bonds - Conversion". The Shares are listed on the Taiwan Stock Exchange ("TSE") with the ticker number "2027" and application will be made to list the Shares issued on conversion of the Bonds on the TSE. On September 30, 2003, the Closing Price of the Shares on the TSE was NT\$7.4 per Share.

No application has been made to list the Bonds on any stock exchange.

The Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). The Bonds are being offered or sold outside the United States in accordance with Regulation S under the Securities Act. The Bonds may not be offered, sold or delivered in the ROC.

Lead Manager

The International Commercial Bank of China

Co-Lead Manager

MasterLink Securities Corporation

The date of this Offering Circular is December 11, 2003

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 and 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.

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 of this Offering Circular are required by the Company and the Lead Manager (as defined in "Subscription and Sale") 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 "Subscription and Sale". This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company, the Trustee or the Lead 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 the Company, the Trustee or the Lead Manager. 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 the Company since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

The Managers make no representations or warranties (express or implied) as to the accuracy or completeness of the information contained herein and nothing contained in this Offering Circular is, or shall be relied upon, as a promise or representation, whether as to the past or the future. The Managers have not independently verified any such information and assume no responsibility for its accuracy or completeness.

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 the Closing Date with a common depository for, Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Definitive Certificates will be issued to Bondholders only if either Euroclear or Clearstream, Luxembourg (or any other clearing system as shall have been designated by the Company and approved by the Trustee 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.

References to the "ROC" means the island of Taiwan and other areas under the effective control of the Republic of China.

The Company has prepared audited consolidated financial statements for the two years ended December 31, 2001 and 2002, and the audited non-consolidated financial statements as at and for the six months ended June 30, 2002 and 2003 contained herein.

Our financial statements are prepared using ROC GAAP and are not intended to present the financial condition, results of operations and cash flows in accordance with accounting principles and practice generally accepted in countries and jurisdictions, including the United States, other than those in the ROC.

ENFORCEABILITY OF FOREIGN JUDGMENTS IN THE ROC

The Company is a company limited by shares and incorporated under the ROC Company Law. Substantially all of the Company's directors and executive officers, its supervisors and certain other parties named herein are residents of the ROC and a substantial portion of the assets of the Company and such persons are located in the ROC. As a result, it may not be possible for investors to effect service of process upon the Company or such persons outside of the ROC, or to enforce against any of them judgments obtained in courts outside of the ROC. Any final judgment obtained against the Company or such person 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 contents of the judgment or the court procedure resulting in the judgment is not contrary to the public order or good morals of the ROC; (iii) the judgment is a final judgment for which the period for appeal has expired or from which no appeal can be taken; (iv) if the judgment was rendered by default by the court rendering the judgment, the Company or such persons were served within the jurisdiction of such court, or process was served on the Company or such persons with judicial assistance of the ROC; and (v) judgments of the courts of the ROC are recognized and enforceable in the court rendering the judgment on a reciprocal basis. Remittance out of the ROC of any amount recovered from enforcing a foreign judgment in the ROC is also subject to the Foreign Exchange Control Statute and regulations as described in "Foreign Investment and Exchange Controls in the ROC" herein.

TABLE OF CONTENTS

SUMMARY OF TERMS	3
USE OF PROCEEDS	6
RISK FACTORS	7
BUSINESS OF THE COMPANY	12
MANAGEMENT	17
PRINCIPAL SHAREHOLDERS	19
DIVIDENDS	20
TERMS AND CONDITIONS OF THE BONDS	21
THE GLOBAL CERTIFICATE	40
FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC	43
DESCRIPTION OF THE COMMON STOCK	47
THE SECURITIES MARKET OF THE ROC	50
ROC TAXATION OF NON-RESIDENTS	53
SUBSCRIPTION AND SALE	55
GENERAL INFORMATION	57
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2001 TOGETHER WITH INDEPENDENT AUDITORS' REPORT (WITH COMPARATIVE UNAUDITED DATA FOR THE YEAR ENDED DECEMBER 31, 2000)	F-1
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001 TOGETHER WITH INDEPENDENT AUDITORS' REPORT	F-27
FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002 TOGETHER WITH INDEPENDENT AUDITORS' REPORT	F-56

Unless otherwise specified or the context requires, references to "US dollars" and "US\$" are to the lawful currency of the United States of America, references to "New Taiwan dollars", "NT dollars", "NT\$" and "\$" are to the lawful currency of the ROC. The closing rate of exchange of Taipei Forex Inc. between the NT dollar and the US dollar on November 24, 2003 was NT\$34.240 = US\$1.00.

Unless otherwise specified or the context requires, references in this Offering Circular to consolidated financial information as of and for the years ended December 31, 2001 and 2002 refer to the Company's financial information derived from the audited consolidated financial statements included elsewhere herein, references in this Offering Circular to consolidated financial information as of and for the years ended December 31, 2000 and as of and for the six months ended June 30, 2003 and 2002 refer to the Company's financial information derived from the audited financial statements included elsewhere herein.

SUMMARY OF TERMS

The Issue

Issuer: Ta Chen Stainless Pipe Co., Ltd.

Issue: US\$10,000,000 Zero Coupon Convertible Bonds due 2008

Issue Price: 100 percent

Closing Date: December 11, 2003

Maturity Date: December 11, 2008

Conversion: Subject to prior redemption and subject as otherwise provided herein, the Bonds are convertible at any time on or after January 10, 2004 and prior to the close of business (at the place at which the Bond is deposited for conversion) on November 26, 2008, except during any Closed Period, into Shares at a conversion price per Share (subject to adjustment as described herein) (the "Conversion Price") of NT\$8.24, determined on the basis of a fixed exchange rate of NT\$34.240 = US\$1.00 (the "Fixed Exchange Rate"). For a fuller description, see "Terms and Conditions of the Bonds - Conversion".

Conversion Price Reset: In addition to any downward adjustments for anti-dilution protection as referred to under Condition 6(C) of the Bonds, the Conversion Price will be adjusted on October 27 of 2004, 2005, 2006, 2007 and 2008 (each a "Reset Date") in the event that the Average Closing Price (as defined herein) for 20 consecutive Trading Days immediately preceding each Reset Date translated into US dollars based on the then prevailing foreign exchange rate is less than the Conversion Price on the relevant Reset Date, translated into US dollars based on the Fixed Exchange Rate; provided that any adjustment to the Conversion Price pursuant to this mechanism shall be limited to the extent that the adjusted Conversion Price shall not be less than 80 percent of the initial Conversion Price prevailing on the Closing Date, as adjusted to reflect any adjustments pursuant to Condition 6(C) of the Bonds. See "Terms and Conditions of the Bonds - Conversion - Conversion Price Reset".

Special Conversion Price Reset: During the period of seven consecutive Trading Days, the first of which occurs not more than 30 days prior to December 11, 2005, and December 11, 2008 (each a "Special Reset Period"), the Conversion Price may be adjusted downwards, at the option of the Company, in certain circumstances relating to the then Closing Price of the Shares. The Special Reset Conversion Price can be adjusted below 80 percent of the initial Conversion Price and upon expiration of the Special Reset Period, the Conversion Price shall revert back to the Conversion Price that would have been in effect but for the Special Conversion Price Reset. See "Terms and Conditions of the Bonds - Conversion - Special Conversion Price Reset".

Negative Pledge: The Company will not create or permit to subsist security for the benefit of holders of any International Investment Securities (as defined in the Terms and Conditions of the Bonds) or for any guarantee thereof without granting equivalent security in respect of the Bonds. See "Terms and Conditions of the Bonds - Negative Pledge".

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 113.14% of their principal amount in US dollars on December 11, 2008. See "Terms and Conditions of the Bonds - Redemption, Repurchase and Cancellation - Redemption at Maturity".

Redemption at the Option of the Company: The Company may redeem the Bonds, in whole or in part, on or after December 11, 2005, at the Early Redemption Amount in US dollars, if the Closing Price of the Shares on the TSE translated into US dollars at the Prevailing Rate on each of the 20 consecutive Trading Days, the last of which occurs not more than 10 Trading Days prior to the date upon which notice of such redemption is published, is at least 140 percent of the Conversion Price of the Bonds then in effect, translated into US dollars at the Fixed Exchange Rate on each such Trading Day.

The Company may redeem the Bonds, in whole but not in part, at their Early Redemption Amount if more than 90 percent in principal amount of the Bonds has already been converted, redeemed or repurchased and cancelled. See "Terms and Conditions of the Bonds - Redemption, Repurchase and Cancellation - Redemption at the Option of the Company".

Redemption at the Option of the Bondholders: The Company will, at the option of the holder of any Bond, redeem such Bond at its Early Redemption Amount on December 11, 2005. See "Terms and Conditions of the Bonds - Redemption, Repurchase and Cancellation - Redemption at the Option of the Bondholders".

Form and Registration of the Bonds: The Bonds will be issued in registered form in the denomination of US\$10,000 and integral multiples thereof and will be transferable in principal amounts of US\$10,000 or an integral multiple thereof. The Bonds will be represented by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and shall be deposited on or about the Closing Date with a common depository for Euroclear and 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. Except as described herein, definitive certificates for Bonds will not be issued in exchange for beneficial interests in the Global Certificate.

Governing law: The Bonds and the Trust Deed (as defined herein) are governed by English law.

Trustee: The Bank of New York, London Branch.

Registrar: The Bank of New York.

Listing: Application will not be made to list the Bonds on any 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.

Use of Proceeds: The net proceeds from the offering of the Bonds will be approximately US\$9,820,000. The net proceeds of issue of the Bonds will be used to purchase raw materials overseas.

CORPORATE AND OTHER INFORMATION

The Company was incorporated (Uniform Registration Number: 22318348) on November 27, 1986 under ROC law. The registered office of the Company is located at No.2, Lane 138, Hsin Tien 2nd ST., Hsin-Tien, Jeng-Ten, Tainan, Taiwan, ROC, and the telephone number is (886-6) 2701756.

USE OF PROCEEDS

The net proceeds from the offering of the Bonds will be approximately US\$9,820,000. The net proceeds of issue of the Bonds will be used to purchase raw materials overseas.

RISK FACTORS

Any potential investor in, and buyer of, the Bonds should pay particular attention to the fact that the Company is governed in the ROC by a legal and regulatory environment, which in some respects may be different from that prevailing in other countries. Prior to making an investment decision, investors should carefully consider, along with the other matters set out in this Offering Circular, the following risk factors:

RISKS RELATING TO THE COMPANY AND ITS BUSINESS

The steel industry is cyclical; downward pricing pressure on steel products in response to excess capacity could harm operating results of the Company

The global and regional steel industry is cyclical in nature and at times has been characterized by substantial excess capacity in many markets. Excess capacity could result in lower world market prices for steel products and declines in world steel prices could result in lower prices for steel products in Taiwan. The world steel industry was subject to substantial downward pricing pressure in the second half of 2000 and the entire year of 2001 as a result of general excess capacity in the industry. Although world steel prices have generally improved since 2002, there can be no assurance that the upward pricing trend will continue. Continuation of reduced world steel prices or further declines in such prices could adversely affect domestic and world sales prices for the steel products of the Company or, if the Company was to seek to maintain higher prices for its products, result in reduced domestic and export sales volume.

The Company operates in a highly competitive environment and it may not be able to sustain its current market position if the Company fails to compete successfully

The world steel market is highly competitive with respect to price, quality and service, especially in the Asian region. The Company sells products primarily to the export markets. For the year of 2002 and in the six months ended June 30, 2003, approximately 97% of the revenues were accounted for exports to over fifty countries. Therefore, the main competitors of the company in principal export markets are other integrated steel makers located in countries that are exporters of steel, principally America, Japan, South-Korea, Southeast Asia, Africa and the PRC, and particularly, those steel makers formed as a result of the consolidation of the steel industry in the Asian region. Steel makers formed as a result of consolidation may enjoy improved market share, cost structure, production efficiency, distribution channels, and economies of scale. In global competitive markets, the Company has recently faced competitive pressures from the South-Korean producers because of the similar standard of quality and price with the Company's products, while others competitors from America, Japan, Southeast Asia, Africa and the PRC have more disadvantages in cost, quality or technology compared to the Company.

In the other hand, the PRC steel industry is rapidly developing as many PRC steel makers continue to make substantial capital expenditures in new equipment and technology as well as to undertake capacity expansion projects. The improvement in production efficiency and capabilities of PRC steel makers and expanded production capacity may result in a decrease in the price of steel products produced in the PRC and a corresponding decrease in demand for imported steel products, and further it may effect export market prices. Therefore, the Company's ability to remain competitive in export markets may be adversely affected by the supply and lower price of steel products produced by steel makers in the PRC.

Increased competition could result in significant price competition, reduced revenues, lower profit margins or loss of market share, any of which could have a material adverse effect on our business, results of operations and financial condition of the Company. The Company cannot assure you that it will be able to compete successfully against either current or potential competitors in the future.

The Company is dependent on imported raw materials and if it is unable to obtain raw materials in suitable quantity and quality from the suppliers at reasonable prices, its production schedules would be delayed and it may lose customers

The principal raw materials used by the Company in manufacture of stainless steel product are stainless coils and stainless steel castings. The prices of these raw materials have fluctuated in the past and there can be no assurance that the Company will be able to maintain its profit margins as such cost increases significantly. Moreover, the Company typically purchases raw materials from a few suppliers for each type of raw materials. Although the Company has not experienced protracted interruptions of its supply of raw materials

from sources in these countries, any protracted interruption of its supply of raw materials, or any significant increases in the prices of such raw materials, could have a material adverse effect on its business. In addition, since the Company also imports raw materials, any significant increases in the costs of freight could adversely affect profitability of the Company.

Products of the Company may be subject to anti-dumping and countervailing proceedings or safeguard measures

Products of the Company may be subject to anti-dumping and countervailing proceedings or safeguard measures all over the world, especially in the principal export markets for stainless steel products, including, the U.S.A., the EU, the PRC and other markets in the Asian region. As the Company provides in the 2002 annual report, in May 1997, the United States Department of Commerce (the "USDOC") made the preliminary determination to impose the anti-dumping duties in the stainless steel case of Ta Chen International (CA) Corp. ("TCIC"), which was the subsidiaries of the Company in the U.S.A. The anti-dumping duties were 31.9% on stainless steel pipes from June 1992 to November 1994 and 76.2% on stainless butt-welded fittings from December 1992 to May 1994, which were approximately US\$11,000,000 plus accrued interests. The USDOC affirmed the re-determination on remand in June 1999 and then the TCIC appealed to the US court of International Trade (the "USCIT"), subject to the court trial and final decision. See "Business of the Company – Litigation." If the final decision is not in favor of the Company, there may be a material adverse effect on the Company. Any increases in, or new imposition of, anti-dumping duties, quotas or tariffs on its sales in export markets may have a material adverse effect on the result of operations of the Company.

The Company is subject to significant environmental laws and regulations, which could adversely impact the availability of funds for capital expenditure or adversely affect its operations

Taiwan steel makers are subject to stringent environmental laws and regulations concerning, among other things, drinking water, noise, discharges to the air and water and the handling and disposal of solid wastes. In particular, upstream processes of the Company produce a substantial amount of wastes. The amount of wastes discharged is under stringent regulation by ROC environmental regulatory authorities and the total amount of wastes discharged within a certain period of time may not exceed the applicable limitations. However, in view of the possibility of unanticipated regulatory or other developments, particularly as environmental laws become more stringent, the amount and timing of future expenditures required for legal compliance could vary substantially from their current levels and could adversely impact the availability of funds for capital expenditures and other purposes. In addition, the stringent environmental regulations may also restrict the Company's ability to expand its production capacity.

The steel industry is capital intensive and if the Company is not able to obtain sufficient capital for future business development, its results of operations and growth prospects may be adversely affected

The production of steel is capital intensive. For the competitive strategies of cost and efficiency, the Company needs to modernize production processes, plant and equipment, which requires substantial gradual capital investment. Some competitors of the Company such as those from the PRC have recently announced to make substantial investments in new equipment and to upgrade their production facilities. The Company expects to meet its capital expenditure plans through cash flow from operations, domestic debt offerings and long-term syndicated loans. However, if adequate funds are not available on satisfactory terms, the Company's operations may be adversely affected.

The Company depends on the customers in the U.S.A. for a substantial portion of revenues

As typical in the steel industry, the Company depends on the customers in the U.S.A. for a substantial portion of revenues. For the Company, the average portion of net revenues of 2000, 2001 and 2002 and the six months ended June 30, 2003 is approximately 73%, 61%, 70% and 58% from TCIC, which is a subsidiary and 100% owned by the Company. Therefore, the US economic environment and TCIC's business in the U.S.A. market may have a great influence on the business of the Company.

Foreign Currency Exchange Rate Fluctuations

The Company conducts business globally and a large portion of its receivables and payables are denominated in foreign currencies. In order to hedge foreign-exchange risks occurring in conversion of NT dollars and US dollars, the Company uses US dollars in payments, receivables, and cost of revenue primarily associated with

purchase of raw materials. The Company provides that over these years, payments and net receivables of the Company in US dollars accounted for approximately 94% and 6% in other currencies including NT dollars. Accordingly, fluctuations in exchange rates may affect the Company's costs and operating margins. In addition, these fluctuations could result in exchange losses and increased costs in NT dollars and other local currency terms. The fluctuations in foreign exchange rates have affected, and may continue to affect, the Company's financial condition and results of operations.

Reliance on qualified employees

The Company's success depends on its ability to attract and retain highly qualified management, engineering technical personnel and sufficient labors of department of production. The process of hiring employees with the combination of skills and attributes required to implement the Company's strategy can be extremely competitive and time-consuming. The loss of the services of key personnel, or the inability to attract additional qualified personnel, could have a material adverse effect on the Company's business.

Variability of operations and strategies may result in unanticipated or unforeseen risks

Many factors may contribute to significant variability in the Company's quarterly and annual results of operations. These factors include, among other things, customers' commitments, timing of orders, volume of orders relative to the Company's production capacity, technological advances, timing of expenditures in anticipation of future orders, effectiveness in managing production processes, changes in costs and availability of labor, raw materials and components, mix of orders filled, competition and changes or anticipated changes in economic conditions. Unfavorable changes in the above or other factors have in the past adversely affected and may in the future adversely affect the Company's results of operations or financial condition.

Investment risks

The Company has certain interests in a number of affiliates and subsidiaries established in the U.S.A., the British Virgin Islands, Taiwan and the PRC. From time to time, the Company reviews investment opportunities and may make an investment if a suitable opportunity arises. Future investments may be in the form of capital expenditure made directly or through subsidiaries, or acquisitions of, or investments in, other businesses or joint ventures with third parties. No assurance can be given that the investments will benefit the Company. An unsuccessful investment could have a material adverse impact on the Company's operations and prospects.

Transactions with related parties

The Company has entered into various transactions with its related parties, including but not limited to providing guaranty to its related party for particularly borrowing needs. The Company may enter into additional transactions with its affiliates in the future. Although the Company believes that such transactions are legal, there is no assurance that transaction with related party will not adversely affect the financial or other conditions of the Company.

RISKS RELATING TO THE BONDS AND THE SHARES

A liquid market for the Bonds may not develop. The Bonds will not be listed on any stock exchange. The trading market for the Shares is the TSE on which the Shares were listed in October 1996. There can be no assurance of the liquidity of the TSE for the trading of the Shares.

As of September 30, 2003, the Company's directors and supervisors owned approximately 9.96% of the Company's outstanding Shares. While no single person, as far as known to the Company, 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 polices, 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 interest of other shareholders

The Bondholders' ability to exercise their conversion rights may be limited. The Bonds are convertible into Shares at the option of the converting Bondholders 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.

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.

When a non-ROC Holder exercises its conversion rights to receive Shares and register as a shareholder of the Company, such holders will be required to appoint an agent (a "Tax Guarantor") in the ROC. Such Tax Guarantor will be required to meet the qualifications set by the ROC Ministry of Finance (the "ROC MOF") and will act as the guarantor of such holder's tax payment obligations. Evidence of the appointment of a Tax Guarantor and the approval of such appointment is required as conditions to withdrawing such holder's profits derived from the sale of Shares. There can be no assurance that such holders will be able to appoint and obtain approval for a Tax Guarantor in a timely manner.

The potential value of the bond may be diluted when the Company distributes the employee bonus as stock dividends. According to the Articles of Incorporation of the Company, the employees are entitled to receive bonuses at least 5% of the allocable retained earnings and earned surplus of the Company. The number of Shares to be issued under the employee bonus scheme is calculated by valuing the Shares at their par value rather than their market value, which typically means that the value of the bonus Shares received by employees is significantly higher than the cash amount employee would have received if the employee bonus was paid out in cash. Under GAAP ROC, the distribution of employee bonus is not audited as the company income. Therefore, when the Company issues such kind of stock dividends, the substantial value and Shareholders' right will be diluted for the original Bondholders who convert their Bonds into Shares.

In addition, under current ROC law, such converting or withdrawing holder is required to appoint a local agent in the ROC to, among other things, open a securities trading account with a local securities brokerage firm and a bank account, remit funds and exercise a shareholder's rights. Further, such converting or withdrawing holder must appoint a local bank to act as custodian for confirmation and settlement of trades, safekeeping of securities and cash proceeds and reporting and declaration of information. Without satisfying these requirements, converting Holders that receive Shares or withdraw and hold Shares represented thereby would not be able to hold or otherwise transfer Shares on the Taiwan Stock Exchange.

RISKS RELATING TO THE ROC

Risks relating to the ROC Securities Market

The ROC securities markets are smaller and more volatile than the securities markets in the United States and in certain European and other countries. The TSE and the GTSM have experienced substantial fluctuations in the prices and volumes of sales of listed securities, and there are currently limits on the range of daily price movements on the TSE and the GTSM. The TSE and the GTSM have in the past experienced problems such as market manipulation, insider trading and payment defaults. The recurrence of these or similar problems could adversely affect the market price and liquidity of the securities of ROC companies, including the Shares, in both the domestic and the international markets.

The political status and international relations of the ROC may affect the Company and the Bonds

The Company was incorporated in the ROC. The ROC has a unique international political status. Although the Chinese nation has existed for several thousand years, since 1949, Taiwan and the Chinese mainland have been separately governed. The ROC, which was founded in 1912, governs Taiwan while the PRC, which was founded in 1949, has governed the Chinese mainland for over the past 50 years. The former President of the ROC asserted that the ROC and the PRC are equal political entities which should enter into a "special state to state" relations, while the PRC claims that it is the sole government in the PRC and that Taiwan is part of the PRC. Although significant economic and cultural relations have been established during recent years between the ROC and the PRC, the PRC has refused to renounce the possibility that it may at some point use

force to gain control over the ROC. These developments have had from time to time an adverse effect on the value of the TSE Index and the price of the Shares. Relations between the ROC and the PRC may also have an adverse effect on the ROC's economy, the Company's results of operation, and the market price and liquidity of the Shares and the Bonds. There can be no assurance that the present tensions will not worsen, which could have a significant adverse impact on the ROC's economy, the value of the TSE Index, the GTSM Index, the price of the Shares and the Company's results of operations and financial condition.

Foreign exchange approvals may be required

Under existing ROC law, foreign exchange transactions must be reported to 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 sale of the Shares issued on 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. However, there can be no assurance that ROC law will continue to permit such transactions without regulatory approval. See "Foreign Investment and Exchange Controls in the ROC - Overseas Corporate Bonds".

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 ROC GAAP, which differ in certain material respects from US 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.

Future natural disasters and disruptive events may occur

From time to time, the ROC experiences severe earthquakes and other natural disasters that may cause significant property damage and loss of life. The Company's operation and the operation of its customers, distributors and suppliers may be adversely affected in the event of future earthquake and natural disruptions. As such, no assurance can be given that any future natural disaster will not have a material adverse effect on the business, financial condition, results of operations and future prospects of the Company.

The recent outbreak of Severe Acute Respiratory Syndrome ("SARS") in the PRC, Hong Kong, Singapore, Vietnam, Taiwan and certain other Asian countries may have an adverse effect on the economies and financial markets of certain Asian countries and as a result may adversely affect the Company's results of operations.

Beginning in March 2003, the PRC, Hong Kong, Singapore, Vietnam, Taiwan and certain other Asian countries encountered an outbreak of SARS, a highly contagious form of atypical pneumonia. Also, the disease has infected to other areas across the world, including Canada, over a few weeks since its outbreak in March 2003. According to the World Health Organization, 8,450 cases of SARS and 810 deaths were reported in 32 countries as of June 27, 2003. In response to the severity of the SARS outbreak in the PRC, Hong Kong, Taiwan and these Asian countries the World Health Organization has previously issued a travel advisory recommending that persons traveling to these areas consider postponing all but essential travel. Also, since the start of the SARS outbreak, a number of business operations in the region have been required to shut down temporarily and have its employees placed in quarantine due to one or a few of its employees being contracted with SARS or being suspected of such. Although the SARS epidemic now appears to become under control and that the World Health Organization has now lifted travel advisory against all of these once-affected areas, some experts fear that the SARS epidemic might resurface. As a result, any economic downturn or temporary shut down of the Company's operations as a result of the SARS outbreak may have an adverse effect on the business of the Company.

The following discuss should be read in conjunction with the "Risk Factors", Company's audited consolidated financial statements as of and for the years ended December 31, 2001 and 2002, and the Company's unconsolidated financial statements as and for the six months ended June 30, 2002 and 2003, including the notes thereto, included elsewhere in this Offering Circular.

BUSINESS OF THE COMPANY

The Company manufactures and sells a broad range of high quality finished and semi-finished stainless steel products, including welded stainless steel pipes, tubing, butt-weld fittings, casting fittings, ball valves, bed rails, stainless steel coils, bars and other flat rolled products. The Company also trades in components, raw materials and semi-products in Taiwan market. In recent years, the Company has made new investments in the new products, gauer bars and shutters, in which gauer bars are expected to increase the sales and profits after 2003.

The Company sells products primarily to the overseas market. For the year of 2002 and in the six months ended June 30, 2003, approximately 97% of the revenues was accounted for exports to over fifty countries. The most important overseas market for the Company is in America, and in the U.S.A. the Company has established local market channels through the US subsidiary, Ta Chen Int'l (CA) Corp., which owns the warehouses in six cities, including Los Angles, Chicago, Houston, Atlanta, Tampa, and Philadelphia; Besides, the other main markets are in Europe, Australia, Southeast Asia, Africa and Israel. In global competitive markets, the Company has recently faced competitive pressures from the South-Korean steel markers because of the similar standard of quality and price with the products of the Company, while others competitors from America, Japan, Southeast Asia, Africa and the PRC have more disadvantages in costs, quality or technology compared to the Company.

The Company was incorporated in 1986 as a company limited by shares in Taiwan under the ROC Company Law. The Company's shares of common stocks (the "Shares") have been listed on the TSE since October 1996. On September 30, the closing price per Share on TSE was NT\$ 7.4 per Share and the market capitalization of the Company was approximately NT\$1,811 millions. The Company's registered office is located at No.2, Lane 138, Hsin Tien 2nd St., Hsin-Tien, Jeng-Ten, Tainan, Taiwan, ROC.

Company Strategy

For sustainable development of the Company, the goal of the Company is to maintain its competitive position in world markets and take advantage of the rising demand such that industries choose stainless steel products to substitute for traditional ones. The Company has developed a business strategy designed to take advantage of its competitive strengths. The key elements of the Company's strategy are:

- *Continue to improve the Company's cost structure to enhance its competitiveness and operational efficiency;*
- *Continue to leverage the benefits of vertical integration and supply a comprehensive range of products;*
- *Use the local distribution channels and customer loyalty of stainless steel coil for marketing finished and semi-finished stainless steel products;*
- *Take greater diversity of market to lessen sales concentration risk in the US market;*
- *Improve the automation facilities.*

Products of the Company

The major products and their main applications are as follows:

- ◆ **Welded Stainless Steel Pipes:** for the chemical, pharmaceutical, foodstuff, winemaking industry and the hospital.
- ◆ **Stainless Steel Butt-Weld Fittings:** the connector for the two or three high-pressure pipes.
- ◆ **Stainless Casting Fittings:** the connector for the two or three steel pipes.

- ◆ Stainless Steel Ball Valves: for the chemical, pharmaceutical, foodstuff, winemaking industry and the hospital.

The table below sets out the Company's total net sales by product/services category for the period indicated:

Products	Non-Consolidated Net Sales for the year ended December 31,						Unit: NT\$1,000 Non-Consolidated Net Sales for the First half of 2003	
	2000		2001		2002			
Stainless Pipes	1,437,500	41.89%	1,019,676	38.37%	1,303,799	37.13%	812,018	47.84%
Stainless Butt-Welded Fittings	254,898	7.43%	191,601	7.21%	273,908	7.80%	114,372	6.74%
Stainless Casting Fittings	166,276	4.85%	157,064	5.91%	134,100	3.82%	52,298	3.08%
Stainless Steel Ball Valves	234,037	6.82%	232,939	8.77%	259,408	7.39%	137,465	8.10%
Coil Trade	1,253,488	36.53%	827,725	31.15%	1,195,616	34.05%	511,360	30.12%
Others	85,642	2.50%	228,209	8.59%	344,634	9.81%	70,010	4.12%
Total	<u>3,431,841</u>	<u>100%</u>	<u>2,657,214</u>	<u>100%</u>	<u>3,511,465</u>	<u>100%</u>	<u>1,697,523</u>	<u>100%</u>

Raw Materials and Components

The key materials for stainless pipes and butt-welded fittings were stainless coils, which were mainly supplied by Yieh United Steel Corporation (41.9%), Yieh Mau Corporation (31.7%), and AVESTA SHEFFIELD (11.8%) in 2002. The key raw materials for stainless casting fittings and steel ball valves were stainless steel casting, which were mainly supplied by HOUFORD Enterprise Limited (2.3%), Chen Yu Metal Industrial Co., Ltd. (0.2%) and Yuan Wei Sheng Co., Ltd. (0.2%) in 2002. The Company has not experienced any significant delay or constraint in production due to disruption of supply of raw materials and components in the past three years.

Research and Development

As of September 30, 2003, the Company's R&D team consists of approximately eight persons. In the year of 2002 and as of September 30, 2003, the Company paid NT \$ 8,962,177 and NT \$ 8,965,413 to improve its cost structure to enhance competitiveness and operational efficiency.

Production Facilities

The Company currently has four production facilities in Taiwan and has three subsidiaries overseas in charge of manufacture. The information is as below:

Name	Location	Product	Square measure of building area	Percentage of capacity of 2002.
Tainan Factory One	ROC	Stainless steel pipes	40,565 M ²	100%
Tainan Factory Two	ROC	Stainless butt-welded fittings		100%
Caotun Factory	ROC	Stainless casting fittings		94%
FaMen Factory	ROC	Stainless steel ball valves		100%
Ta Chen Int'l (CA) Corp.	CA, US	Shutters	76,274 F ²	- ⁽¹⁾
Shiziazhuang Jitai Precision Casting Co., Ltd.	Hebei, PRC	Stainless steel valves and precision casting	6,700 M ²	91%
Ta Chen Baoding Precision Casting Co., Ltd.	Hebei, PRC	Stainless steel products and other metallic processing products	4,900 M ²	100%

Notes: (1) Ta Chen Int'l (CA) Corp. produces shutters according to the design specification of its customers.

Quality Control

The quality management system standard of the Company has received the ISO-9001:2000 certification in manufacture of stainless steel pipes, square tubing and butt-welding pipe fittings, and design and manufacture of stainless steel ball valves. The original approval was in 1994 and the current approval was in April 11, 2003.

Sales and Marketing

The Company and its subsidiaries currently have sales offices located in Taipei and Tainan in the ROC and six cities in the U.S.A., including Los Angeles, Chicago, Houston, Atlanta, Tampa, and Philadelphia. In addition, the Company has agencies and distributors in its export markets.

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

Geographical Areas	Consolidated Net Sales for the year ended December 31						Unit: NT\$1,000 Non-Consolidated Net Sales for the First half of 2003	
	2000		2001		2002			
America	5,630,457	87%	6,127,420	84%	6,305,739	84%	1,268,835	75%
Asia	268,782	4%	579,439	8%	660,373	9%	164,817	10%
Australia	47,308	1%	50,645	1%	58,567	1%	31,867	2%
Europe	302,400	4%	248,452	3%	276,901	4%	150,658	9%
Others	58,130	1%	53,075	1%	46,480	Less 1%	23,245	1%
Sub Total	6,303,077	97%	7,059,031	97%	7,348,060	98%	1,639,422	97%
Taiwan	198,488	3%	238,074	3%	117,228	2%	58,101	3%
Total	<u>6,501,565</u>	<u>100%</u>	<u>7,297,105</u>	<u>100%</u>	<u>7,465,288</u>	<u>100%</u>	<u>1,697,523</u>	<u>100%</u>

The following table sets forth the top ten customers of the Company, the sales amount, and percentage of total sales for the year 2001, 2002 and June 30, 2003:

Top Ten Customers	2001		2002		Unit: NT\$1,000 First half year ended June 30, 2003	
	Non-Consolidated Net Sale	Net Sale Percentage	Non-Consolidated Net Sale	Net Sale Percentage	Non-Consolidated Net Sale	Net Sale Percentage
Ta Chen Int'l (CA) Corp.	1,619,406	61%	2,447,547	70%	984,166	58%
Fong's Steels	20,285	1%	53,996	2%	27,315	2%
Banner	-	-	41,878	1%	164,702	10%
Pinacle	19,931	1%	36,984	1%	46,924	3%
Atla Steels	27,804	1%	35,195	1%	21,851	1%
Santrade	30,161	1%	28,777	1%	12,488	1%
Hauford	102,596	4%	32,547	1%	8,723	1%
Pac Pvf Trade Inc.	18,377	1%	17,499	1%	16,141	1%
Thghtiran Kashan Co.	20,927	1%	28,334	1%	22,701	1%
Pinacle Stainless	6,806	Less than 1%	16,809	1%	16,341	1%

In 2001, non-consolidated sales to the top ten customers of the Company accounted for approximately 72% of the net non-consolidated income of the Company; in 2002, the figure was approximately 80%. As of June 30, 2003, the top ten customers of the Company accounted for approximately 79%.

The following table sets forth the top ten customers of the Ta Chen Int'l (CA) Corp., which is a subsidiary and 100% owned by the Company, the sales amount, percentage of total sales and the type of products sold for the ten months of 2003:

Top Ten Customers	Non-Consolidated Group Net Sales for the ten months ended in September 30, 2003	Unit: US\$ Net Sale Percentage
ALRD INDUSTRIAL GRP.	8,390,032	6.01%
RELIANCE METAL CENTER GRP	4,230,807	3.03%
EMERDEX STAINLESS FLAT	3,829,968	2.74%
INTEGRIS METALS GROUP	3,764,917	2.70%
KEARNEY'S METALS INC.GRP	3,649,852	2.62%
GUY METALS, INC.	2,997,166	2.15%
TW METALS, INC.	2,697,288	1.93%
FERGUSON ENTERPRISES GRP	2,233,472	1.60%
O'NEAL SPECIALTY PRODUCTS	2,003,921	1.44%
J.M. YULL AFCO GRP.	1,763,210	1.26%

Intellectual Properties

As of September 30, 2003, the Company does not register any patent right. The Company registered its service mark of "Ta Chen" in the ROC.

Environmental Matters

According to the 2002 annual report of the Company, the Company has not had any material environmental violations in the last two years and as of 2003, which would require the Company to make significant capital expenditures. The Company would keep on modifying its environmental flaws punished by the environment department of the government, and designate the related institution or government organization either to clear up scraps and junk or take regular inspection. At the present days, all the water processing and dust-collecting equipment of the factories of the Company have been set up.

Litigation

Litigation Information of the Ta Chen International (CA) Corp. (the "TCIC")

a. US Dumping Measures on Stainless Steel Product from TCIC

According to the 2002 annual report of the Company, in May 1997, the United States Department of Commerce (the "USDOC") made the preliminary determination of the dumping calculations and ultimately imposed the anti-dumping duties on TCIC. The anti-dumping duties were 31.9% on stainless steel pipes from June 1992 to November 1994 and 76.2% on stainless butt-welded fittings from December 1992 to May 1994, which was approximately US\$11,000,000 plus accrued interest. The USDOC affirmed the re-determination on remand in June 1999, and then TCIC appealed to the USCIT.

In the judicial review of the USCIT, the court found the negative determination illegal and remanded for re-determination. The USDOC made the same negative decision again in its new determination, so TCIC appealed again. Nevertheless, the USCIT based on the new law and the fact that TCIC failed to supply the transactions document for investigation agency, thus upheld the new determination of the USDOC. In February 1992, TCIC appealed to the US Court of Appeals (Fed. Cir) and applied to the USDOC for the administration review, subject to the trial and final decision.

b. Tax Inspection of the US Internal Revenue Service

According to the 2002 annual report of the Company, the U.S. Internal Revenue Service is having an inspection on TCIC in the period of 1999, and the results have not been declared yet.

Insurance

The Company maintains insurance policies covering its buildings, equipment and inventories for losses due to flood and certain other contingencies. For 2002, the Company paid an aggregate of approximately NT\$

3,695,291 in insurance policy premiums. The Company believes that its insurance coverage is commensurate with the nature of and the risks associated with its business.

Employees

As of September 30, 2003, the Company had approximately 434 full-time employees. The Company does not have any collective bargaining arrangement with its employees, and has never experienced a work stoppage due to labor disputes or labor shortage. The Company believes it maintains a good relationship with its employees.

Under the ROC Company Law, the Company is required to provide its employees with a preemptive right to subscribe to between 10% and 15% of any of the Company's capital increase in consideration of cash. Further, pursuant to the Articles of Incorporation of the Company, the employees of the Company are entitled to receive bonuses based on a percentage of the allocable retained earnings and surplus income of the Company (see "Dividends"). Currently, the Company does not have any employee stock option plan.

Subsidiaries and Affiliates

The following table sets forth certain information regarding such subsidiaries and the Company's shareholding as of June 30, 2003:

Name	Principal Activities	Location	Ownership Percentage
Ta Chen Int'l (CA) Corp.	Manufacture of shutters and sale of stainless steel pipes, fittings, coils and bots & nuts	US	100%
Ta Ji Investment Co., Ltd.	Investment	ROC	99.9%
Ta Chen Steel Investment Co., Ltd.	Investment	ROC	99.9%
Ta-Ever Investment Co., Ltd.	Investment	ROC	89.1%
Ta Chen (B.V.I.) Holding Ltd.	Investment	BVI	100.0%
Shiziazhuang Jitai Precision Casting Co., Ltd.	Manufacture and sale of stainless steel valves and precision casting	PRC	88.2%
Ta Chen Baoding Precision Casting Co., Ltd.	Manufacture and sale of stainless steel products and other metallic processing products	PRC	100.0%
Banner Fasteners Inc.	Sale of fasteners	US	100.0%
Tension Control Bolting Inc.	Sale of bots and nuts	US	60.0%

Related Party Transaction

The Company has from time to time engaged in a variety of transactions with its related parties. The Company's policy on transactions with these parties is that such transactions should be conducted on terms substantially the same as the terms in comparable arm's-length transactions between the Company and other parties. The Company may enter into additional transactions with its affiliates in the future. No assurance can be given as to the terms of such transactions or that all of the Company's transactions with its affiliates will benefit the Company.

MANAGEMENT

Directors

The Company'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. The Company's board of directors is responsible for the management of the Company's business.

The term of office for the Company'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 with or without a valid reason by a resolution adopted at a meeting of shareholders. A director removed without a valid reason may be entitled to compensations for damages suffered. 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 the Company's current directors, his position in the Company, the number of Shares held as of June 30, 2003:

Name	Other Position with the Company	Numbers of Shares held	Percentage of Shares held
Robert Shieh	Chairman and General Manager	13,857,645	5.587%
T.W.Ou	-	2,298,211	0.93%
Simon Tu	-	2,518,201	1.02%

Supervisors

The Company currently has two supervisors, each serving a three-year term. Supervisors are typically elected at the time that directors are elected. The supervisors' duties and powers include investigation of the Company's business condition, inspection of the Company's corporate records, verification and review of financial statements presented by the Company's board of directors at shareholders' meetings, convening of shareholders' meetings when the supervisor deems necessary, representing the Company in negotiations with the Company's directors and notification, when appropriate, to the board of directors or to any individual director to cease the director or the board acting in contravention of any applicable law or regulation or in contravention of the Company's Articles of Incorporation or resolutions adopted by its shareholders. Each supervisor is elected by the Company's shareholders and cannot concurrently serve as a director, management officer or other staff member. The ROC Company Law requires that a supervisor's term of office be no more than three years but may serve any number of consecutive terms.

The following table sets forth the name of each of the Company's current supervisors and their shareholding in the Company as of June 30, 2003:

Name	Numbers of Shares held	Percentage of Shares held
R. H. Shieh	2,119,811	0.85%
C.Y. Lin	3,930,856	1.585%

In accordance with ROC law, each of the Company's directors and supervisors owes fiduciary duties to all shareholders. All of the Company's directors and supervisors serve in their capacity as individual shareholders. The Company's articles of incorporation provide that the Company's directors and supervisors in the aggregate shall own certain percentage of issued and outstanding shares as required under the relevant ROC Securities and Futures Commission's regulations.

Executive Officers

The following table sets forth information relating to the Company's executive officers as of June 30, 2003:

Name	Position	Years with the Company
Robert Shieh	President and General Manager	18 years
Dennis Chauge	Senior Vice President	15 years
Jacob Shyi	Vice President	13 years

Share Ownership

As of June 30, 2003, the members of the Company's Board of Directors and Supervisors owned of record approximately 24,724,733 shares, or approximately 10.1% of the total issued and outstanding share capital of the Company, plus the Shares owned by members of their spouses and infants 1.41% approximately. See "Principal Shareholders."

PRINCIPAL SHAREHOLDERS

The names of the ten largest shareholders of record of the Company and their share ownership as of June 30, 2003 are as follows:

Name	Number of Shares Held	Percentage of Total Issued Shares
Ta Chen Steel Investment Co., Ltd.	17,917,337	7.224%
Robert Shieh	13,857,654	5.587%
L. Y. Shieh	13,641,189	5.500%
J. M. Houg	8,131,017	3.278%
National Financial Stable Fund Committee	7,498,000	3.023%
Ta Ever Investment Co., Ltd.	6,811,958	2.746%
Ta Ji Investment Co., Ltd.	6,139,465	2.475%
C. Y. Lin	3,930,856	1.585%
J. J. Ou	3,383,118	1.364%
I. L. Ou	3,325,471	1.341%
Total	<u>84,636,065</u>	<u>34.123%</u>

DIVIDENDS

The following table sets forth the cash and stock dividends paid during each of the year indicated. The 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.

Year	Cash dividend per Share (NT\$)	Stock dividends per Share ⁽¹⁾ (NT\$)
2001	0	0
2002	0	0
2003	0.2	0

Notes: (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.

The Company has historically paid dividends on the Shares with respect to the preceding year after approval by the shareholders at the annual general meeting of shareholders and necessary approvals from the competent authorities. The form, frequency and amount of future cash or stock dividends on the Shares will depend upon the Company's earnings, 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, a 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, after adjusting for previous years' losses and gains, if any.

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 earnings the Company may distribute to its shareholders are the accumulated undistributed earnings of the last fiscal year plus the earnings of the current fiscal year 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 legal reserve and special reserve according to the ROC Company Law;
- allocation of at least 5% as employee bonus; and
- allocation of not more than 3% to the directors and supervisors as their remuneration (in aggregate).

Employees eligible to receive employee bonus include those who are employees of the Company's subsidiaries, provided that the Company holds more than 50% of shares in the subsidiaries.

The Articles of Incorporation also provide that, whereas there is still potential growth in the respect of economic environment, the Company will be accustomed to the economic environment and take devised way to control it for sustainable development of the Company. Therefore, the board of directors will take account of the former elements when the Company decides allocation of the accumulated undistributed earnings. In general, the amount of allocation shall be at least 50% of the accumulated undistributed earnings; besides, the amount of cash dividends for shareholders shall be more than 20% of allocation.

TERMS AND CONDITIONS OF THE BONDS

The following terms and conditions (subject to amendment and except for the sentences in italics) will be endorsed on the Certificates issued in respect of the Bonds:

The issue of US\$10,000,000 Zero Coupon Convertible Bonds due 2008 (the "**Bonds**") of Ta Chen Stainless Pipe Co., Ltd. (the "**Company**") was authorized by a resolution of the Board of Directors of the Company adopted on October 27, 2003. The Bonds are constituted by a trust deed (the "**Trust Deed**") dated as of December 11, 2003 and made between the Company and The Bank of New York, London Branch (the "**Trustee**", which term includes any successor trustee under the Trust Deed), as trustee for the holders of the Bonds (the "**Bondholders**"). The Company has entered into a paying and conversion agency agreement (the "**Agency Agreement**") dated as of December 11, 2003 with the Trustee, The Bank of New York as the registrar (the "**Registrar**") and The Bank of New York, London Branch as the principal paying, transfer and conversion agent (the "**Principal Agent**"). The Registrar, the Principal Agent, and any other paying agent, conversion agent and transfer agent are together 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 Trust Deed. Copies of the Trust Deed and the Agency Agreement will be available for inspection during normal business hours at the principal office of the Trustee, currently at One Canada Square, 48th Floor, London E14 5AL, England and at the specified offices of each of the Agents. The Bondholders are entitled to the benefit of the Trust Deed and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement.

*The owners shown in the records of Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") of book-entry interests in the Bonds are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.*

1. Status

The Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Company and rank *pari passu* without any preference among themselves and (subject as aforesaid) with all other present and future unsubordinated and unsecured obligations of the Company.

2. Form, Denomination and Title

(A) Form and Denomination

The Bonds will be issued in registered form, in denominations of US\$10,000 and integral multiples thereof. The Bonds will be offered, sold and will be transferable in principal amounts of US\$10,000 or an integral multiple thereof. The Bonds are not issuable in bearer form. A bond certificate (each a "**Certificate**") will be issued to each Bondholder in respect of its registered holding of Bonds. Each Bond and each Certificate will be serially numbered with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders which the Company will procure to be kept by the Registrar.

*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 and Clearstream, Luxembourg.*

Owners of interests in the Bonds will not be entitled to receive definitive physical certificates in denominations of US\$10,000 and integral multiples thereof in respect of their Bonds except in the limited circumstances described in the Global Certificate.

(B) Title

Title to the Bonds 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) 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 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 in the register of Bondholders.

3. Negative Pledge

So long as any of the Bonds remain outstanding (as defined in the Trust Deed), the Company shall not 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, such Principal Subsidiary's (as defined in Condition 10), 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) payment of any sum due in respect of any such International Investment Securities, (ii) any payment under any guarantee of 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, or any security, guarantee, indemnity or other like obligation as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

As used herein, the term "International Investment Securities" means bonds, debentures, 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 of their issue which (a) either (i) are by their terms payable, or confer a right to receive payment, in any currency other than New Taiwan Dollars ("NT dollars" or "NT\$") or (ii) are denominated or payable in New Taiwan Dollars and more than 50 percent of the aggregate principal amount thereof is initially distributed outside 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 island of Taiwan and other areas under the effective control of the Republic of China ("ROC").

4. Interest

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

If payment of the whole or any part of the principal amount of any Bond is improperly withheld or refused upon due presentation or default is otherwise made in respect of any such payment, interest shall accrue on the principal amount of such Bond payment of which has been improperly withheld or refused at the rate of 6.0 per cent. per annum (both before and after judgment) from the date of such withholding or refusal up to (but excluding) the date on which, upon presentation thereof, payment in full of the principal amount thereof is deemed to have been made or (if earlier) the day after notice is given to the Bondholders in accordance with Condition 15 that the full amount in dollars payable in respect of such Bond is available for payment. Interest shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

5. Transfers of Bonds; Issue of Certificates

(A) Transfers

Subject to Condition 5(D) below, a Bond may be transferred upon the surrender at the specified office of any Transfer Agent of the Certificate in respect of the Bond to be transferred, together with the form of transfer obtainable from any of the Transfer Agents (the "**Form of Transfer**"), duly completed and executed and any other evidence that such Transfer Agent may require. In the case of a transfer of only part of a holding of Bonds in respect of which a Certificate is issued, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new 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 Paying Agent during normal business hours.

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 Certificates

Each new Certificate to be issued upon a transfer of Bonds shall be available for delivery within five business days upon receipt by the Transfer Agent at its specified office of the relevant Certificate and the Form of Transfer. Delivery of the new Certificates shall be made at the specified office of such Transfer Agent to whom the relevant 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 by uninsured post at the risk of the holder entitled to the new 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.

For the purposes of this Condition 5(B), "**Business Day**" shall mean a day on which banks are open for business in the city in which the specified office of the relevant Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

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 physical certificates in respect of their individual holdings of the Bonds.

(C) Formalities Free of Charge

Registration of transfers of the Bonds will be effected without charge by or on behalf of the Company or the Registrar, but only upon payment (or the giving of such indemnity as such Paying Agent may require) of any tax or other governmental charges, which may be imposed in relation to it.

(D) No Transfer Periods

No Bondholder may require the transfer of a Bond to be registered (i) during the period of 10 days ending on the due date for any payment of principal, interest (if any) and premium (if any) on the Bond; (ii) after such Bond has been selected for redemption pursuant to Condition 8(B); (iii) after the Conversion Notice (as defined in Condition 6(B)) and the Certificate in respect of such Bond 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.

6. Conversion

On exercise of the Conversion Right (as defined below), the converting Bondholders pursuant to the election made by such Bondholder will receive Shares. To convert a Bond into Shares, the Bondholder must deposit the Conversion Notice (as defined herein) and the Certificate in respect of that Bond with a Conversion Agent.

The Company shall, within five Trading Days (as defined in Condition 8(B) and subject to certain exceptions) after the Conversion Date (as defined in Condition 6(B)(ii)), issue and deliver the Shares converted from the Bond to the converting Bondholder or its designee, subject to the requirements relating to the conversion in the Agency Agreement being satisfied.

The Trust Deed provides, in summary, that the term when used elsewhere, including in Condition 6(C), "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 such term also includes shares of any other class or classes of the share capital of the Company authorized after the date of the Trust Deed 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 the Company's common shares, NT\$10 par value per share ("**Shares**"), credited as fully paid (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 January 10, 2004 and prior to the close of business (at the place where the Conversion Notice and the Certificate in respect of such Bond are deposited for conversion) on November 26, 2008 (or if such date shall not be a Business Day (as defined below), on the immediately preceding Business Day at such place), or, if such Bond shall have been called for redemption prior to December 11, 2008, then up to the close of business (at the place aforesaid) on the date seven days 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 shall be suspended during any Closed Period and the Conversion Period shall not include any such Closed Period. "**Closed Period**" shall mean any period during which under the laws and regulations of the ROC the Company shall close its shareholders' register, which period includes 60 days prior to the date of the annual general meeting of shareholders, 30 days prior to an extraordinary shareholders' meeting, and the period from the third Trading Day prior to the date for reporting the record date for determination of shareholders entitled to receive annual dividend distributions or other benefits or rights to the Taiwan Stock Exchange ("**TSE**") to such record date. In case any amendments are made to the aforesaid laws and regulations, the conversion shall be construed in accordance with the prevailing laws and regulations. The Company shall procure that the Bondholders are given timely prior notice of any Closed Period in accordance with Condition 15.

In this Condition 6(A)(i), "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London, and in the place where the Conversion Agent with whom the Certificate and the Conversion Notice are deposited is open for business.

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, "PRC person" means an individual holding a passport issued by the People's Republic of China ("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 a Bond into Shares is required to appoint a local agent in the ROC with such qualifications as are set by the ROC Securities and Futures Commission to open a securities trading account with a local brokerage firm and a NT Dollar bank account, pay ROC withholding taxes, remit funds, exercise shareholders' rights, handle conversion applications 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). The Executive Yuan has approved certain amendments to the Regulations Governing Securities Investment by Overseas Chinese and Foreign Nationals on June 27, 2003. Prior to the amendment, a non-ROC converting Bondholder when exercising his Conversion Right to

convert a Bond into Shares is required to obtain approval from the TSE to open a foreign convertible bond conversion account. Under the amended regulation, foreign convertible bond conversion accounts should be merged with general investment accounts, and assets in foreign convertible bond conversion accounts should be transferred to general investment accounts. 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 "Foreign Investment and Exchange Controls in the ROC" and "Description of the Shares".

- (ii) Number of Shares 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 exchange rate of NT\$ 34.00 = US\$1.00 (the "Fixed Exchange Rate")) by the Conversion Price (as defined in Condition 6(A)(iii)) in effect on the Conversion Date (as defined in Condition 6(B)(ii)).

If a Certificate or 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 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 Certificate(s) were so deposited. Fractions of Shares 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 by operation of law or otherwise occurring after December 11, 2003, the Company will upon conversion of the Bonds pay to the converting Bondholder in US 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 not issued as aforesaid if such sum exceeds US\$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\$8.24 per Share, but will be subject to adjustment in the manner provided in Conditions 6(C), 6(D) and 6(E).
- (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 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 Certificate in respect of such Bond and the Conversion Notice 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 then current form obtainable from the specified office of any Conversion Agent, together with the relevant Certificate 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.

A Conversion Notice or a Certificate 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 that Agent between 9:00 a.m. and 3:00 p.m. on the next following 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 of conversion have been fulfilled) will be the Conversion Date for such Bonds. Such Bondholders will not be registered as holders of Shares until the Conversion Date.

The Conversion Notice shall contain, inter alia, an appointment of a local agent by such converting Bondholder and an irrevocable instruction to exchange the relevant Bond for Shares issued pursuant to Condition 6(B)(iii), on a date that is not more than five Trading Days after the Conversion Date, or as soon as Shares are available, whichever is earlier. A Conversion Notice once deposited may not be withdrawn without the consent in writing of the Company. The Company shall immediately notify the Trustee in writing of such written consent, such notification to be accompanied by the relevant Conversion Notice.

In this Condition 6(B)(i), "Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London, in the place of the Conversion Agent with whom the individual definitive certificate (if issued) and the Conversion Notice are deposited, and, if Certificates in definitive form are issued, in the city where the Registrar is located.

- (ii) Taxes and Expenses; Deposit Date and Conversion Date: Together with the deposit of 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 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 on conversion of Bonds and all charges of the Conversion Agents in connection therewith. The date on which, in respect of any Bond, the relevant Certificate and the Conversion Notice (in duplicate) relating thereto, together with any certificates and other documents as may be required under applicable law, 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, which occurs during the Conversion Period, shall mean the Trading Day following the Deposit Date.
- (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 deposited for conversion shall cease (except rights arising under Condition 6(B)(iv)).
- (iv) Availability of Shares: The Company shall, for the benefit of the Bondholders, ensure that sufficient Shares which are listed on the GTSM are available as soon as possible but in any event no later than five Trading Days after receipt of the Conversion Notice by the Company (subject to applicable laws and regulations).
- (v) Delivery of Shares: As of the Conversion Date, the Company will register the converting Bondholder (or its designee) 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 Conversion Date, there be delivered to the local agent appointed by the converting Bondholder a certificate or certificates for the relevant Shares, 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.

- (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 Conditions 6(C) and 6(D) and the Trust Deed 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 a reasonable period of time after the effective date of such adjustment of the Conversion Price, issue and deliver (to the local agent appointed by the converting Bondholder) 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 this 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).
- (vii) **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. Notice of any such termination or appointment and of any changes in the specified offices of the Conversion Agents will be given promptly and in writing by the Company to the Principal Agent, the Trustee, and the Bondholders in accordance with Condition 15.

(C) **Adjustments to Conversion Price**

The Conversion Price will be subject to downwards adjustment in the manner set forth in the Trust Deed upon the occurrence of certain dilutive events set out in the Trust Deed, 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;
- (iv) the grant, issue or offer to the holders of Shares of options, rights or warrants to subscribe for or purchase Shares at less than the then Current Market Price (as defined in the Trust Deed) or to subscribe for or purchase any securities convertible into or exchangeable for, or which confer rights to purchase, 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 the Bonds and those mentioned in (iv) and (v) 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) and (v) 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 Shares issued (a) on conversion of convertible bonds, including the Bonds, (b) to the shareholders of a company which is to be merged into the Company as consideration for the 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 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 formulae stipulated in the Trust Deed.

No adjustment will be made where such adjustment would be less than one percent 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 and in writing by the Company to the Trustee and the Bondholders in accordance with Condition 15.

No adjustment in the Conversion Price will be made where Shares are issued by the Company to the shareholders of another company as consideration for that company's merger into the Company. No adjustment will be made in case of reduction in outstanding Shares due to canceling of treasury shares by the Company.

The Trust Deed 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 fully-paid Shares that cannot be assessed to pay debts of the Company in the event of its bankruptcy and liquidation.

The Trustee will not be obliged to monitor whether any event or circumstance has occurred or exists which might fall within (i) to (viii) above and will not be responsible to the Bondholders or the Company for any loss arising from any failure by it to do so.

(D) Conversion Price Reset

The Conversion Price shall be adjusted on October 27 of 2004, 2005, 2006, 2007 and 2008 (each a "**Reset Date**") in the event that the average of the Closing Prices (as defined in Condition 8(B)) of the Shares on the TSE for the 20 consecutive Trading Days (Trading Day is as defined in Condition 8(B)) immediately preceding the relevant Reset Date (the "**Average Closing Price**") translated into US dollars at the then Prevailing Rate (as defined below) is less than the Conversion Price in effect on the relevant Reset Date translated into U.S. dollars at the Fixed Exchange Rate, in accordance with the following formula:

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

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 percent of the initial Conversion Price (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) for the avoidance of doubt any adjustments to the Conversion Price made pursuant to this Condition 6(D) shall only be downward adjustments; and
- (iv) the Reset Factor in this Condition 6(D) means 105.0%.

The "**Prevailing Rate**" for the translation of the Closing Prices shall be the arithmetic average of the closing rate for the purchase of US dollars with NT dollars quoted by Taipei Forex Inc (or any

replacement entity selected by the Company with written consent of the Trustee) at the close of business on each day during the 20 consecutive Trading Day period.

For the purpose of the formula in this Condition, the Prevailing Rate shall be expressed as the number of NT dollars per US\$1.00.

Any such adjustment shall become effective as of the relevant Reset Date and the Bondholders, the Conversion Agent and the Trustee shall be notified promptly in writing by the Company of any adjustment to the Conversion Price in accordance with Condition 15.

(E) Special Conversion Price Reset

For a period of seven consecutive Trading Days (a "**Special Reset Period**"), the first of which occurs not more than 30 days prior to December 11, 2005, and December 11, 2008, the Conversion Price may be adjusted downwards (at the sole discretion of the Company and without any limitation as described in Condition 6(D)(i)) (the "**Special Reset Conversion Price**") in accordance with the following formula:

$$\text{Special Reset Conversion Price} = \text{Market Price} \times \text{Reset Factor} \times \frac{\text{Fixed Exchange Rate}}{\text{Prevailing Rate}}$$

Where:

Market Price = the lowest of the averages of the Closing Prices of the Company's common shares for 10, 15, and 20 consecutive Trading Days, the last of which occurs 45 days prior to December 11, 2005 and December 11, 2008 (whichever is relevant);

Reset Factor in this Condition 6(E) = 86.54% percent if the relevant Special Reset Period falls in 2005 and 80.36% percent if the relevant Special Reset Period falls in 2008.

Prevailing Rate in this Condition 6(E) = the arithmetic average of the closing rate for the purchase of US dollars with NT dollars quoted by Taipei Forex Inc. (or any replacement entity selected by the Company with the written consent of the Trustee) at the close of business on each day during the relevant 10, 15, or 20 consecutive Trading Day period used for the calculation of the Market Price.

The Special Reset Conversion Price can only be adjusted downwards and not upwards pursuant to this Condition 6(E).

The Special Reset Conversion Price shall be effective for those conversions in respect of which the Conversion Date falls during the Special Reset Period. Upon expiration of the Special Reset Period, the Conversion Price that would have been in effect but for the adjustment made pursuant to this Condition 6(E) shall be the effective Conversion Price.

The precise starting date of the Special Reset Period, which is to occur within 30 days prior to December 11, 2005 and December 11, 2008 as above-described, shall be decided by the Company at its sole discretion. The Company shall promptly notify the Bondholders, the Conversion Agent and the Trustee in writing of the Special Reset Conversion Price and Special Reset Period in accordance with Condition 15.

(F) Mergers; Disposals

The Company will not merge, amalgamate or consolidate with or into any other corporation or entity where the Company is not 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 and the Trustee (promptly and in writing) of such event in accordance with Condition 15 and the Company and such corporation, entity or person shall have executed a trust deed supplemental to the Trust Deed 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 Trust Deed 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 Trust Deed. Such supplemental Trust Deed 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(F) will apply in the same way to any subsequent or further consolidations, amalgamations, mergers, sales or transfers.

(G) Conversion Undertakings

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.

(H) Notice of Change in Conversion Price

The Company shall give notice to the Bondholders in accordance with Condition 15 of any change in the Conversion Price. Any such notice relating to a change in the Conversion Price shall set forth the event giving rise to the adjustment, the Conversion Price prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

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 US dollar cheque drawn on a bank in New York City mailed to the registered address of the Bondholder if it does not have a registered account. Payments of principal, interest (if any) and premium (if any) will only be made after surrender of the relevant Certificate at the specified office of any Agent. When making payments to Bondholders, fractions of one cent will be rounded down to the nearest cent.

(B) Registered Accounts

A Bondholder's registered account means the US dollar account maintained by or on behalf of it with a bank in New York City 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) Trustee and Agents

The names of the Trustee and the Agents and their initial specified offices are set out at the end of these Conditions. The Company reserves the right, subject to the proper written approval of the Trustee, at any time to vary or terminate the appointment of any agents and to appoint additional or other Agents, provided that (i) the Company will at all times maintain a paying agent having a specified office in London and (ii) upon the implementation of the Directive, which the ECOFIN decided at its meeting on June 3, 2002 should be implemented, or any law implementing or complying with, or introduced in order to conform to, such Directive, the Company will ensure

that it maintains a paying agent in a Member State of European Union that is not obliged to withhold or deduct tax pursuant to such Directive or law. Notice of any such termination or appointment and of any changes in the specified offices of the Agents will be given promptly by the Company to the Bondholders in accordance with Condition 15.

(E) Payment Initiation

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that date is not a Business Day, for value the next following Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the later of the due date for payment and the Business Day on which the relevant Certificate is surrendered (if applicable) at the specified office of an Agent.

(F) 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 Certificate (if applicable) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

(G) Business Days

In this Condition 7, the term "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in New York City and London and, in the case of the surrender of a Certificate, in London and in the place where the Certificate is surrendered.

(H) Partial Payments

If the amount of principal, interest (if any) and premium (if any) 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 interest and/or premium, in fact paid.

(I) Notice of Change in Conversion Price

The Company shall give notice to the Bondholders in accordance with Condition 15 of any change in the Conversion Price. Any such notice relating to a change in the Conversion Price shall set forth the event giving rise to the adjustment, the Conversion Price prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

8. Redemption, Repurchase and Cancellation

(A) Redemption at Maturity

Unless previously redeemed, converted or repurchased and cancelled as herein provided, the Company will redeem the Bonds at 113.14% of their principal amount in US dollars on December 11, 2008.

(B) Redemption at the Option of the Company

(i) On or at any time after December 11, 2005, the Company may, having given not less than 60 nor more than 90 days' notice to the Bondholders (which notice will be irrevocable), redeem all or, some only (being US\$10,000 in principal amount or an integral multiple thereof) of the Bonds at the Early Redemption Amount if the Closing Price of the Shares translated into US dollars at the Prevailing Rate, as defined above, for each of the 20 consecutive Trading Days selected by the Company, the last of which occurs not more than 10 Trading Days prior to the date upon which notice of such redemption is given, is at least 140 percent of the Conversion Price then in effect, translated into US dollars at the Fixed Exchange Rate, on each such Trading Day. If there shall occur an event giving rise to a change in the Conversion Price during any such 20 consecutive Trading Day period, appropriate adjustment 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.

- (ii) The Company may, having given not less than 30 nor more than 60 days' notice to the Bondholders, redeem all but not some only of the Bonds at their Early Redemption Amount if more than 90 percent of the Bonds has been previously converted, redeemed, or repurchased and cancelled.

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 "**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 as of such date, 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 "**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 as of such date) no such closing bid and offered prices are furnished as aforesaid.

The term "**Early Redemption Amount**" in this Condition 8(B) and in Condition 10 means:

- (i) if the redemption date or the date on which the Bonds becomes immediately due and repayable pursuant to Condition 10 falls on or prior to December 11, 2004:

$$\text{Principal amount} \times \{1 + (\text{AR} \times \text{DA} / 360)\}$$

- (ii) if the redemption date or the date on which the Bonds becomes immediately due and repayable pursuant to Condition 10 falls subsequent to December 11, 2004 and on or prior to December 11, 2005:

$$\text{Principal amount} \times \{1 + \text{AR} + (\text{AR}_1 \times \text{DB} / 360)\}$$

- (iii) if the redemption date or the date on which the Bonds becomes immediately due and repayable pursuant to Condition 10 falls subsequent to December 11, 2005 and on or prior to December 11, 2006:

$$\text{Principal amount} \times \{1 + \text{AR} + \text{AR}_1 + (\text{AR}_2 \times \text{DC} / 360)\}$$

- (iv) if the redemption date or the date on which the Bonds becomes immediately due and repayable pursuant to Condition 10 falls subsequent to December 11, 2006 and on or prior to December 11, 2007:

$$\text{Principal amount} \times \{1 + \text{AR} + \text{AR}_1 + \text{AR}_2 + (\text{AR}_3 \times \text{DD} / 360)\}$$

- (v) if the redemption date or the date on which the Bonds becomes immediately due and repayable pursuant to Condition 10 falls subsequent to December 11, 2007:

$$\text{Principal amount} \times \{1 + \text{AR} + \text{AR}_1 + \text{AR}_2 + \text{AR}_3 + (\text{AR}_4 \times \text{DE} / 360)\}$$

Where,

$$\text{AR} = 2.5\%;$$

$$\text{AR}_1 = \text{AR} \times (1 + \text{AR});$$

$$AR_2 = AR \times (1 + AR)^2$$

$$AR_3 = AR \times (1 + AR)^3;$$

$$AR_4 = AR \times (1 + AR)^4$$

DA = the number of days (not exceeding 360) from and including December 11, 2003 to but excluding the date fixed for redemption under this Condition 8(B) or on which the Bonds becomes immediately due and repayable pursuant to Condition 10; the number of days will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each (and, in the case of an incomplete month, the actual number of days elapsed);

DB = the number of days (not exceeding 360) from and including December 11, 2004 to but excluding the date fixed for redemption under this Condition 8(B) or on which the Bonds becomes immediately due and repayable pursuant to Condition 10; the number of days will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each (and, in the case of an incomplete month, the actual number of days elapsed);

DC = the number of days (not exceeding 360) from and including December 11, 2005 to but excluding the date fixed for redemption under this Condition 8(B) or on which the Bonds becomes immediately due and repayable pursuant to Condition 10; the number of days will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each (and, in the case of an incomplete month, the actual number of days elapsed);

DD = the number of days (not exceeding 360) from and including December 11, 2006 to but excluding the date fixed for redemption under this Condition 8(B) or on which the Bonds becomes immediately due and repayable pursuant to Condition 10; the number of days will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each (and, in the case of an incomplete month, the actual number of days elapsed);

DE = the number of days (not exceeding 360) from and including December 11, 2007 to but excluding the date fixed for redemption under this Condition 8(B) or on which the Bonds becomes immediately due and repayable pursuant to Condition 10; the number of days will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each (and, in the case of an incomplete month, the actual number of days elapsed);

(C) Redemption at the Option of Bondholders

The Company will, at the option of the holder of any Bond, redeem the Bonds held by that Bondholder on December 11, 2005 ("**Put Date**") at their Early Redemption Amount. The Early Redemption Amount in this Condition 8(C) is defined as 105.06 % of the Bond's principal amount.

To exercise such option the holder must deposit the Certificate in respect of such Bond 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 in writing to the Principal Agent no later than seven days prior to the Put Date. The Company shall give the Bondholders not less than 30 days nor more than 45 days notice of the commencement of the period for the deposit of Certificates for redemption pursuant to this paragraph (C) in accordance with Condition 15. The exercise of the Bondholders' option under this Condition 8(C) in respect of any Bonds then outstanding shall override any exercise of the Company's right under Condition 8(B) with respect to those Bonds, irrespective of the dates fixed for redemption under Condition 8(B) and 8(C) or the timing of the notices given by the Bondholders or the Company pursuant thereto.

(D) Purchase

The Company may at any time and from time to time purchase Bonds in the open market or otherwise. Bonds so purchased may be held, resold or surrendered for cancellation. If purchases by the Company are made by tender, the tender must be made to all Bondholders alike.

(E) Selection of Bonds

In the case of redemption of some only of the Bonds pursuant to Condition 8(B) the Bonds to be redeemed will be selected individually by lot by the Principal Agent, in such place as the Trustee shall approve and in such manner as the Trustee shall deem to be appropriate and fair not more than 60 days and not less than 30 days prior to the date fixed for redemption.

(F) Cancellation

All Bonds, which are redeemed or converted or repurchased and surrendered to any Agent, will forthwith be cancelled. 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 and, in the case of a partial redemption, a list of the Bonds called for redemption all in accordance with Condition 15.

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 percent, 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 percent 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, premium (if any) or interest (if any) in respect of the Bond; or
 - (ii) if the Certificate in respect of such Bond 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 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 in substitution for it under the Trust Deed.

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 percent in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders shall (but subject to being indemnified and/or provided with security 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) the Company fails to pay the principal of or interest (if any) or premium (if any) on any of the Bonds within seven Business Days (as defined in Condition 7(F)) 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 Trust Deed which 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 of 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 US\$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; or
- (v) any person entitled to the benefit thereof shall institute appropriate legal proceedings to enforce any Encumbrance (as defined in Condition 3) upon the whole or any substantial part of the assets or revenues of the Company or any Principal Subsidiary; 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 have previously been approved by an Extraordinary Resolution of the Bondholders); or
 - (viii) 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
 - (ix) 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 or stayed within a period of 60 days; or
 - (x) 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 and the Trust Deed, (ii) ensure that those obligations are legally binding and enforceable (subject to the qualifications set out in the legal opinion issued in connection therewith on or about December 11, 2003) and (iii) make the Bonds and the Trust Deed admissible in evidence in the courts of the ROC is not taken, fulfilled or done, and such case is incapable of remedy; or
 - (xi) it is or will become unlawful for the Company to perform or comply with any of its obligations under or in respect of the Bonds or the Trust Deed; or
 - (xii) the total shareholders' funds of the Company are negative as at the end of any financial year of the Company; or
 - (xiv) any representation, warranty or statement made under Clause 3.1 of the Subscription Agreement is or proves to have been incorrect when made or in the case of any representation and warranty in relation to assumptions, projections or forecasts, proves not to have been fair and reasonable when made; or
 - (xv) any event occurs which under the laws of the ROC has an analogous effect to any of the events referred to in the foregoing paragraphs.

Upon any such notice being given to the Company, the Bonds will immediately become due and payable at their Early Redemption Amount (as calculated in accordance with Condition 8(B)), and overdue interest on the amounts due, from the date on which such amounts first become due, shall be payable, to the extent permitted by law, at the rate of six percent per annum.

For the purposes of Condition 10 (iii) above, any indebtedness which is in a currency other than US dollars shall be translated into US dollars at the spot rate for the sale of US dollars against the purchase of the relevant currency quoted by any leading bank in the relevant market selected by the Trustee in its sole discretion 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 US dollars and relevant currencies. Any calculation or translation so made shall be conclusive and binding on the Company and the Bondholders without liability for any loss or liability occasioned thereby.

For the purpose of this Condition, "**Subsidiary**" means any corporation or other business entity more than 50 percent 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 the event of default occurs, are at least 10 percent 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 the event of default occurs are at least 10 percent of the gross assets of the Company and its consolidated Subsidiaries as shown by the latest audited consolidated accounts of the Company.

11. Prescription

Claims in respect of (a) principal and premium (if any) and (b) interest (if any) will become void and unenforceable after 10 years (in the case of (a)) and five 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) and interest (if any) with respect thereto and to enforce the provisions of the Trust Deed, 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 percent 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 written direction 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 Trust Deed 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 Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing over 50 percent 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 or the put right of the Bondholders under Condition 8(C), (ii) to reduce or cancel the amount of principal, premium (if any) 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 Conversion Right (except in accordance with Condition 6(B) and 13(B)), (v) 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, in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing over two-thirds, or at any adjourned such meeting over one-third, in 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 Trust Deed provides that a written resolution signed by or on behalf of the holders of not less than 100 percent of the aggregate principal amount of Bonds outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

The Trust Deed defines "Extraordinary Resolution" as a resolution passed at a meeting of Bondholders duly convened and held in accordance with these provisions by a majority consisting of not less than three-quarters of the votes cast.

(B) Modification of Conversion Right

Notwithstanding Conditions 13(A)(iv) and (v) above, the Trustee may (but shall not be in any way obligated to) agree, in writing, without the consent of the Bondholders, to any modification

to or variation of the Conversion Right (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, in the Trustee's opinion, materially prejudicial to the interests of the Bondholders. The Trustee's agreement may be subject to it being indemnified to and/or secured to its satisfaction and to any other condition, which the Trustee requires, including but not limited to obtaining, at the sole expense of the Company, advice from or an opinion of an investment bank or legal or other expert. The Trustee shall be entitled to but shall not be obligated to rely on such advice. The Trustee shall not be liable for any loss or liability occasioned by any such modification or variation as aforesaid. Any such modification shall be binding on all Bondholders. The Company shall notify Bondholders of such modification in accordance with Condition 15.

(C) Other Modifications and Waivers

The Trustee may (but shall not be in any way be obligated to) agree, in writing, 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 Trust Deed 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 Trust Deed 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. The Trustee's agreement may be subject to it being indemnified and/or secured to its satisfaction and to any other condition which the Trustee requires, including but not limited to obtaining, at the sole expense of the Company, an opinion of an investment bank or legal or other expert. The Trustee shall be entitled to but shall not be obligated to rely on such advice. The Trustee shall not be liable for any loss or liability occasioned by any such modification or variation as aforesaid. Any such modification, waiver or authorization will be binding on the Bondholders and any such modification will be notified by the Company to the Bondholders in accordance with Condition 15.

(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 no Bondholder shall 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.

(E) Substitution

The Trust Deed contains provisions permitting the Trustee to agree, subject to any such amendment of the Trust Deed and such other conditions as the Trustee may require but without the consent of the Bondholders, to the substitution at any time of any other company in place of the Company, or of any previous substituted company (the "**Substituted Obligor**"), as principal debtor under the Trust Deed and the Bonds provided that, inter alia, a deed is executed or undertaking given by the Substituted Obligor to the Trustee, in a form and manner satisfactory to the Trustee, agreeing to be bound by the Trust Deed and the Bonds (with consequential amendments as the Trustee may deem appropriate) as if the Substituted Obligor had been named in the Trust Deed and the Bonds as the principal debtor in place of the Company. Any such substitution shall be binding on the Bondholders and, unless the Trustee requires otherwise, shall be notified by the Company to the Bondholders as soon as practicable in accordance with Condition 15.

14. Replacement of Certificates

If any Certificate is mutilated, defaced or is alleged to be 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 the Registrar may reasonably require (which terms will require, *inter alia*, that if such Certificate is subsequently

deposited for conversion into Shares there shall be paid to the Company and the Registrar on demand such costs (equal to the principal, premium (if any) and interest (if any) due on the relevant Bond at the Fixed Exchange Rate). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. Notices

All notices to Bondholders shall be deemed to have been validly given if mailed to them at their respective addresses in the register of Bondholders maintained by the Registrar.

16. Indemnification

The Trust Deed 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 or secured to its satisfaction. In addition, the Trustee is entitled to enter into business transactions with the Company and any entity relating to the Company without accounting for any profit.

17. Agents

The Company reserves the right, subject to the provisions of the Agency Agreement, at any time to vary or terminate the appointment of Agents, provided that the Company will at all times maintain Agents (other than the Registrar) having specified offices in London and a Registrar. 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 by the Company, in writing, to the Bondholders and the Trustee in accordance with Condition 15.

18. Governing Law and Jurisdiction

(A) Governing Law

The Trust Deed, the Agency Agreement and the Bonds are governed by and shall be construed in accordance with English law.

(B) Jurisdiction

The courts of England are to have jurisdiction over any disputes, which may arise out of, or in connection with the Bonds, and accordingly any legal action or proceedings arising out of or in connection with the Bonds ("**Proceedings**") may be brought in such courts. The Company has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

(C) Agent for Service of Process

The Company has irrevocably appointed Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX as its agent in England to receive service of process in any Proceedings in England based on any of the Bonds.

(D) Third Party Rights

No rights are conferred on any person to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

THE GLOBAL CERTIFICATE

The Global Certificate contains provisions, which apply to the Bonds in respect of which the Global Certificate is issued, 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 US\$10,000 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 (but not to vote) at a meeting of Bondholders on appropriate proof of his identity and interest.

Cancellation

Cancellation of any Bond following its redemption, conversion or repurchase 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 a Conversion 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.

Payments

Payments of principal and any other amounts 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 or Clearstream, Luxembourg or the Alternative Clearing System (as defined below), notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

Put Options

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

Call Option

The call option exercisable by the Company in Condition 8(B) may be exercised by the Company giving notice to the Bondholder within the time limits set out in and containing the information required by those Conditions and Condition 8(G). No drawing of the Bonds will be required under Condition 8(B) in the event that the Company exercises its redemption option in Condition 8(B) in respect of less than the aggregate principal amount of the Bonds in respect of which the Global Certificate is issued. Instead, there will be a pro rata allocation of the Bonds to be redeemed among the accounts of Euroclear and Clearstream, Luxembourg in accordance with the rules of those clearing systems.

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 where either Euroclear or Clearstream, Luxembourg (or any alternative clearing system on behalf of which the Bonds evidenced by the Global Certificate may be held (the "**the Alternative Clearing System**")) 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.

Transfers

Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants.

Enforcement

For the purposes of enforcement of the provisions of the Trust Deed, 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 Trust Deed, 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.

Accountholders

For so long as any of the Bonds are represented by the Global Certificate and such Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Bonds (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Bonds for all purposes (including for the purposes of any quorum requirements of, or in the right to demand a poll at, meetings of the Bondholders) other than with respect to the payment of principal and premium and interest (if any) on such Bonds, the right to which shall be vested, as against the Company, solely in the holder of the Global Certificate in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the holder of the Global Certificate.

EXCHANGE RATES

Fluctuations in the exchange rate between NT dollars and US dollars will affect the US dollar equivalent of the NT dollar price of the Shares on the TSE and, as a result, are likely to affect the market price of the Bonds.

The closing rate of exchange between the NT dollar and the US dollar on November 24, 2003 was NT\$34.240 = US\$1.00.

FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC

The information presented in this section has been extracted from publicly available documents, which have not been prepared or independently verified, by the Company, the Managers or any of their respective affiliates or advisors in connection with the offering of the Bonds. References to the Securities and Futures Commission (the "ROC SFC") herein include both the ROC SFC and the ROC Securities and Exchange Commission, its predecessor.

General

Historically, foreign investments in the securities market of Taiwan were restricted. However, commencing in 1983, the ROC government has from time to time enacted legislation and adopted regulations to make foreign investment in the Taiwan securities market possible. Initially, only overseas investment trust funds of authorized securities investment trust enterprises established in Taiwan were permitted to invest in the Taiwan securities market. Since January 1, 1991, qualified foreign institutional investors ("QFII") have been allowed to make investments in the Taiwan listed securities market. Since March 1, 1996, overseas Chinese, foreign institutional and foreign individual investors (other than QFII), called "general foreign investors", have been permitted to make direct investments in the Taiwan listed securities market. Since July 9, 2003 the ROC SFC has adopted various new rules, which have the effect of removing the restrictions on investment, amounts, the qualification requirements in terms of asset size and the inward and outward remittance period limits previously applicable to QFII. On September 30, 2003, the ROC SFC further revised the Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals, and eliminated the category of QFII and re-categorized foreign investors into four new categories: (1) "Off-Shore General Foreign Investors", (2) "On-Shore General Foreign Investors", (3) "Off-Shore Foreign Institutional Investors" and (4) "On-Shore Foreign Institutional Investors" in accordance with whether the investors are institutions or natural person, and whether or not they have a presence in the ROC.

Off-Shore Foreign Institutional Investors

Each Off-Shore Foreign Institutional Investor wishing to invest directly in the Taiwan securities market is required to register with the TSE and apply for approval from the Central Bank of China. The registration with the TSE and the application to the Central Bank of China require, among other things:

the appointment of a local agent and custodian;

proof of identification;

other documents required by the ROC SFC.

Off-Shore Foreign Institutional Investors having registered with the Taiwan Stock Exchange may apply to invest without amount limit. Capital remitted into Taiwan for investments in the Taiwan securities market may be repatriated at any time. Off-Shore Foreign Institutional Investors and Off-Shore General Foreign Investors (see below) may engage in New Taiwan dollar denominated interest rate derivatives trading (including interest rate forward, interest rate swaps and interest rate options), provided that the trading are limited to spot positions of government bonds, time deposits and money market instruments held by them.

Off-Shore General Foreign Investors

Off-Shore General Foreign Investors may generally invest in TSE-listed securities or securities traded on the GTSM up to a limit of US\$5 million, after registering with the TSE.

On-Shore General Foreign Investors and On-Shore Foreign Institutional Investors

On-Shore General Foreign Investors and On-Shore Foreign Institutional Investors having registered with the TSE may apply to invest without amount limit, and without making an application to the Central Bank of China.

Foreign Ownership Limitations

Except for certain limits imposed by laws and regulations, there are no limits on the foreign ownership in a

TSE listed company or a GTSM traded company.

Foreign Investment Approval

Other than:

- Off-Shore Foreign Institutional Investors;
- Off-Shore General Foreign Investors; and
- investors in overseas convertible bonds and depositary receipts,

foreign investors who wish to make direct investments in the shares of ROC companies may submit a "foreign investment approval" application to the Investment Commission of the Ministry of Economic Affairs of Taiwan or other governmental authority. Foreign investors who obtain this approval will be subject to the Law Governing Investments by Foreigners. The Investment Commission or other governmental authority reviews each foreign investment approval application and approves or disapproves the application after consultation with other governmental agencies. Any non-ROC person possessing a foreign investment approval may repatriate annual net profits, interests and cash dividends attributable to an approved investment. Stock dividends, investment capital and capital gains attributable to the investment may be repatriated with approval of the Investment Commission or other governmental authority.

In addition to the general restrictions against direct investment by non-ROC persons in ROC companies, non-ROC persons are currently prohibited from investing in prohibited industries in Taiwan, which are listed under a Negative List, as amended by the Executive Yuan from time to time. The prohibition on direct foreign investment in the prohibited industries in the Negative List is absolute and provides no specific exemption from its application. Under the Negative List, some industries are restricted so that non-ROC persons may directly invest only up to a specified level and with the specific approval of the relevant government authority. The Company is not in a restricted industry under the Negative List.

Depositary Receipts

In April 1992, the ROC SFC began allowing ROC companies listed on the Taiwan Stock Exchange to sponsor the issuance and sale of depositary receipts evidencing depositary shares. In December 1994, the Ministry of Finance began allowing companies whose shares are traded on the GTSM also to sponsor the issuance and sale of depositary receipts evidencing depositary shares. Approvals for these issuances are still required. On October 24, 2002, the ROC SFC began allowing public companies that are not listed on the Taiwan Stock Exchange and the GTSM to sponsor the issuance and sale of depositary receipts by way of private placement outside the ROC.

No deposits of shares may be made in a depositary receipt facility and no depositary receipts may be issued against deposits without specific ROC SFC approval, unless they are:

- stock dividends;
- free distributions of shares.
- due to the exercise by depositary receipt holders of their preemptive rights in the event of capital increases for cash, or
- due to the purchase by depositary receipt holders, directly or through the depositary, of shares on the Taiwan Stock Exchange or the GTSM for deposit in the depositary receipt facility. In this event, the total number of depositary receipts outstanding after an issuance cannot exceed the aggregate number of:
- the number of issued depositary receipts previously approved by the ROC SFC; and
- the number of depositary shares created from stock dividends, free distributions of shares and right offerings. These issuances of depositary receipts may only be made to the extent that

previously issued depositary receipts have been cancelled and the shares have been sold on the Taiwan Stock Exchange or the GTSM.

For depositary shares, immediately after the issuance of depositary receipts, a holder may request the depositary to cause the underlying shares to be sold in Taiwan or to withdraw the shares and deliver the shares to the holder.

A depositary receipt holder (who has not registered as an Off-Shore Foreign Institutional Investor or an Off-Shore General Foreign Investor) wishing to withdraw shares represented by depositary receipts in order to hold the shares is required to register as an Off-Shore Foreign Institutional Investor or an Off-Shore General Foreign Investor (as appropriate) and then appoint a qualified local agent to, among other things, open a securities account with a local securities brokerage firm, remit funds, exercise shareholders' rights and perform such other actions as may be designated by such depositary receipt holder. If a depositary receipt holder has already been registered as an Off-Shore Foreign Institutional Investor or an Off-Shore General Foreign Investor, the shares held in the special securities trading account opened by the depositary receipt holder for withdrawing the shares represented by the GDRs can be transferred into the general securities trading account upon filing an application with the appropriate government agency. In addition, the withdrawing holder is also required to appoint a custodian bank to hold the securities and cash proceeds in safekeeping, make confirmations, settle trades and report all relevant information. Without making this appointment, opening these accounts, and obtaining prior approval of the TSE, the withdrawing holder would be unable to subsequently hold or sell the shares withdrawn from a depositary receipt facility on the Taiwan Stock Exchange or otherwise. The withdrawing holder is also required to appoint a tax guarantor for filing tax returns and making tax payments. A citizen of the PRC or an entity organized under the laws of the PRC is not permitted to withdraw or hold the shares.

A depositary may without obtaining further approvals from the Central Bank of China or any other governmental authority or agency of Taiwan, convert New Taiwan Dollars from:

the proceeds of the sale of shares represented by depositary receipts or received as stock dividends of the shares and deposited into the depositary receipt facility; or

cash distributions received,

into other currencies, including U.S. Dollars. In addition, a depositary may convert into NT Dollars inward remittances of payments for purchases of underlying shares for deposit in the depositary facility against the creation of depositary shares. A depositary, must obtain foreign exchange approval from the Central Bank of China on a payment-by-payment basis for conversion into foreign currencies from the proceeds from the sale of subscription rights for new shares. It is expected that the Central Bank of China will grant this approval as a routine matter. A depositary receipt holder may, after becoming a holder of shares, convert New Taiwan Dollars into other currencies from proceeds from the sale of any underlying shares withdrawn from the depositary receipt facility. Proceeds from the sale of the underlying shares withdrawn from the depositary receipt facility may be used for reinvestment in securities listed on the Taiwan Stock Exchange or traded on the GTSM. These reinvestments will need to comply with the limitations and restrictions, which apply to Offshore Foreign Institutional Investors or Off-Shore General Foreign Investors discussed above.

Overseas Corporate Bonds

Since 1989, the ROC SFC has approved a series of overseas corporate bond issues by ROC companies listed on the Taiwan Stock Exchange and traded on the GTSM. Under current ROC laws and regulations, these overseas corporate bonds (if their terms so provide) may be held or converted by non-ROC persons, other than mainland Chinese persons, into shares of ROC companies or, with ROC SFC approval, may be converted into depositary receipts issued under the sponsorship of the same Taiwanese company or the shares of other companies, in the case of exchangeable bonds. Public issuing companies may issue corporate debt in offerings outside Taiwan.

A non-Taiwanese converting bondholder when exercising conversion right to convert the bonds, need to comply with the limitations and restrictions which apply to Off-Shore Foreign Institutional Investors or Off-Shore General Foreign Investors discussed above.

Exchange Controls

Taiwan's Foreign Exchange Control Statute and regulations provide that all foreign exchange transactions must be executed by banks designated by the Ministry of Finance and by the Central Bank of China to handle foreign exchange transactions. 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. All foreign currency needed for the importation of merchandise and services may be purchased freely from the designated foreign exchange banks.

Aside from trade-related foreign exchange transactions, ROC companies and residents may, without foreign exchange approval, remit to and from Taiwan foreign currencies of up to US\$50 million, or its equivalent, and US\$5 million, or its equivalent, respectively, each calendar year. These limits apply to remittances involving a conversion between New Taiwan Dollars and U.S. Dollars or other foreign currencies. In addition, all private enterprises are required to register all medium and long-term foreign debt with the Central Bank of China.

In addition, a foreign person may, subject to certain requirements but without foreign exchange approval, remit to and from Taiwan foreign currencies of up to US\$100,000 per remittance if the required documentation is provided to the Taiwan authorities. This limit applies only to remittances involving a conversion between New Taiwan Dollars and U.S. Dollars or other foreign currencies.

DESCRIPTION OF THE COMMON STOCK

The following is a summary of 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 Company Law of the ROC, all as currently in effect.

General

As of June 30, 2003, the Company's authorized share capital is 300,000,000 Shares with a par value of NT\$10 per Share. As of June 30, 2003, all issued common shares of the Company are in registered form and 248,041,000 Shares are issued and fully paid for.

As of the date of this offering circular, the Company has not issued any convertible debt securities, exchangeable debt securities or debt securities with warrants attached.

The Company Law provides that any change in the issued share capital of a company requires approval of the Board of Directors. In the event that the issuance of any new shares will result in any change in the authorized share capital of the Company, in accordance with the Company Law, the Company must amend the Articles and obtain shareholders' approval at a shareholders' meeting. The Company must also obtain the approval of, or submit a registration to, the ROC SFC and Ministry of Economic Affairs for the issuance of any new shares.

Dividends

Under the Company Law, except under certain limited circumstances, a ROC company is not permitted to distribute dividends or make any other distributions to shareholders at any time other than when it is generating net profits ("Earnings"). Before distributing a dividend or making any other distribution to shareholders from Earnings, a company must first apply such Earnings to its losses suffered in previous years, if any, pay all outstanding taxes and set aside the legal reserve referred to below.

Subject to compliance of the above requirements, following approval of the financial statements for the preceding fiscal year by the shareholders in an annual shareholders' meeting, dividends are, unless otherwise stipulated under that company's articles of incorporation, distributed in proportion to the number of shares owned by each shareholder as listed on the register of shareholders as at the relevant record date determined by the Board of Directors ("Annual Dividends"). Annual Dividends may be distributed either in cash or in the form of common stock or a combination thereof. The ratio between any cash dividend and stock dividend is proposed by the Board of Directors and is determined by the shareholders at a shareholders' meeting. The stock dividend of the Company is distributed to the shareholders based on the Company's share registrar ("Share Registrar") while the cash dividend is distributed by a paying agent appointed by the Company for the specific distribution to the shareholders listed on the Share Registrar.

The Company Law provides that a company is required to set aside a legal reserve in an amount equal to 10 percent of its Earnings (less losses, if any, of previous years and applicable income taxes) until such time as its legal reserve equals its paid-in capital.

Distribution of Additional Shares

In addition to dividends paid out of Earnings of a company, the Company Law also permits a company to make distributions to shareholders in the form of additional shares from reserves (including its legal reserve referred to above, any special reserve and capital reserve). However, the capitalized portion payable out of a company's legal reserve is limited to 50 percent of the total accumulated legal reserve, and such capitalization can only be effected when and to the extent that the accumulated legal reserve exceeds 50 percent of the paid-in capital of such company. (For information as to ROC taxes on cash and stock dividends, see the section headed "Taxation - ROC Taxation of Non-Residents" below.)

Pre-emptive Rights and Issue of Additional Common Stock

The Company Law provides that between 10 percent and 15 percent of any new issue of shares of capital stock sold for cash must be offered first to the issuing company's employees. In addition, the Securities and Exchange Law and the relevant securities regulations require that, if a public company listed on the TSE or

GTSM intends to offer new shares for cash, at least 10 percent of such issue must be offered to the public except under certain circumstances or when exempted by the ROC SFC. This percentage can be increased by a resolution passed at a shareholders' meeting, thereby reducing the number of new shares subject to the pre-emptive rights of existing shareholders. Unless the percentage of shares to be offered to the public is increased by shareholders, existing shareholders who are listed on the shareholders' register as of the record date have a pre-emptive right to acquire the remaining 75 to 80 percent of the issue in proportion to their existing shareholdings. The shares not subscribed for by the employees and shareholders at the expiration of the period for the exercise of their rights may be freely offered by the Company (subject to ROC law) to the public or specified person through the arrangement of the Board of Directors. The pre-emptive rights do not apply to shares issued upon conversion of convertible bonds or exercise of warrants or stock options.

Meetings of Shareholders

The ordinary meeting of shareholders of the Company is usually held in the Company's head office in 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 three percent 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 when necessary. 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

A holder of common stock has one vote for each share of common stock. With respect to election of Directors and Supervisor by shareholders, it is carried out on a cumulative voting basis.

Notwithstanding the above, in order to approve certain major corporate actions, including any amendment to the Articles (which is required for, *inter alia*, any increase in authorized share capital), the dissolution or amalgamation of a company, the entering into, amendment or termination of any contract for the lease of the Company's business in whole, or for entrusted business or for regular joint operation with third parties, the transfer of all or an important part of its business or its properties, the taking over of the whole of the business or properties of any other company which would have a significant impact on the acquiring company's operations, or the distribution of any stock dividend, the Company Law provides that a resolution has to be passed at a meeting of the shareholders with a quorum of holders of at least two-thirds of all issued and outstanding common stock at which the majority present vote in favor thereof. Alternatively, in the case of a public company, such as the Company, such a resolution may be approved by the holders of at least two-thirds of the common stock represented at a meeting of shareholders with a quorum of holders of at least a majority of issued and outstanding common stock.

A shareholder may be represented at a general meeting or an extraordinary meeting by proxy. A valid proxy form must be delivered to the Company at least five days prior to the date fixed for the ordinary or extraordinary meeting. Voting rights attaching to the shares exercised by proxy shall be subject to ROC proxy regulation.

Registration of Shareholders and Record Dates

The Company maintains the register of shareholders of the Company at its Share Registrar and enters transfers of common stock in the register of shareholders upon presentation of the certificates in respect of the common stock transferred accompanied by other required documents.

As mentioned above, the record date for an Annual Dividend will be determined and announced by the Company. For the purpose of determining the shareholders of common stock entitled to Annual Dividends and other rights pertaining to the common stock, the Company Law provides that, for a public company, the register of shareholders is closed for a period of 60 days, 30 days and five days immediately before each date of ordinary shareholders' meeting, each extraordinary shareholders' meeting and the record date, respectively.

Annual Financial Statements

Under the Company Law, 10 days before the ordinary shareholders' meeting, the Company's annual audited financial statements must be available at the principal office of the Company for inspection by the shareholders.

Transfers of Common Stock

Under the Company Law, the transfer of common stock (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. 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 Stock

With other minor exceptions and the exceptions in the succeeding paragraphs, the Company cannot acquire its own common stock and any common stock acquired by the Company must be sold by the Company at the current market price within six months after its acquisition.

Under an amendment to the Securities and Exchange Law which took effect on 21 July 2001, a company whose shares are listed on the TSE or GTSM 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 shares on the TSE or GTSM 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.

The total shares purchased by the company shall not exceed 10 percent 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 of the company held by them during the period in which the company purchases its 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 holders of preference shares, if any, will be distributed pro rata to the shareholders in accordance with the Company Law.

Notification to shareholders

Information concerning shareholders is published in the local newspapers and a notice is also sent to the shareholders according to the records maintained in the Company's share register. For shareholders holding less than 1000 shares of a company, an individual notice for shareholders is not required provided that public notice is published. The Company is responsible for the handling of any financial services with respect to the Company's Shares.

THE SECURITIES MARKET OF THE ROC

The information presented in this section has been extracted from publicly available documents, which have not been prepared or independently verified by the Company, and the Company accepts responsibility only for accurately extracting information from such sources.

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 its name was changed to the Securities and Futures Commission (the "ROC SFC", which reference herein shall include the ROC Securities and Exchange Commission). In the 1970s and the early 1980s, 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-1980s, 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, working together with private interests, established the TSE to provide a marketplace for securities trading. The TSE is a corporation owned by government-controlled and private banks and enterprises. The TSE is independent of entities transacting business through it, each of which pays a user's fee. Subject to limited exceptions, all transactions in listed securities by brokers, traders and integrated securities firms (firms which are permitted to combine the activities of brokerage, dealing and underwriting) must be made through the TSE.

The TSE commenced operations in 1962 and during the remainder of the 1960s grew at a slow pace, largely due to lack of experience amongst issuers and investors and unwillingness on the part of ROC businesses to offer their shares to the public. During the early 1980s, the ROC SFC more actively encouraged new listings on the TSE and the number of listed companies grew from 119 in 1983 to 639 as at July 31, 2003. As at July 31, 2003, the total market value of shares listed on the TSE was approximately NT\$10,654 billion.

The instruments traded on the TSE have primarily been limited to shares and bonds. However, recent legislative revisions and the present attitude of the ROC SFC regarding liberalization of the securities regulations have encouraged some innovation. In 1988, the ROC SFC permitted the issue of the ROC's first convertible bonds (such bonds being convertible at the option of the bondholders into shares of companies owned by the Company). 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 Asia Development Bank are also listed on the TSE.

In the absence of special regulatory approval, only ROC companies are permitted to list their securities on the TSE. The ROC SFC has promulgated regulations that would permit foreign issuers to list their equity securities directly on the TSE or through the use of Taiwan depository receipts. The TSE has established specific requirements for listing based on the duration of corporate existence, the amount of capital, profitability and dispersion of shareholdings.

For certain technology companies and businesses for the promotion of national economic development, special listing requirements will apply.

The GreTai Securities Market

To complement the TSE, an over-the-counter, or OTC, market was established in September 1982 on the initiative of the ROC SFC to encourage trading of securities of companies that do not qualify for listing on the TSE. The OTC market was limited to unlisted equity securities, bank and corporate bonds and debentures and government bonds. As trading volume on the OTC market was minimal, the GTSM established in 1994 to take over the previous OTC market. Since the GTSM instituted a reformed trading system in 1995, the trading volume on the GTSM has grown more rapidly. The GTSM has used the TSE's method of trading as a model, and aims to reform the GTSM trading to the point where few differences exist between the two markets systems. As of July 31, 2003, 432 companies had equity securities listed on the GTSM. As of July 31, 2003, the total market capitalization of companies with equity securities listed on the GTSM was 651.8 billion. In addition, the Emerging Stock Trading System of the GTSM was established on January 1, 2002 on

the initiative of the ROC SFC to encourage trading of securities of companies that are public companies but not qualified for listing on the TSE or the GTSM.

Price Limits, Commissions, Transaction Tax and Other Matters

In order to reduce market volatility, the TSE has placed limits on block trading and on the range of daily price movements. Transactions that involve 500 trading lots (500,000 shares) or more must be registered and executed pursuant to certain TSE guidelines. Fluctuations in the price of stocks traded on the TSE are subject to a limit of seven percent 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 five percent in the case of debt securities. Over the last few years, the limit on the price movements of equity securities has fluctuated, moving from five percent to three percent following the 1987 market crash, then back to five percent and finally, in October 1989, from five percent to the current level of seven percent. The ROC SFC has indicated that the limits on share price movements may be further relaxed or abolished entirely.

All shares have a par value of NT\$10 and trade in board lots of 1,000 shares. Although odd-lot trading may be conducted on the TSE, delays are occasionally experienced in respect of such trading.

Effective from July 1, 2000, the brokerage commission may be any rate not exceeding 0.1425 percent of the transaction price. A securities transaction tax, currently levied at the rate of 0.3 percent of the transaction price for shares is payable by the seller of 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 transactions 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 transfer of corporate bonds and financial debentures until December 31, 2009.

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 in the GTSM and unlisted public 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 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 market. 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 market. 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 stockholders, together with their spouses, minor children and nominees, holding 10 percent or more of the shares of the company. 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 stockholders having shareholding of 10 percent or more, together with their spouses, minor children and nominees, 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 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 public 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 provide for, amongst 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 stockholders 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 by securities firms 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 ROC issuers to list securities on the TSE. 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 may, with the approval of the ROC SFC, delist securities of such issuers.

ROC TAXATION OF NON-RESIDENTS

Prospective investors should consult their own advisers concerning the tax consequences of an investment in Bonds or Shares:

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-Resident Individual or Non-Resident Entity that holds Bonds or Shares (each a "Non-ROC Holder"). As used in the preceding sentence, a "Non-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-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. Prospective purchasers of Bonds should consult their own tax advisers concerning the tax consequences of owning Bonds or Shares in the ROC and any other relevant-taxing jurisdiction to which they are subject.

Premium and Interest

Payments of premium or interest (if any) on a Bond to a Non-ROC Holder are subject to ROC withholding tax, currently at a rate of 20% at the time of payment. The Company has agreed to pay Addition Amounts in respect of such withholding tax on the payments of interest. See "Terms and Conditions of the Bonds - Additional Amounts".

Conversion

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 the conversion of Bonds into Shares will not be deemed as taxable capital gain event, or subject to additional interest income (subject to the 20 percent withholding tax) or other ROC taxes. Transfers of Bonds by Non-ROC Holders are regarded as transactions outside the ROC and thus any gains derived from such transfers are not subject to ROC income tax.

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

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-residents is 30% for a Non-Resident Individual and 25% for a Non-Resident Entity of the amount of the distribution in the case of cash dividends or the par value of the share distributed in the case of stock dividends. However, the rate of withholding is 20% if the Non-ROC Holder obtains foreign investment approval pursuant to the Statute for Foreigner's Investment or the Statute for Overseas Chinese's Investment. Distributions of stock dividends declared by the Company out of capital reserves are not subject to withholding tax. Because the issue of the Bonds has been approved by the relevant ROC competent authorities, for Non-ROC Holders, dividends on the Shares derived from the conversion of the Bonds are subject to withholding tax of 20%.

Capital Gains

Under current ROC law, gains realized upon the sale or other disposition of securities is exempt from ROC income tax. The losses from disposition of securities likewise may not be used to offset income. This exemption will apply to a sale or other disposition of the Bonds or the Shares.

Securities Transaction Tax

The ROC government imposes a securities transaction tax that will apply to sales of Shares. The transaction tax, which is payable by the seller, is generally levied on sales of shares at the rate of 0.3 percent of the sales proceeds. However, according to the amended Statute of Upgrading Industries effective on February 1, 2002, no transaction tax will be imposed on the transfer of corporate bonds and financial debentures until December 31, 2009.

Estate Taxation 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 two percent of the first NT\$600,000 to 50 percent of amounts in excess of NT\$100,000,000. Gift tax is imposed at rates ranging from four percent of the first NT\$600,000 donated to 50 percent of amounts donated in excess of NT\$45,000,000. Under ROC estate and gift tax laws, because the issuer is a ROC entity, 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, The Netherlands, Singapore, South Africa, Vietnam, Swaziland and the United Kingdom. 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 the Bonds or the 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 income with the aim of eliminating the double taxation effect for resident shareholders of ROC companies. Under the Amendment, a 10 percent 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 percent of the declared dividends will be credited against the 20 percent withholding tax imposed on the Non-ROC Holders of the Shares.

SUBSCRIPTION AND SALE

The Lead Manager has, pursuant to a Subscription Agreement, agreed with the Company to subscribe and pay for the Bonds at the issue price of 100 percent of their principal amount less (i) a combined management and underwriting commission and (ii) a selling concession. The Subscription Agreement provides that the Company will indemnify the Lead Manager against certain liabilities. The Subscription Agreement provides that the obligations of the Lead Manager are subject to certain conditions precedent, and entitles the Lead Manager to terminate it in certain circumstances prior to payment being made to the Company. The Lead Manager or its affiliates may subscribe to a portion of the Bonds.

Offers of Similar Securities

The Company has agreed in the Subscription Agreement that neither the Company, nor any person acting on its behalf, will issue, offer, sell, contract to sell or otherwise dispose of any Shares or securities of the same class as the Shares (other than pursuant to (i) employee benefits plans or distributions of dividends from retained earnings and capital reserve or employee bonuses in the form of Shares or (ii) conversion of the Bonds or of other convertible bonds issued prior to the date of the Subscription Agreement) or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase Bonds, Shares, or securities of the same class as the Bonds, Shares or other instruments representing interests in Bonds, Shares or securities of the same class as the Bonds, Shares (other than the Bonds and other than as aforesaid), or announce plans or otherwise make public an intention to do any of the foregoing (other than as aforesaid), in any such case without the prior written consent of the Lead Manager between the date hereof and the date which is 120 days after the Closing Date (both dates inclusive).

General

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 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

The Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the U.S. Securities Act of 1933 (the "Securities Act"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act ("Regulation S").

The Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Bonds or the Shares to be issued upon conversion of the Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells the Bonds or the Shares to be issued upon conversion of the Bonds, during the distribution compliance period, a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds or the Shares to be issued upon conversion of the Bonds, as the case may be, within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Bonds are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the later of the commencement of the offering of the Bonds and the latest closing date for an issue of Bonds, an offer or sale of the Bonds or the Shares to be issued upon conversion of the Bonds within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

The Lead Manager 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 Financial Services and Markets Act 2000 (the "FSMA") with respect to anything done by it in relation to the Bonds or Shares in, from or otherwise involving the United Kingdom; and
- (3) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds or Shares (or Entitlement Certificates) in circumstances in which Section 21(1) of the FSMA does not apply to the Company.

The ROC

The Bonds may not be offered, sold or delivered, directly or indirectly, in the ROC, as part of the distribution of the Bonds.

Hong Kong

The Lead Manager has represented 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 is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong; 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 only to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent.

Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act 2001 (Act 42 of 2001) of Singapore (the "Securities and Futures Act"). Accordingly, the Bonds may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of such Bonds be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (1) to an institutional investor or other person falling within Section 274 of the Securities and Futures Act, (2) 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 (3) otherwise than pursuant to, and in accordance with the conditions of, any other applicable provisions of the Securities and Futures Act.

Japan

The Lead Manager has represented and agreed that the Bonds have not and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law") and that the Bonds, which it subscribes will be subscribed by it as principal. The Lead Manager has also represented and agreed that, in connection with the initial offering of the Bonds, it will not directly or indirectly offer or sell any Bonds in Japan, or to, or for the benefit of any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other applicable laws and regulations of Japan.

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 22318348. The Company's registered office is located at No.2, Lane 138, Hsin Tien 2nd St., Hsin-Tien, Jeng-Ten, Tainan, Taiwan, R.O.C.

Authorizations: The Company has obtained all necessary consents, approvals and authorizations in connection with the issue of the Bonds. The issue of the Bonds was authorized by a resolution of the Board of Directors of the Company passed on October 27, 2003.

Material Change: Except as disclosed in this Offering Circular, there has been no material adverse change in the financial position or prospects of the Company since June 30, 2003.

Litigation: Save as disclosed in the section "Business of the Company - Litigation ", neither the Company nor any of its subsidiaries is involved in any litigation or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position of the Company and its Subsidiaries, nor, so far as any of them is aware, are any such proceedings pending or threatened.

Independent Accountants: The consolidated financial statements of the Company as of December 31, 2001 and 2002 and the non-consolidated statements as of June 30, 2003 have been audited by Deloitte & Touche, the independent certified public accountants to the extent indicated in their report thereon.

Clearing Systems: The Bonds have been accepted for clearance through the facilities of Euroclear. Relevant trading information for the Bonds is set forth below:

Common Code
ISIN

018144506
XSO0181445064

Ta Chen Stainless Pipe Co., Ltd. and Subsidiary

**Consolidated Financial Statements for the Year Ended
December 31, 2001**

Together with Independent Auditors' Report

**(With Comparative Unaudited Data for the Year Ended
December 31, 2000)**

Notice to Readers

Readers are advised that the original version of these financial statements is in Chinese. This English translation is solely for the readers' convenience and may present financial statements for periods not previously presented in a single document. Also, these financial statements do not include additional disclosures that are required for Chinese-language reports under the Guidelines for Securities Issuers' Financial Reporting promulgated by the Securities and Futures Commission of the Republic of China. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

English Translation of a Report Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

March 18, 2002

The Board of Directors and Stockholders
Ta Chen Stainless Pipe Co., Ltd.

We have audited the accompanying consolidated balance sheet of Ta Chen Stainless Pipe Co., Ltd., a company incorporated under the laws of the Republic of China, and its consolidated subsidiary (the Company) as of December 31, 2001 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended, which are required to be prepared in accordance with accounting principles generally accepted in the Republic of China, and expressed in Thousand New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Ta Chen International (CA) Corp. (TCIC), a wholly-owned subsidiary of the Company, which total assets and net sales amounted to NT\$4,177,753 and NT\$5,879,930, representing 59% and 85% of consolidated total assets and consolidated sales as of December 31, 2001 and for the year ended December 31, 2001, respectively. The financial statements of TCIC were audited by other auditors whose report has been furnished to us with a modified unqualified opinion which emphasizes of the essence of related party transactions, and our opinion, insofar as it relates to the amounts included in the accompanying consolidated financial statements for TCIC, is based solely on the report of the other auditors. As stated in Note 2 to the financial statements, the Company changed its fiscal year-end from October 31 to December 31, effective January 1, 2001. The financial statements for the year ended December 31, 2000 are presented for comparison purposes only and were not audited.

We conducted our audit in accordance with Regulations for Auditing and Certification of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit 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 other auditor's report provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2001, and the consolidated results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles in the Republic of China.

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

Deloitte & Touche
(T N Soong & Co and Deloitte & Touche (Taiwan)
Established Deloitte & Touche Effective June 1, 2003)
Kaohsiung, Taiwan
The Republic of China

TA CHEN STAINLESS PIPE CO., LTD. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

ASSETS	December 31				LIABILITIES AND STOCKHOLDERS' EQUITY	December 31			
	2001		2000 (Unaudited)			2001		2000 (Unaudited)	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash	\$ 48,917	1	\$ 88,709	1	Short-term bank loans (Notes 9 and 18)	\$1,517,694	21	\$1,542,088	20
Short-term investments (Notes 3 and 18)	3,290	-	9,044	-	Commercial papers (Note 10)	159,032	2	297,758	4
Notes receivable	9,850	-	6,420	-	Notes payable (Note 11)	74,840	1	65,439	1
Receivables					Accounts payable (Note 11)	244,790	4	452,576	6
Related parties (Note 16)	1,351,217	19	834,970	11	Loan from related parties (Note 16)	85,918	1	77,255	1
Others—net of allowance (Note 4)	18,084	-	25,021	-	Income tax payable	16,867	-	127,192	2
Inventories (Notes 2 and 5)	2,555,894	36	3,763,562	49	Current portion of long-term debts (Notes 12 and 18)	102,472	2	49,978	-
Deferred tax assets (Notes 2 and 15)	38,487	1	56,071	1	Accrued expenses and other	109,123	2	159,977	2
Pledged time deposits and commercial papers (Note 18)	270,532	4	294,225	4	Total current liabilities	2,310,736	33	2,772,263	36
Prepaid and other	69,505	1	77,543	1	LONG-TERM DEBTS (Notes 12 and 18)	1,468,637	21	1,667,599	22
Total current assets	4,365,776	62	5,155,565	67	ACCRUED PENSION COST (Notes 2 and 13)	54,416	-	43,525	-
LONG-TERM INVESTMENTS (Notes 2 and 6)	655,238	9	406,566	5	Total liabilities	3,833,789	54	4,483,387	58
PROPERTIES (Notes 2, 7 and 18)					STOCKHOLDERS' EQUITY (Notes 2, 7 and 14)				
Cost					Capital stock	2,480,410	35	2,480,410	32
Land	375,970	5	374,023	5	Capital surplus				
Building and improvements	362,027	5	317,347	4	Capital in excess of par value	591,671	8	653,735	9
Machinery and equipment	1,047,310	15	1,007,809	13	Gain on disposal of properties	23,800	-	23,800	-
Electrical equipment	67,182	1	57,918	1	Total	615,471	8	677,535	9
Transportation equipment	26,423	-	25,171	-	Retained earnings				
Furniture and fixtures	102,300	2	79,674	1	Legal reserve	62,775	1	61,513	1
Leased Assets	167,773	2	14,997	-	Unappropriated retained earnings (deficit)	20,173	-	(60,802)	(1)
Other equipment	242,129	4	254,995	4	Total	82,948	1	711	-
Total cost	2,391,114	34	2,131,934	28	Cumulative translation adjustments	120,692	2	55,971	1
Accumulated depreciation	753,627	11	595,098	8	Treasury stock-3,257 thousand shares	(29,629)	-	(29,629)	-
	1,637,487	23	1,536,836	20	Total stockholders' equity	3,269,892	46	3,184,998	42
Prepayments on machinery and equipment	33,726	1	340,698	5	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$7,103,681	100	\$7,668,385	100
Net properties	1,671,213	24	1,877,534	25					
DEFERRED TAX ASSETS (Notes 2 and 15)	1,888	-	-	-					
DEFERRED PENSION COST (Notes 2 and 13)	167,922	2	50,808	1					
OTHER ASSETS (Notes 8 and 18)	241,644	3	177,912	2					
TOTAL ASSETS	\$7,103,681	100	\$7,668,385	100					

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

(With T N Soong & Co report dated March 18, 2002)

English Translation of a Report Originally Issued in Chinese

TA CHEN STAINLESS PIPE CO., LTD. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

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

	Year Ended December 31			
	2001		2000 (Unaudited)	
	Amount	%	Amount	%
SALES	\$6,917,738	100	\$6,501,565	100
COST OF SALES	<u>6,016,274</u>	<u>87</u>	<u>5,274,700</u>	<u>81</u>
GROSS PROFIT	901,464	13	1,226,865	19
OPERATING EXPENSES	<u>822,073</u>	<u>12</u>	<u>772,168</u>	<u>12</u>
OPERATING INCOME	<u>79,391</u>	<u>1</u>	<u>454,697</u>	<u>7</u>
NON-OPERATING INCOME				
Interest	15,396	-	11,032	-
Investment income	28,403	-	-	-
Foreign exchange gain—net (Note 2)	70,956	1	78,277	1
Others	<u>37,232</u>	<u>1</u>	<u>51,819</u>	<u>1</u>
Total non-operating income	<u>151,987</u>	<u>2</u>	<u>141,128</u>	<u>2</u>
NON-OPERATING EXPENSES				
Interest (Note 7)	274,715	4	290,700	4
Investment loss (Notes 2 and 6)	-	-	290,150	5
Loss on disposal of properties	4,060	-	3,956	-
Loss on disposal investments	-	-	4,666	-
Others	<u>12,897</u>	<u>-</u>	<u>3,000</u>	<u>-</u>
Total non-operating expenses	<u>291,672</u>	<u>4</u>	<u>592,472</u>	<u>9</u>
INCOME (LOSS) BEFORE INCOME TAX	(60,294)	(1)	3,353	-
INCOME TAX (BENEFIT) (Notes 2 and 15)	(<u>80,467</u>)	(<u>1</u>)	<u>70,558</u>	<u>1</u>
CONSOLIDATED NET INCOME (LOSS)	<u>\$ 20,173</u>	<u>-</u>	<u>(\$ 67,205)</u>	<u>(1)</u>
EARNINGS (LOSS) PER SHARE				
Based on the weighted average number of shares outstanding of 244,784,000 in 2001 and 247,104,868 in 2000	<u>\$ 0.08</u>		<u>(\$ 0.27)</u>	

The accompanying notes are an integral part of the financial statement

(With T N Soong & Co report dated March 18, 2002)

English Translation of a Report Originally Issued in Chinese

TA CHEN STAINLESS PIPE CO., LTD. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands of New Taiwan Dollars, Except Par Value)

	Capital Stock— Authorized Shares of 300,000 Thousands (Including 50,000 Thousand shares for Convertible Bonds) at Par Value NT\$10		Capital Surplus	Retained Earnings			Cumulative Translation Adjustments (Notes 2 and 7)	Treasury Stock (Note 2)	Total Stockholders' Equity
	Issued			Legal reserve	Unappropriated earnings (deficit)	Total			
	Shares	Amount							
BALANCE, JANUARY 1, 2000 (Unaudited)	215,180,000	\$ 2,151,800	\$ 892,533	\$ 49,205	\$ 135,838	\$ 185,043	\$ 7,961	\$ -	\$ 3,237,337
Appropriations from prior year's earnings									
Legal reserve	-	-	-	12,308	(12,308)	-	-	-	-
Bonus to employees—cash	-	-	-	-	(7)	(7)	-	-	(7)
Bonus to employees—stocks	584,000	5,840	-	-	(5,840)	(5,840)	-	-	-
Compensation to directors and supervisors	-	-	-	-	(3,508)	(3,508)	-	-	(3,508)
Stock dividends—5%	10,759,000	107,590	-	-	(107,590)	(107,590)	-	-	-
Stock dividends from capital surplus—10%	21,518,000	215,180	(215,180)	-	-	-	-	-	-
Gain on disposal of properties	-	-	182	-	(182)	(182)	-	-	-
Consolidated net loss for 2000	-	-	-	-	(67,205)	(67,205)	-	-	(67,205)
Translation adjustments (Notes 2 and 6)	-	-	-	-	-	-	48,010	-	48,010
Treasury stock—3,257 thousand shares	-	-	-	-	-	-	-	(29,629)	(29,629)
BALANCE, DECEMBER 31, 2000 (Unaudited)	248,041,000	2,480,410	677,535	61,513	(60,802)	711	55,971	(29,629)	3,184,998
Appropriations from prior year's earnings									
Legal reserve	-	-	-	1,262	(1,262)	-	-	-	-
Capital surplus offset with deficit	-	-	(62,064)	-	62,064	62,064	-	-	-
Consolidated net income for 2001	-	-	-	-	20,173	20,173	-	-	20,173
Translation adjustments (Notes 2 and 6)	-	-	-	-	-	-	64,721	-	64,721
BALANCE, DECEMBER 31, 2001	248,041,000	\$ 2,480,410	\$ 615,471	\$ 62,775	\$ 20,173	\$ 82,948	\$ 120,692	(\$ 29,629)	\$ 3,269,892

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

(With T N Soong & Co report dated March 18, 2002)

English Translation of a Report Originally Issued in Chinese

TA CHEN STAINLESS PIPE CO., LTD.

COSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)

	<u>Year Ended December 31</u>	
	<u>2001</u>	<u>2001(Unaudited)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 20,173	(\$ 67,205)
Depreciation	230,934	182,487
Loss on disposal of properties	3,133	2,888
Gain on disposal of long-term investments	(9,940)	-
Provision (reversal of allowance) for loss on short-term investments	(3,998)	18,573
Provision for inventory losses	10,265	8,589
Investment (income) loss under equity method	(28,403)	290,150
Provision for doubtful accounts and sales discounts	13,127	10,270
Deferred income tax	(99,530)	(64,348)
Other	1,261	4,703
Changes in operating assets and liabilities		
Receivables	(525,867)	13,400
Inventories	1,197,403	(571,586)
Other current assets	(15,810)	140,783
Notes and accounts payable	(199,972)	8,244
Payables—related parties	19,059	-
Income tax payable	(110,325)	103,992
Other current liabilities	(27,006)	57,662
Accrued pension cost	<u>9,003</u>	<u>6,867</u>
Net cash provided by operating activities	<u>483,507</u>	<u>145,469</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties	(153,447)	(406,140)
Increase in long-term investments	(172,247)	(164,987)
Decrease in short-term investments	9,752	-
Proceeds from disposal of long-term investments	26,640	-
Decrease (increase) in pledged time deposits	23,693	(84,008)
Proceeds from disposal of properties	127,287	7,859
Increase in other assets	(<u>64,993</u>)	(<u>7,340</u>)
Net cash used in investing activities	(<u>203,315</u>)	(<u>654,616</u>)

(Forward)

English Translation of a Report Originally Issued in Chinese

	<u>Year Ended December 31</u>	
	<u>2001</u>	<u>2001</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in long-term debts	(\$ 146,468)	\$ 532,243
Decrease in short-term bank loans	(24,394)	(103,706)
Increase (decrease) in commercial papers	(138,726)	3,049
Decrease in loan from related parties	(10,396)	(25,540)
Compensation to directors and supervisors	-	(3,508)
Acquisition of treasury stock	-	(29,629)
Net cash provided by (used in) financing activities	(<u>319,984</u>)	<u>372,909</u>
NET DECREASE IN CASH	(39,792)	(136,238)
CASH, BEGINNING OF PERIOD	<u>88,709</u>	<u>224,947</u>
CASH, END OF PERIOD	<u>\$ 48,917</u>	<u>\$ 88,709</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	\$ 286,769	\$ 314,364
Income tax paid	123,281	21,329
Non-cash investing and financing activities		
Current portion of long-term debts	\$ 102,472	\$ 49,978
Reclassification of the other investment	-	12,450
Cash paid for acquisition of properties		
Acquisition costs	\$ 155,034	\$ 420,711
Increase in payables on properties purchased	(<u>1,587</u>)	(<u>14,571</u>)
	<u>\$ 153,447</u>	<u>\$ 406,140</u>

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

(With T N Soong & Co report dated March 18, 2002)

TA CHEN STAINLESS PIPE CO., LTD. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

(WITH COMPARATIVE UNAUDITED DATA AS OF DECEMBER 31, 2000)

(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Stated)

1. GENERAL

Ta Chen Stainless Pipe Co., Ltd. (the Company) was incorporated in November 1986. Its operations consist of the manufactures stainless pipe and pipe fitting products, and sales of stainless coils.

In November 1989, the Company invested Ta Chen International (CA) Corporation, wholly-owned subsidiary which is mainly engaged in distribution and sales of coils, sheets, tubing, bar, stainless pipe and fitting products, and manufacture and sale of fasteners.

The Company's stock has been traded on the Taiwan Stock Exchange since October 1996.

2. SIGNIFICANT ACCOUNTING POLICIES

Change in Accounting Year and Preparation of Financial Statements

The Company's accounting year originally ended on October 31. Effective January 2001, the Company changed its accounting year-end to December 31. The comparative financial statements for the year ended December 31, 2000 are presented for comparison only and are unaudited.

Consolidation

The consolidated financial statements include the accounts of the Company and Ta Chen International (CA) Corporation, a wholly-owned subsidiary.

Significant intercompany transactions and account balances have been eliminated.

Short-term Investments

Short-term investments are valued at the lower of the weighted average cost or market value.

Market value represents net assets value at balance sheet date for security investment funds or average price in the latest month of the year for corporation bonds and listed stocks. Allowance for investment loss is provided when the market value decline lower than cost, and when the market value recovers, the allowance account will be reversed to the extent of remaining balance.

Allowance for Doubtful Accounts and Sales Discounts

The allowance for doubtful accounts are provided based on evaluation of the collectibility of the receivables.

The allowance for sales discounts are estimated based on the possibility of occurrence.

Inventories

Inventories are stated at the lower of weighted average cost or market. Market value represents net realizable value for finished goods and work in process and replacement cost for raw materials and supplies. Loss from decline in market value of inventories is charged to cost of sales.

Long-term Investments

Long-term investments of which the Company owns at least 20% of the outstanding voting shares or where the Company has significant influence on the investees are accounted for by the equity method. Investment income or loss is recognized when the investees incur. While cash dividends received from investees are recorded as a deduction in the investment carry value. The difference between the investment cost and the proportionate equity in the investee when a stock is acquired or when equity method is initially applied, is amortized over ten years.

Other investments are accounted for by the cost method. Stock dividends received from investees are not recorded as investment income but as decrease in shares. Cash dividends received from investee companies are recognized as investment income on the ex-dividend date. If certain evidence indicates that the market value of investments has significantly declined and not temporarily, the decline should be recognized as a realized investment loss in the same years of the decline.

Properties

Land is stated at cost.

Properties except for land are stated at cost less accumulated depreciation. Interest expense arising from the purchase or construction of properties is capitalized as cost. Major additions, renewals, and betterment are capitalized, while maintenance and repairs are expensed currently.

Depreciation is provided by the straight-line method over service lives estimated as follows: building and improvements, 3 to 50 years; machinery and equipment, 2 to 15 years; electrical equipment, 2 to 15 years; transportation equipment, 2 to 6 years; furniture and fixtures, 3 to 10 years; leased assets, 3 to 25 years; other equipment, 2 to 25 years. The residual value of a property, which has reached its original service life but is still in use, is written off over its reestimated remaining service life.

When assets are retired or disposed, their costs and related accumulated depreciation are removed from the accounts and any loss or gain is credited or charged to current income. Prior to 2001, such gain net of applicable income tax is then transferred to capital surplus.

Capital Lease

Lease assets and its related liabilities under capital lease are stated at the lower of the following at the inception of lease: (1) fair value of the leased assets on the inception date of lease; (2) the present value of rental plus the bargain purchase price.

The imputed interest on lease obligation payable is charged as interest expense when accrued.

Deferred Profits on Intercompany Sales

Profits on intercompany sales are deferred and recognized as income in the year of realization.

Pensions

Pension costs are recognized based on actuarially determined amounts; prior service cost, actuarial gain or loss, and unrecognized net transition obligation are amortized over 15 years.

Pension benefits paid in excess of the pension fund and accrual are charged to expense.

Income Tax

Income tax is provided on inter-period allocation basis. Tax effects of deductible temporary differences, unused tax credits and unused loss carryforwards are recognized as deferred income tax assets, and those of taxable temporary differences are recognized as deferred income tax liabilities. Valuation allowance is provided for deferred tax assets that are not certain to be realized. A deferred tax asset or liability is classified as current or noncurrent according to the classification of its related assets or liabilities. However, if it cannot be related to an asset or liability in the financial statements, it is classified as current or noncurrent based on the expected length of reversal period.

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

Annual earnings shall be appropriated by the Company's stockholders resolution in the following year. The undistributed earnings, as determined by the tax regulation, shall be subject to 10% income taxes. Such taxes are recorded as expenses after the stockholders resolved that the earnings should be retained.

Treasury Stock

Acquisition of treasury stock is accounted for at cost and reflected as a deduction of stockholders' equity in the balance sheet. Upon disposition of the treasury stock, the excess of proceed over the par value, is credited to capital surplus; the excess of par value over proceed, is charged to such capital surplus that is arising from the treasury stock transaction, otherwise, the excess is charged to retained earnings.

Foreign - Currency Transactions

Foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses caused by the application of different foreign exchange rates when foreign-currency assets and liabilities are settled are charged or credited to income in the year of settlement. Year-end balances of foreign-currency assets and liabilities are restated into New Taiwan dollars based on prevailing exchange rates, and resulting differences are accounted for as follows:

- a. Foreign investments - charged or credited to cumulative translation adjustments under stockholders' equity.
- b. Others - charged or credited to current income.

Derivative Financial Transaction

Forward exchange contracts for hedging purposes are recorded at the spot rates on the contract date. The foreign-currency amount of each contract multiplied by the difference between the spot rate on the contract date and the contracted forward rate is amortized over the contract period. At year-end, the balances of forward exchange receivables or payables are restated based on prevailing exchange rates and the resulting adjustments are credited or charged to income.

3. SHORT-TERM INVESTMENTS

	<u>2001</u>	<u>2000</u> <u>(Unaudited)</u>
Security investment fund	\$ 2,006	\$ 9,529
Non-guarantee convertible bond	1,500	4,000
Listing preferred stock	<u>1,271</u>	<u>1,000</u>
	4,777	14,529
Less: Allowance for decline in value (Note 2)	<u>1,487</u>	<u>5,485</u>
	<u>\$ 3,290</u>	<u>\$ 9,044</u>

4. RECEIVABLES

	<u>2001</u>	<u>2000</u> <u>(Unaudited)</u>
Receivables	\$ 1,388,372	\$ 858,998
Less: Allowance for doubtful accounts and sales discount (Note 2)	<u>37,155</u>	<u>24,028</u>
	<u>\$ 1,351,217</u>	<u>\$ 834,970</u>

5. INVENTORIES

	<u>2001</u>	<u>2000</u> <u>(Unaudited)</u>
Finished goods	\$ 1,940,496	\$ 2,892,408
Work in process	199,523	215,356
Raw materials	201,159	292,531
Raw materials in transit	204,227	353,597
Merchandise	<u>29,851</u>	<u>18,767</u>
	2,575,256	3,772,659
Less: Allowance for losses (Note 2)	<u>19,362</u>	<u>9,097</u>
	<u>\$ 2,555,894</u>	<u>\$ 3,763,562</u>

6. LONG-TERM INVESTMENTS

	<u>2001</u>		<u>2000 (Unaudited)</u>	
	<u>Carrying Value</u>	<u>% of Ownership</u>	<u>Carrying Value</u>	<u>% of Ownership</u>
<u>Equity method</u>				
Ta Chen (B.V.I.) Holding Ltd. (Ta Chen B.V.I.)	\$ 245,595	100.0	\$ 192,703	100.0
Ta-Ji Investment Co., Ltd. (Ta-Ji)	146,943	99.9	54,033	99.9
Ta Chen Steel Investment Co., Ltd. (TCSI)	91,176	99.9	44,210	99.9
Ta Ever International Co., Ltd. (TEIC)	<u>171,524</u>	85.5	<u>98,920</u>	81.9
	655,238		389,866	
<u>Cost method</u>				
V Best Electronics Ltd.	<u>-</u>	-	<u>16,700</u>	2.4
	<u>\$ 655,238</u>		<u>\$ 406,566</u>	

Investment income (loss) under the equity method are summarized as follows:

	<u>2001</u>	<u>2000</u> <u>(Unaudited)</u>
Ta Chen B.V.I.	\$ 44,134	\$ 113
Ta-Ji	(3,535)	(85,705)
TCSI	(7,085)	(127,861)
TEIC	(5,111)	(76,697)
	<u>\$ 28,403</u>	<u>(\$ 290,150)</u>

In May 1997, the Company incorporated Ta Cheng (B.V.I.) for the purpose of indirect investments in Shijiazhuang Ji-Tai Precision Casting Co (Ji Tai) in Mainland China. As of December 31, 2001, such investment in Ji-Tai amounted to US\$4,203 (NT\$115,594).

In August 1999, Ta Chen (B.V.I.) Holding Ltd. made an investment of US\$242 (NT\$7,761) in Ta Chen (Bao-Ding) Precision Casting Co in Mainland China.

The changes in the translation adjustments from abovementioned investments are as follows:

	<u>2001</u>	<u>2000</u> <u>(Unaudited)</u>
Balance, beginning of year	\$ 55,971	\$ 7,961
Increase	<u>64,721</u>	<u>48,010</u>
Balance, end of year	<u>\$ 120,692</u>	<u>\$ 55,971</u>

In May and November 2001, the stockholders' meetings of TCSI resolved to have the capital decrease of NT\$174,101 and NT\$157,340 to offset its deficit. The registration for capital decreases were approved by the government on August 2001 and January 2002, respectively, and the Company may recognize investment losses for the reporting of 2002 tax return.

The Company sold the investment in V Best Electronics Ltd. in 2001 and recognized the gain of NT\$9,940.

The financial statements of Ta Chen (B.V.I.), Ta Ji, TCSI and TEIC, represent total assets or total revenues which are less than 10% of the total assets or revenues of the Company. Therefore, in accordance with the ROC regulation, those subsidiaries financial statements were not included in the consolidated financial statement.

7. PROPERTIES

Accumulated depreciation consists of:

	<u>2001</u>	<u>2000</u> <u>(Unaudited)</u>
Building and improvements	\$ 56,632	\$ 45,569
Machinery and equipment	443,849	364,537
Electrical equipment	23,063	18,840
Transportation equipment	15,116	12,196
Furniture and fixtures	35,655	24,844
Leased assets	14,468	3,889
Other equipment	<u>164,844</u>	<u>124,530</u>
	753,627	594,405
Add: Allowance for losses	-	693
	<u>\$ 753,627</u>	<u>\$ 595,098</u>

Information for capitalized interest are as follows:

	<u>2001</u>	<u>2000</u> <u>(Unaudited)</u>
Total interest	\$ 282,095	\$ 310,662
Interest capitalized	7,380	19,962
Capitalized interest rate	8.54%	8.19%

The capitalized interests were included in the prepayments on machinery and equipment.

8. OTHER ASSETS

This includes a parcel of farmland with purchased cost of \$156,407. Title to such land can not be transferred to the Company but to a related party. The Company had obtained a waiver notice for the ownership from these nominal owner.

9. SHORT-TERM BANK LOANS

	<u>2001</u>	<u>2000</u> <u>(Unaudited)</u>
Revolving loans: Interest at 4.15%-8.99% in 2001 and 6.95%-9.0% in 2000	\$ 751,633	\$ 734,000
New Taiwan dollar loans: Interest at 7.743%-8.75% in 2001 and 8.0%-9.1%, in 2000	650,952	606,643
US dollar loans: Interest at 3.45%-6.2%, 2001 and 8.23%-9% in 2000	105,636	201,445
Merchandise financial loans : Interest at 7.805%	<u>9,473</u>	<u>-</u>
	<u>\$ 1,517,694</u>	<u>\$ 1,542,088</u>

As of December 31, 2001, the Company has unused credit lines for short-term loans aggregated NT\$179,939.

10. COMMERCIAL PAPERS

	<u>2001</u>	<u>2000</u> <u>(Unaudited)</u>
Commercial papers: Interest at 2.8%-6.5% in 2001 and 5.1%-7.75% in 2000	\$ 160,000	\$ 300,000
Less: Unamortized discount	<u>968</u>	<u>2,242</u>
	<u>\$ 159,032</u>	<u>\$ 297,758</u>

11. PAYABLES

	<u>2001</u>	<u>2000</u> <u>(Unaudited)</u>
Notes payable for purchases of		
Supplies	\$ 58,880	\$ 42,019
Properties	7,737	10,201
Other	<u>8,223</u>	<u>13,219</u>
	<u>\$ 74,840</u>	<u>\$ 65,439</u>
Accounts payable for purchases of		
Supplies	\$ 225,477	\$ 437,895
Properties	17,289	13,238
Other	<u>2,024</u>	<u>1,443</u>
	<u>\$ 244,790</u>	<u>\$ 452,576</u>

12. LONG-TERM DEBTS

	<u>2001</u>	<u>2000</u> <u>(Unaudited)</u>
Bank loans	\$ 1,507,656	\$ 1,697,569
Lease obligation payable	63,453	16,599
Merchandise financing loans	<u>-</u>	<u>3,409</u>
	1,571,109	1,717,577
Current portion	<u>102,472</u>	<u>49,978</u>
	<u>\$ 1,468,637</u>	<u>\$ 1,667,599</u>

a. Details of the bank loans are summarized as follows:

<u>The Company</u>	<u>2001</u>	<u>2000</u> <u>(Unaudited)</u>
Repayable in 36 equal consecutive monthly installments starting September 2001; interest at 8.53%	\$ 48,000	\$ -
Repayable in 16 equal consecutive quarterly installments starting March 2000; interest at 8.35% in 2001 and 8.63% in 2000	39,375	52,500
Repayable in 16 equal consecutive quarterly installments starting March 2000; interest at 6.475% in 2001 and 6.755% in 2000	32,692	43,590
Repayable in 36 equal consecutive monthly installments starting October 1999; interest at 8.87% in 2001 and 9% in 2000	4,999	11,666
Repaid in August 2001, interest at 8.88%	-	1,941

The Subsidiaries

Expire in July 2004; interest at 7.00% in 2001 and 10.25% in 2000	1,216,219	1,430,145
Expire in December 2007; interest at 5% in 2001 and 8% in 2000	93,861	92,624
Expire in January 2005; interest at 4.65% in 2001 and at 9.40% in 2000	54,665	52,533
Expire in February 2016; interest at 8.0% in 2001	4,564	-
Expire in November 2002; interest at 5.10% in 2001 and at 9.85% in 2000	<u>13,281</u>	<u>12,570</u>
	1,507,656	1,697,569
Current portion	<u>51,867</u>	<u>42,343</u>
	<u>\$ 1,455,789</u>	<u>\$ 1,655,226</u>

The loans agreement with TCIC contain various financial covenants including the maintenance of specified level of tangible net worth, minimum EBITDA and maximum capital expenditure, as defined in the agreements. Management is not aware of any violations of the covenants as of December 31, 2001. As of December 31, 2001, the unused line of credit aggregated \$356,531.

b. Long-term lease obligation payable

2001

The Company

The Company acquired certain machinery and equipment under capital lease obligations, and issued the installment promissory notes of NT\$46,820 to the lessor and future minimum lease payments for the next two years are as follows:

Long-term lease obligation payable	\$ 46,820
Less: imputed interest	(<u>2,157</u>)
Present value of net minimum lease payments—current portion	<u>\$ 44,663</u>

The Subsidiaries

The Subsidiaries acquired certain machinery and equipment under capital leases, The obligations and future minimum lease payments for the next five years are as follows:

2002	\$ 7,171
2003	6,825
2004	4,864
2005	1,941
2006	653
Less: Imputed interest	(<u>2,664</u>)
	18,790
Less: Current portion within one year	(<u>5,942</u>)
	<u>\$ 12,848</u>

2000 (unaudited)

The Subsidiaries

The Subsidiaries acquired certain machinery and equipment under capital leases. The obligations and future minimum lease payments for the next five years are as follows:

2001	\$ 5,477
2002	5,113
2003	4,127
2004	2,653
2005	1,033
Less: Imputed interest	(1,804)
	16,599
Less: Current portion	(4,226)
	<u>\$ 12,373</u>

- c. Merchandise financing loans represent the sales and purchase back financing for raw materials, which was due June 2001 with interest at 5.76%.

13. PENSION PLAN

The Company is obligated by law to pay pension benefits to its employees based on length of service and average salaries or wages for the six months before retirement.

The Company makes monthly contributions, equal to 11% (at 2% prior to June 2000) of salaries and wages, to a pension fund, which is deposited in the name of, and administered by, the employees pension plan committee.

Changes in the pension fund are as follows:

	<u>2001</u>	<u>2000(Unaudited)</u>
Balance, beginning of year	\$ 16,663	\$ 14,520
Deposits	3,996	7,630
Interests	1,321	-
Payments	(3,389)	(5,487)
Balance, end of year	<u>\$ 18,591</u>	<u>\$ 16,663</u>

Based on the actuarial calculation, certain pension information are summarized as follows:

a. Net pension cost

	<u>2001</u>	<u>2000(Unaudited)</u>
Service cost	\$ 8,907	\$ 9,376
Interest cost	4,613	5,318
Projected return on plan assets	(1,497)	(1,530)
Amortization	<u>975</u>	<u>1,142</u>
	<u>\$ 12,998</u>	<u>\$ 14,306</u>

b. Reconciliation of the funded status of the plan and accrued pension cost

	<u>2001</u>	<u>2000(Unaudited)</u>
Benefit obligations		
Vested	\$ 2,219	\$ 2,571
Nonvested	<u>71,585</u>	<u>54,436</u>
Accumulated benefit obligation	73,804	57,007
Additional benefits based on future salaries	<u>18,731</u>	<u>21,187</u>
Projected benefit obligation	92,535	78,194
Fair value of plan assets	(<u>19,380</u>)	(<u>17,985</u>)
Funded status	73,155	60,209
Unrecognized net transitional obligation	(7,338)	(8,274)
Unrecognized pension loss	(13,289)	(8,410)
Additional liability	<u>1,888</u>	<u>-</u>
Accrued pension cost	<u>\$ 54,416</u>	<u>\$ 43,525</u>
c. Vested obligation	<u>\$ 2,482</u>	<u>\$ 2,966</u>

d. Actuarial assumptions

Discount rate	5%	6%
Annual salary increase	2%	3%
Expected rate of return on plan assets	5%	6%

14. STOCKHOLDERS' EQUITY

Treasury Stock

In September and October, 2000 the Company purchased its own stocks of 3,257 thousand shares at cost of NT\$29,629 for the transfer to its employees. As of December 31, 2001, the amount of treasury stock remained unchanged.

In accordance with Securities and Exchange Law, the maximum number shares of treasury stock purchased restricted to up to 10% of total outstanding shares and the aggregated purchase cost should not exceed the total of retained earnings, capital in excess of par value and capital surplus arising from gain on disposal of property and donations received. The treasury stocks should not be pledged and the Company can not exercise the rights of a stockholder in respect to those stocks.

Capital Surplus

Under the regulations, capital surplus arising from the capital issued with premium can be used to offset a deficit or transferred to capital but restricted a specific limits. Furthermore, capital surplus arising from gain on disposal of properties before 2000 can be transferred to retained earning through the resolution of current stockholders' meeting.

Earning Appropriation and Dividend Policy

The Company's Articles of Incorporation provide that the following shall be appropriated from the annual net income:

- a. 10% as legal reserve, until the cumulative balance equals the paid-in capital.
- b. 5% and 3% of the remainder as bonus to employees and compensation to directors and supervisors, respectively.
- c. The remaining net income may be distributed as proposed by the Company's board of directors.

The Company's policy focuses on the stable and growing in dividend distribution. The dividends to stockholders shall not less than 50% of the earnings available for distribution, of which not less than 20% will be a cash dividend.

The above appropriation and allocation shall be resolved by the stockholders in the following year and given effect to in the financial statements of that year.

Under the Company Law, the legal reserve can be used to offset or reduce a deficit; also, when the reserve has reached 50% of capital, up to 50% thereof may be transferred to capital.

Integrated Tax System

Under the Integrated Tax System which became effective on January 1, 1998, resident stockholders are allowed a tax credit for the income tax paid or payable by the Company on earnings generated in 1999 (the Company's original fiscal year) and onwards. Imputation Credit Account (ICA) is maintained by the Company for such income tax and the tax credit allocated to each stockholder. The maximum credit available for allocation to stockholders cannot exceed the balance shown in the ICA on the date of distribution of dividends.

As of December 31, 2001, the balance of ICA amounted to NT\$112,239, and the estimated and actual ratio of tax credit allocated to stockholders for 2001 and 2000 distributed earnings are 33.33% and 23.91%, respectively..

15. INCOME TAX

	<u>2001</u>	<u>2000</u> <u>(Unaudited)</u>
Income tax based on accounting income at statutory rate	\$ 1,837	\$ 36,245
Add (deduct) tax effects of difference:		
Unrealized investment loss under equity method	54,725	96,992
Realized investment loss	(82,827)	-
Realized foreign exchange loss (gain)	23,848	(19,855)
Realized (unrealized) gain on intercompany sales	(24,310)	18,913
Other—net	<u>7,484</u>	<u>(6,850)</u>
Current tax payable (deferred income tax benefit)	(19,243)	125,445
Deferred income tax	(80,287)	(64,348)
Income taxes (10%) on undistributed earnings	33,284	-
Investment tax credits	(16,641)	-
Offshore tax credits	-	6,776
Adjustments of prior year's tax payable	<u>2,420</u>	<u>2,685</u>
Income tax expense (benefit)	<u>(\$ 80,467)</u>	<u>\$ 70,558</u>

Deferred income tax assets consist of:

	<u>2001</u>	<u>2000</u> <u>(Unaudited)</u>
Deferred income tax asset —current		
Loss carry-forward	\$ 7,500	\$ 55,314
Allowance for doubtful accounts	14,221	8,593
Allowance for inventory loss	14,425	14,378
Unrealized foreign exchange gain	-	(23,848)
Other	<u>2,341</u>	<u>1,634</u>
	<u>38,487</u>	<u>56,071</u>
Deferred income tax assets-noncurrent		
Unrealized gain on intercompany sales	9,955	34,264
Depreciation	10,397	5,663
Deferred pension cost	13,621	10,881
Investment tax credits	24,156	-
Loss carryforward	<u>169,018</u>	<u>-</u>
	227,147	50,808
Less: Valuation allowance	<u>59,225</u>	<u>-</u>
	<u>167,922</u>	<u>50,808</u>
Net deferred income tax assets	<u>\$ 206,409</u>	<u>\$ 106,879</u>

The Company has loss carryforward of NT\$23,630 in 2001, which may be used to reduce future taxable income within five years. The subsidiaries has recorded loss carry-forward of NT 152,888 which will expire in various years through 2021.

As of December 31, 2001, unused investment tax credits of NT\$24,156 may be used to offset the income tax payable for the year that the credits are granted and the following four years. The amount of investment credit used in each year shall be limited to 50% of the tax payable with the exception to the latest year in which the entire amount can be fully used.

Income tax payables are net of prepayment of tax as of December 31, 2001 and 2000, respectively.

Income tax returns through 1999 have been examined by the tax authorities.

16. RELATED PARTY TRANSACTIONS

The Company engages in business transactions with the following related parties:

	<u>Relationship with the Company</u>
Shijiazhuang Jitai Precision Casting Co., (Ji-Tai)	Affiliate
Ta Chen (B.V.I.) Holding Ltd. (Ta Chen B.V.I.)	Wholly-owned subsidiary
Ta Chen Stainless Investment Co., Ltd. (TCSI)	Wholly-owned subsidiary
Ta Ji Investment Co., Ltd. (Ta-Ji)	Wholly-owned subsidiary
Mrs. D. Tseng	Relative to the president
Mr. W. D. Shieh	Relative to the president
Mr. R. K. Shieh	The president
Mr. R. H. Shieh	Supervisor
Banner Fasteners Inc. (BFI)	Affiliate
Tension control Bolting Inc. (TCBI)	Affiliate
AMS Specialty Steel Inc. (AMS)	Affiliate

Significant related parties' transactions are summarized as follows:

During the Year

a. Purchases

	<u>Amounts</u>	<u>%</u>
AMS	\$ 129,596	3
Ta Chen B.V.I.	80,395	2
BFI	<u>18,102</u>	<u>-</u>
	<u>\$ 228,093</u>	<u>5</u>

The purchase prices and the payment terms are similar to that to third parties.

b. Financing

The Company has a loan, on an interest-free basis, from Ta Chen B.V.I.

	<u>2001</u>	<u>2000 (Unaudited)</u>
Highest outstanding balance	<u>\$ 66,859</u>	<u>\$ -</u>
Balance, end of year	<u>\$ 66,859</u>	<u>\$ -</u>

The subsidiaries have loans, with interest-free, from Ta Chen B.V.I.

	<u>2001</u>	<u>2000</u> <u>(Unaudited)</u>
Highest outstanding balance	\$ <u>77,255</u>	\$ <u>112,518</u>
Balance, end of year	\$ <u>-</u>	\$ <u>77,255</u>

The subsidiaries has granted loans to related parties.

	<u>2001</u>	<u>2000 (Unaudited)</u>
<u>TCBI</u>		
Highest outstanding balance	\$ <u>-</u>	\$ <u>13,232</u>
Balance, end of year	\$ <u>-</u>	\$ <u>-</u>
<u>BFI</u>		
Highest outstanding balance	\$ <u>7,840</u>	\$ <u>5,789</u>
Balance, end of year	\$ <u>7,840</u>	\$ <u>1,489</u>

- c. The subsidiaries' management service income from BFI and AMS amounted to NT\$11,103 and NT\$3,495 for 2001.
- d. The Company issued promissory notes to guarantee certain indebtedness for the related companies as follows:

	<u>2001</u>	<u>2000</u> <u>(Unaudited)</u>
Ta Chen BVI	\$ 64,000	\$ 135,667
TCSI	30,000	83,000
Ta-Ji	15,000	26,000
BFI	15,507	15,507
AMS	<u>16,220</u>	<u>16,220</u>
	<u>\$ 140,727</u>	<u>\$ 276,394</u>

Mr. P K Shieh issues the promissory notes for the credit line of bank loan for the subsidiaries.

At year-end

	2001		2000 Unaudited)	
	<u>Amounts</u>	<u>%</u>	<u>Amounts</u>	<u>%</u>
<u>Receivables</u>				
Other receivables				
—Ji-Tai	\$ -	-	\$ 1,831	-
—BFI-Accounts Receivable	1,198	-	21,701	3
- Financing	7,840	1	1,489	-
—AMS	3,495	-	-	-
—Ta Ji	1,568	-	-	-
—Others	<u>3,983</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 18,084</u>	<u>1</u>	<u>\$ 25,021</u>	<u>3</u>
Payables				
—Ta Chen B.V.I.-financing	\$ 66,859	16	\$ 77,255	13
—AMS-Accounts payable	<u>19,059</u>	<u>5</u>	<u>-</u>	<u>-</u>
	<u>\$ 85,918</u>	<u>21</u>	<u>\$ 77,255</u>	<u>13</u>

18. PLEDGED OR MORTGAGED ASSETS

<u>Assets</u>	<u>Indebtedness Secured</u>	<u>Carrying Value</u>	
		<u>2001</u>	<u>2000 (Unaudited)</u>
Pledged time deposits and commercial papers	Short-term and long-term loans and guarantee for employment of foreign labors and commercial papers	\$ 319,260	\$ 294,225
Accounts receivable	Short-term and long-term loans	1,302,893	717,137
Inventory	Short-term and long-term loans	1,841,262	2,855,953
Properties—net	Short-term and long-term loans	838,397	357,897
Land (included in other assets)	Long-term loans	156,406	148,752
Short-term investment	Short-term loans	1,089	-
		<u>\$ 4,459,307</u>	<u>\$ 4,373,964</u>

19. COMMITMENTS AND CONTINGENCIES AS OF DECEMBER 31, 2001

- a. Unused letters of credit of NT\$38,011; purchase commitments on property of NT\$7,000.
- b. Lease of land and plant under agreements expiring in January 2002. The current annual rentals approximate NT\$7,758.
- c. Lease commitments—future minimum lease payments in the aggregate under operating leases for the Company's office and warehouse as of December 31, 2001, consist of the following:

2002	\$ 85,628
2003	77,901
2004	55,955
2005	19,945
2006	19,945
Thereafter	<u>28,256</u>
	<u>\$ 287,630</u>

- d. The dumping events of TCIC are summarized as follow:
 - 1) On May 9, 1997, the US Department of Commerce (DOC) determined preliminarily that TCIC is liable for dumping duties of about 31.9% on its imports of welded stainless steel pipes imported for the period June 1992 to November 1994 and 76.2% on stainless steel butt-welded pipe fittings imported for the period December 1992 to May 1994, with totaling dumping tax of US\$11,000 (NT384,450) plus interest.

On June 14, 1999, the DOC issued its final decision affirming its prior preliminary decision. Such final decision is adverse to TCIC and TCIC has appealed to the US court of International Trade (CIT). The CIT issued its first ruling in August 2001 on the DOC decision and found it is contrary to law. According to the Company's legal counsel, the CIT will send the matter back to the DOC for a new decision in accordance with law. Although the DOC indicated its view, the CIT has not yet decided the Company's appeal of the fitting decision. But on December 10, 2001, the CIT upheld DOC's pipe decision, albeit recognizing that DOC (a) in 2001 changed to penalize the Company for not gathering resale data of a customer in 1992-94 on the possibility that the law might change in 2001 to make the customer an affiliate and the resale data relevant. The Company appealed the CIT decision to the Court of Appeals for the Federal Circuit ("CAFC") as contrary to law and will also file a motion with the CIT that it reconsiders its pipe decision.

TCIC's legal counsel believes that the DOC decision is contrary to law as it was (a) based on an impermissible retroactive application of a new definition of related parties which was (b) also contrary to the then existing dumping statute. The legal counsel does not change its assessment of the prospects for court appeals and believes that TCIC has a slightly more than 50% chance of success given the inherent uncertainty of litigation. The ultimate resolution of this case is not ascertainable at this time. No provision has been made in the accompanying financial statements related to the DOC final decision..

- 2) On December 18, 2000, the DOC issued a decision to impose anti-dumping duties of \$18,444 (US\$528) as to TCIC's imports of stainless steel butt-welded pipe fittings for the period from June 1998 to May 1999. TCIC appealed that decision to the CIT on the basis that (a) the anti-dumping duties held to be owed were impermissibly doubled to \$18,444 (US\$528) on the erroneous claim that the Company agreed to reimburse TCIC for anti-dumping duties; (b) the calculated profit attributable to U.S. activities, netted from U.S. price in the anti-dumping margin calculation, impermissibly failed to consider the TCIC's inventory carrying costs; and (c) in the anti-dumping margin calculation, DOC inconsistently reduced U.S. (but not home market) price for inventory carrying and selling cost. TCIC's legal counsel believes that anti-dumping duties of roughly \$3,495 (US\$100) or less are expected at the end of court appeals. So far in the CIT appeal, DOC has asked the CIT to allow DOC to reconsider DOC's doubling decision and has not opposed argument that doubling is contrary to law. The court appeal could take three or more years. The ultimate resolution of the case is not ascertainable at this time. TCIC provided anti-dumping duties of \$3,600 (US\$103) in the financial statements in 2001 related to such DOC decision.
- 3) The DOC issued in June 2001, a preliminary dumping duty decision as to TCIC's imports of stainless steel butt-welded pipe fittings for the period from June 1999 to May 2000. Therein, dumping duties of NT\$11,818 (US\$343) were preliminarily held as owned by TCIC. In December 2001, DOC issued a final anti-dumping duty decision imposing \$12,233 (US\$350) of anti-dumping duties on TCIC's imports of fittings. TCIC appealed that decision to the CIT as contrary to law for the same reasons as (b) and (c) of the above case. TCIC's legal counsel estimated that at the conclusions of any court appeals thereof—which also could take several years—anti-dumping duties ranging from roughly NT\$350 (US\$10) to NT\$2,097 (US\$60) are ultimately expected to be owed, but once again recognizes the inherent uncertainty of litigation. TCIC has not provided any anti-dumping duties in the accompanying financial statements related to this DOC decision because the amount is immaterial.

19. FINANCIAL INSTRUMENTS

- a. Forward exchange contracts
The Company entered into forward exchange contracts to hedge the foreign exchange risk of its existing liabilities. The Company's strategy is to hedge most of its market risk.
The net losses on forward exchange contracts amounted to NT\$1,633 in 2000.
- b. The credit risks on above contracts is not expected to be material. Neither is the market risk.
- c. The Company entered into forward exchange contracts to hedge the foreign exchange risk of its existing assets. As the Company has sufficient operating capital to meet cash requirement upon the maturity of these constructs, the Company believes there are no significant liquidity or cash flow risk.
- d. As of December 31, 2001 and 2000, the estimated fair value of financial instruments are as follows:

	December 31, 2001		December 31, 2000	
			(Unaudited)	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Assets				
Cash	\$ 48,917	\$ 48,917	\$ 88,709	\$ 88,709
Short-term investments	3,290	3,290	9,044	9,044
Notes receivable	9,850	9,850	6,420	6,420
Accounts receivable (Included related parties)	1,369,301	1,369,301	859,991	859,991
Pledged time deposits and commercial papers	270,532	270,532	294,225	294,225
Long-term investments	655,238	652,074	406,566	399,384

(Forward)

	December 31, 2001		December 31, 2000	
			(Unaudited)	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Liabilities				
Short-term bank loans	\$ 1,517,694	\$ 1,517,694	\$ 1,542,088	\$ 1,542,088
Commercial papers	159,032	159,032	297,758	297,758
Notes payable	74,840	74,840	65,439	65,439
Accounts payable (Included related parties)	330,708	330,708	529,831	529,831
Tax payable	16,867	16,867	127,172	127,192
Long-term debts (Include current portion of long-term debts)	1,571,109	1,571,109	1,717,577	1,717,577

The Company estimates fair values of its financial instruments based on the following assumptions:

- 1) Cash, receivables and payables, pledged time deposits and commercial papers, and short-term borrowings at carrying amounts, which approximate to their fair values.
- 2) Short-term and long-term investments at market value or net asset value.
- 3) Fair value of long-term debts is carrying value because of floating interest rates are applied.

20. SEGMENT INFORMATION

- a. The Company is engaged in single industry segment, namely manufacturing and sales of stainless products:
- b. Information on geographic areas:

	<u>North America</u>	<u>Local</u>	<u>Adjustments and Elimination</u>	<u>Consolidation</u>
2001				
Sales from unaffiliated customers	\$ 5,879,930	\$ 1,037,808	\$ -	\$ 6,917,738
Sales from affiliated customers	-	<u>1,619,406</u>	(<u>1,619,406</u>)	-
Total sales	<u>\$ 5,879,930</u>	<u>\$ 2,657,214</u>	(<u>\$ 1,619,406</u>)	<u>\$ 6,917,738</u>
Segments profits	(<u>\$ 194,088</u>)	<u>\$ 273,479</u>	\$ -	\$ 79,391
Interest expenses				(274,715)
Other income—net				<u>135,030</u>
Pre-tax income from continued operation segments				(<u>\$ 60,294</u>)
Identical assets	<u>\$ 4,177,753</u>	<u>\$ 5,468,930</u>	(<u>\$ 2,543,002</u>)	<u>\$ 7,103,681</u>

(Continued)

2000

Sales from unaffiliated customers	\$ 987,120	\$5,514,445	\$ -	\$6,501,565
Sales from affiliated customers	<u>2,444,721</u>	<u>-</u>	<u>(2,444,721)</u>	<u>-</u>
Total sales	<u>\$3,431,841</u>	<u>\$5,514,445</u>	<u>(\$2,444,721)</u>	<u>\$6,501,565</u>
Segments profits	<u>(\$ 11,316)</u>	<u>\$ 466,013</u>	<u>\$ -</u>	\$ 454,697
Interest expenses				(290,700)
Other expense—net				<u>(160,644)</u>
Pre-tax income from continued operating segments				<u>\$ 3,353</u>
Identical assets	<u>\$4,621,858</u>	<u>\$5,630,777</u>	<u>(\$2,584,250)</u>	<u>\$7,668,385</u>

c. Export sales

	Years Ended December 31			
	2001		2000 (Unaudited)	
	<u>Amounts</u>	<u>% of Total Revenues</u>	<u>Amounts</u>	<u>% of Total Revenues</u>
America	\$ 6,055,224	88	\$ 5,630,457	87
Europe	248,452	3	302,400	4
Asia	360,807	5	268,782	4
Australia	50,645	1	43,308	1
Others	<u>53,075</u>	<u>1</u>	<u>58,130</u>	<u>1</u>
	<u>\$ 6,768,203</u>	<u>98</u>	<u>\$ 6,303,077</u>	<u>97</u>

d. Customers representing more than 10% of total sales: None.

Ta Chen Stainless Pipe Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended

December 31, 2002 and 2001

Together with Independent Auditors' Report

Readers are advised that the original version of these financial statements is in Chinese. This English translation is solely for the readers' convenience and may present financial statements for periods not previously presented in a single document. Also, these financial statements do not include additional disclosures that are required for Chinese-language reports under the Guidelines for Securities Issuers' Financial Reporting promulgated by the Securities and Futures Commission of the Republic of China. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

English Translation of a Report Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

March 12, 2003

The Board of Directors and Stockholders
Ta Chen Stainless Pipe Co., Ltd.

We have audited the accompanying consolidated balance sheets of Ta Chen Stainless Pipe Co., Ltd, a company incorporated under the laws of the Republic of China, and its subsidiaries (the Company) as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, which are required to be prepared in accordance with accounting principles generally accepted in the Republic of China and expressed in Thousands of 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 certain subsidiaries included the accompanying consolidated financial statements and which accounted for total assets of NT\$3,959,037 thousand and \$4,264,077 thousand as of December 31, 2002 and 2001, respectively, representing 57% and 59% of the consolidated assets, and account for sales of NT\$6,279,417 thousand and NT\$5,945,537 thousand for the years ended December 31, 2002 and 2001, respectively, representing 84% and 81% of the consolidated sales. The financial statements of those subsidiaries were audited by other auditors whose reports have been furnished to us, which expressed a modified unqualified opinion which emphasized reference to the essence of the related party transactions, and our opinion insofar as it relates to the amounts included for such subsidiaries, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the report of other auditors as referred to in the first paragraph of this report, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles in the Republic of China.

As further discussed in Note 3, according to the ROC Statement of Financial Accounting Standards No. 30 "Accounting for Treasury Stock" and the Ruling issued by the ROC Securities & Futures Commission, the Company's shares acquired and held by its subsidiaries should be accounted for as treasury stock effective January 1, 2002. As a result, the Company's shares acquired by its subsidiaries, based on the book value of such shares at the beginning of 2002, were adjusted from the long-term investments and accounted for as treasury stock. Due to the adoption of this new accounting principle, the Company's long-term investments were decreased by NT\$388,243 thousand, and treasury stock, current liabilities, capital surplus and retained earnings were increased by NT\$514,718 thousand, NT\$81,854 thousand, NT\$24,478 thousand and NT\$20,143 thousand, respectively, as of December 31, 2002. Net income for the year ended December 31, 2002 was increased by \$20,143 thousand. Earning per share for the year ended December 31, 2002 was increased by NT\$0.24 dollars.

Deloitte & Touche
(T N Soong & Co and Deloitte & Touche (Taiwan)
Established Deloitte & Touche Effective June 1, 2003)
Kaohsiung, Taiwan
The Republic of China

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of a Report Originally Issued in Chinese

TA CHEN STAINLESS PIPE CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

ASSETS	December 31				LIABILITIES AND STOCKHOLDERS' EQUITY	December 31			
	2002		2001			2002		2001	
	Amount	%	Amount	%	Amount	%	Amount	%	
CURRENT ASSETS					CURRENT LIABILITIES				
Cash	\$ 97,832	1	\$ 81,141	1	Short-term bank loans (Notes 10 and 19)	\$1,661,182	24	\$1,629,534	21
Short-term investments (Notes 4 and 19)	3,671	-	3,290	-	Commercial papers (Note 11 and 19)	19,897	-	159,032	2
Notes receivable	9,044	-	9,850	-	Notes payable (Note 12)	142,640	2	74,840	1
Receivables					Payables				
Related parties (Note 18)	1,568	-	9,046	-	Related parties (Note 18)	49	-	19,059	1
Others—net of allowance (Note 5)	1,033,933	15	1,409,873	20	Other (Note 12)	276,063	4	264,588	4
Inventories (Notes 6 and 19)	2,598,734	38	2,616,717	36	Loan from related parties (Note 18)	16,639	-	7,145	-
Deferred tax assets (Notes 2 and 16)	46,502	1	38,570	1	Income tax payable (Note 16)	4,807	-	16,867	-
Pledged time deposits and commercial papers (Note 19)	272,581	4	288,529	4	Current portion of long-term debts (Notes 13 and 19)	137,504	2	102,534	2
Prepayments and other	258,161	4	148,846	2	Other current liabilities (Note 3 and 7)	81,854	1	-	-
					Accrued expenses and other	158,999	2	156,547	2
Total current assets	<u>4,322,026</u>	<u>63</u>	<u>4,605,862</u>	<u>64</u>	Total current liabilities	<u>2,499,634</u>	<u>35</u>	<u>2,430,146</u>	<u>33</u>
LONG-TERM INVESTMENTS (Notes 2, 3 and 7)	13,543	-	409,643	6	LONG-TERM DEBTS (Notes 13 and 19)	1,443,755	21	1,474,502	21
PROPERTIES (Notes 2, 8 and 19)					ACCRUED PENSION COST (Notes 2 and 14)	49,776	1	54,416	-
Cost					MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	23,807	-	24,222	-
Land	376,750	5	380,807	5	OTHER	14,325	-	14,412	-
Building and improvements	403,027	6	407,763	5	Total liabilities	<u>4,031,297</u>	<u>57</u>	<u>3,997,698</u>	<u>54</u>
Machinery and equipment	1,528,888	22	1,196,383	16	STOCKHOLDERS' EQUITY (Notes 2, 3, 7 and 15)				
Electrical equipment	67,474	1	67,182	1	Capital stock—common stock, par value \$10 authorized 300,000 thousand shares and issued 248,041 thousand shares	2,480,410	36	2,480,410	35
Transportation equipment	30,504	1	30,787	-	Capital surplus	616,149	9	615,471	8
Furniture and fixtures	108,348	2	104,294	2	Retained earnings				
Leased Assets	139,684	2	167,773	2	Legal reserve	67,172	1	62,775	1
Other equipment	217,092	3	248,544	4	Unappropriated retained earnings	144,841	3	20,173	-
Total cost	2,871,767	42	2,603,533	35	Cumulative translation adjustments	212,013	4	82,948	1
Accumulated depreciation	943,250	14	826,274	11	Treasury stock-63,883 thousand and 3,257 thousand shares as of December 31, 2002 and 2001	112,720	2	120,692	2
						(544,347)	(8)	(29,629)	-
Construction in progress	10,405	-	8,826	-	Total stockholders' equity	<u>2,876,945</u>	<u>43</u>	<u>3,269,892</u>	<u>46</u>
Prepayments for machinery and equipment and prepayment on land	212,026	3	33,726	1	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$6,908,242</u>	<u>100</u>	<u>\$7,267,590</u>	<u>100</u>
Net properties	<u>2,150,948</u>	<u>31</u>	<u>1,819,811</u>	<u>25</u>					
GOODWILL	10,393	-	13,802	-					
DEFERRED PENSION COST (Notes 2 and 14)	34	-	1,888	-					
DEFERRED TAX ASSETS (Notes 2 and 16)	123,585	2	167,922	2					
OTHER ASSETS (Notes 2, 9, 14 and 19)	287,713	4	248,662	3					
TOTAL ASSETS	<u>\$6,908,242</u>	<u>100</u>	<u>\$7,267,590</u>	<u>100</u>					

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

(With T N Soong & Co report dated March 12, 2003)

English Translation of a Report Originally Issued in Chinese

TA CHEN STAINLESS PIPE CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In Thousands of New Taiwan Dollars Except Basic Earnings Per Share)

	Year Ended December 31			
	2002		2001	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
SALES (Note 2)	\$7,465,288	100	\$7,297,105	100
COST OF SALES	<u>6,183,713</u>	<u>83</u>	<u>6,304,224</u>	<u>87</u>
GROSS PROFIT	1,281,575	17	992,881	13
OPERATING EXPENSES	<u>881,198</u>	<u>12</u>	<u>854,664</u>	<u>12</u>
OPERATING INCOME	<u>400,377</u>	<u>5</u>	<u>138,217</u>	<u>1</u>
NON-OPERATING INCOME				
Interest	8,912	-	17,316	-
Gain on disposal of long-term investments	-	-	9,940	-
Foreign exchange gain—net (Note 2)	-	-	70,689	1
Others	<u>13,974</u>	<u>-</u>	<u>31,463</u>	<u>1</u>
Total non-operating income	<u>22,886</u>	<u>-</u>	<u>129,408</u>	<u>2</u>
NON-OPERATING EXPENSES				
Interest (Note 8)	226,503	3	286,043	4
Investment loss (Notes 2 and 7)	14,574	-	15,731	-
Foreign exchanges loss—net (Notes 2 and 21)	20,352	-	-	-
Others (Note 18)	<u>4,210</u>	<u>-</u>	<u>18,723</u>	<u>-</u>
Total non-operating expenses	<u>265,639</u>	<u>3</u>	<u>320,497</u>	<u>4</u>
INCOME BEFORE INCOME TAX AND MINORITY INTEREST	157,624	2 (52,872) (1)
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 16)	<u>46,982</u>	<u>1</u> (75,611) (1)
INCOME BEFORE MINORITY INTEREST	110,642	1	22,739	-
MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES	<u>(3,924)</u>	<u>-</u>	<u>(2,566)</u>	<u>-</u>
NET INCOME	<u>\$ 106,718</u>	<u>1</u>	<u>\$ 20,173</u>	<u>-</u>
BASIC EARNINGS PER SHARE (Note 17)				
Before tax	<u>\$ 0.85</u>		<u>(\$ 0.23)</u>	
After tax	<u>\$ 0.59</u>		<u>\$ 0.08</u>	
PRO FORMA INFORMATION—AS IF THE COMPANY'S SHARES HELD BY SUBSIDIARIES ACCOUNTED FOR AS INVESTMENTS RATHER THAN TREASURY STOCKS (Notes 17)				
Consolidated net income	<u>\$ 86,575</u>			
Basic earnings per share				
Before tax	<u>\$ 0.55</u>			
After tax	<u>\$ 0.35</u>			

The accompanying notes are an integral part of the financial statement

(With T N Soong & Co report dated March 12, 2003)

English Translation of a Report Originally Issued in Chinese

TA CHEN STAINLESS PIPE CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands of New Taiwan Dollars)

	Capital Stock	Capital Surplus	Retained Earnings		Cumulative Translation Adjustments	Treasury Stock	Total Stockholders' Equity	
			Legal reserve	Unappropriated earnings				Total
BALANCE, JANUARY 1, 2001	\$ 2,480,410	\$ 677,535	\$ 61,513	(\$ 60,802)	\$ 711	\$ 55,971	(\$ 29,629)	\$ 3,184,998
Appropriations from prior year's earnings								
Legal reserve	-	-	1,262	(1,262)	-	-	-	-
Capital surplus offset with deficit	-	(62,064)	-	62,064	62,064	-	-	-
Consolidated net income for 2001	-	-	-	20,173	20,173	-	-	20,173
Translation adjustments (Note 2)	-	-	-	-	-	64,721	-	64,721
BALANCE, DECEMBER 31, 2001	2,480,410	615,471	62,775	20,173	82,948	120,692	(29,629)	3,269,892
Transfer of capital surplus from gain on disposal of properties to unappropriated earnings	-	(23,800)	-	23,800	23,800	-	-	-
Legal reserve	-	-	2,380	(2,380)	-	-	-	-
Appropriations of earnings								
Legal reserve	-	-	2,017	(2,017)	-	-	-	-
Bonus to employees	-	-	-	(908)	(908)	-	-	(908)
Compensation to directions and supervisors	-	-	-	(545)	(545)	-	-	(545)
Consolidated net income for 2002	-	-	-	106,718	106,718	-	-	106,718
Translation adjustments (Note 2)	-	-	-	-	-	(7,972)	-	(7,972)
Disposal of the Company's shares held by subsidiaries	-	24,478	-	-	-	-	-	24,478
Company's share held by subsidiaries accounted for as treasury stock—60,626 thousand shares	-	-	-	-	-	-	(514,718)	(514,718)
BALANCE, DECEMBER 31, 2002	<u>\$ 2,480,410</u>	<u>\$ 616,149</u>	<u>\$ 67,172</u>	<u>\$ 144,841</u>	<u>\$ 212,013</u>	<u>\$ 112,720</u>	<u>(\$ 544,347)</u>	<u>\$ 2,876,945</u>

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

(With T N Soong & Co report dated March 12, 2003)

English Translation of a Report Originally Issued in Chinese

TA CHEN STAINLESS PIPE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)

	Year Ended	
	December 31	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 106,718	\$ 20,173
Minority interest in net income of subsidiaries	3,924	2,566
Depreciation	215,633	245,016
Amortization	4,255	3,253
Loss (gain) on disposal of properties	(2,130)	3,133
Gain on disposal of long-term investments	-	(9,940)
Reversal of allowance for decline in value of short-term investments	(142)	(3,998)
Provision for loss on inventories	21,663	10,700
Investment loss under equity method	14,574	15,731
Provision for (reversal of allowance for) doubtful accounts	(8,806)	13,243
Deferred income tax	36,405	(104,613)
Decrease (increase) in receivables	393,030	(498,664)
Decrease (increase) in inventories	(3,680)	1,226,812
Increase in other current assets	(109,315)	(48,857)
Increase (decrease) in notes and accounts payable	70,112	(217,406)
Decrease in income tax payable	(12,060)	(110,325)
Increase (decrease) in other current liabilities	2,452	(30,019)
Increase (decrease) in accrued pension cost	(2,786)	9,003
Decrease in other liabilities	(87)	(7,603)
Net cash provided by operating activities	<u>729,760</u>	<u>518,205</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties	(508,042)	(175,620)
Increase in long-term investments	(34,832)	(163,490)
Decrease (increase) in short-term investments	(239)	9,752
Proceed from disposal of long-term investments	-	26,640
Increase in pledged time deposits and commercial papers	15,948	22,236
Proceed from disposal of properties	13,678	127,287
Increase in other assets	(90,173)	(65,111)
Net cash used in investing activities	<u>(603,660)</u>	<u>(218,306)</u>

(Forward)

English Translation of a Report Originally Issued in Chinese

	Year Ended	
	December 31	
	2002	2001
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in long-term debts	\$ 4,223	(\$ 140,541)
Increase (decrease) in short-term bank loans	31,648	(76,167)
Decrease in commercial papers	(139,135)	(138,726)
Increase in loan from related parties	9,494	7,145
Compensation to directors and supervisors and bonus to employees	(1,453)	-
Decrease in payables on properties purchased	(9,847)	-
Decrease in minority interest	(4,339)	-
Net cash used in financing activities	(109,409)	(348,289)
NET INCREASE (DECREASE) IN CASH	16,691	(48,390)
CASH, BEGINNING OF YEAR	<u>81,141</u>	<u>129,531</u>
CASH, END OF YEAR	<u>\$ 97,832</u>	<u>\$ 81,141</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	<u>\$ 289,340</u>	<u>\$ 319,075</u>
Income tax paid	<u>\$ 130,213</u>	<u>\$ 24,688</u>
Non-cash financing activities		
current portion of long-term debts	<u>\$ 137,504</u>	<u>\$ 102,534</u>
Other Assets reclassified to properties	<u>\$ 50,276</u>	<u>\$ -</u>
The Company's shares acquired and held by subsidiaries accounted for as treasury stock	<u>\$ 514,718</u>	<u>\$ -</u>
Cash paid for acquisition of properties		
Acquisition costs	\$ 508,042	\$ 177,207
Increase in payables on properties purchased	-	(1,587)
	<u>\$ 508,042</u>	<u>\$ 175,620</u>

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

(With T N Soong & Co report dated March 12, 2003)

TA CHEN STAINLESS PIPE CO., LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

(Amounts in Thousand New TaiwanDollars, Unless Otherwise Stated)

1. HISTORY AND ORGANIZATION

The Company was incorporated in November 1986. Its operations consist of the manufacture of stainless steel pipe and pipe fitting products, and sales of stainless steel coils and sheets.

In November 1989, the Company established a wholly-owned subsidiary, Ta Chen International (CA) Corp, which is mainly engaged in the business of distribution and sales of steel coils, sheets, tubing, bar, stainless steel pipe and fitting products, and the manufacture and sales of fasteners in the United States.

The Company's capital stock has been listed in the Taiwan Stock Exchange since October 1996.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Company, which conform to generally accepted accounting principles in the Republic of China (ROC GAAP), are summarized below.

Basis of Consolidated Financial Statements

The consolidated financial statements include the accounts of the Company and the wholly-owned subsidiaries, Ta Chen International (CA) Corp.(TCIC) and Ta Chen (B.V.I.) Holding Ltd. (Ta Chen BVI). The financial statements of Ta Chen B.V.I. included the subsidiaries of the Shijiazhuang Jitai Precision Casting Co., (88.2% of ownership); Ta Chen (Baoding) Precision Casting Co., (100% of ownership); Banner Fasteners, Inc. (BFI, 100% of ownership) and Tension Control Bolting Inc. (60% of ownership). The inter-company transactions and account balances have been eliminated for the purpose of consolidated financial statements.

The financial statement of Ta Chen B.V.I. for 2001 reported total assets and total revenues that were less than 10% of the unconsolidated total assets and revenues of the Parent Company. In 2002, Ta Chen B.V.I.'s total assets and total revenues exceeded this criteria and as a result were required to be consolidated in 2002. As a result achieve the criterion above in 2002, the consolidated financial statement of 2001 have been restated to conform to 2002 and include the accounts of Ta Chen B.V.I.

Short-term Investments

Short-term investments are valued at the lower of the weighted average cost or market value.

Market value represents assets value of funds on balance sheet date, or average price of listed stocks in the latest month of the year. Allowance for losses are provided when the market value decline below cost, and the allowance for losses shall be reversed when the market value recover thereafter, to the extent of the balance of the allowance account.

Allowance for Doubtful Accounts and Sales Discount

The allowance for doubtful accounts are provided based on evaluation of the collectibility of the receivables.

The allowance for sales are discounts estimated based on the possibility of occurrence

Inventories

Inventories are stated at the lower of weighted average cost or market. Market value represents net realizable value for merchandise, finished goods and work in process; and replacement cost for raw materials and supplies. Any loss from the decline in market value of inventories is charged to cost of sales.

Long-term Investments

Long-term investments in which the Company owns 20% or more of the voting shares of each investee or for which the Company has significant influence on the investee's operations are accounted for by the equity method. Such investments are carried at cost plus (or less) the proportionate share in the net earnings (or losses) of each investee. The difference between the investment cost and the proportionate share of the equity of the investee, when stock is acquired or when the equity method is initially adopted, is amortized over ten years.

Effective January 1, 2002, the Company's shares held by subsidiaries are accounted for as treasury stock.(Note 3), in accordance with the newly issued Financial Accounting Standard.

Properties

Land is stated at cost.

Properties except for land are stated at cost less accumulated depreciation. Major additions, renewals, betterment and interest incurred during construction or acquisition period are capitalized, while maintenance and repairs are expensed currently.

Depreciation is provided by the straight-line method over estimated service lives which range as follows: building and improvements, 3 to 50 years; machinery and equipment, 2 to 15 years; electrical equipment, 2 to 15 years; transportation equipment, 2 to 6 years; furniture and fixtures, 3 to 10 years; leased assets, 3 to 25 years; other equipment, 2 to 25 years. The residual value of a property, which has reached its original service life but is still in use, is further depreciated over its re-estimated remaining service life.

When assets are retired or disposed, their costs and related accumulated depreciation are removed from the accounts and any loss or gain is reflected to income. Prior to 2001, such gain is then transferred, net of applicable income tax, to capital surplus.

Capital Lease

Lease assets and its related liabilities under capital lease are stated at the lower of the following at the inception of the lease: fair value of the leased assets on the inception date of lease; or the present value of rental plus any bargain purchase price.

The imputed interest of a lease obligation payable is charged as interest expense when accrued.

Deferred Profits on Intercompany Sales

Profits on intercompany sales to non-consolidated investees are deferred and recognized as income in the year of realization.

Pensions

Pension costs are recognized based on actuarial calculation. The difference between the pension costs recognized and the amount appropriated to a special fund (Note 14) is recognized as accrued pension cost. The unamortized amounts of prior service cost and actuarial gain or loss, and unrecognized net transition obligation are amortized over 15 years.

Pension benefits paid in excess of the pension fund and accrual are charged to expense.

Revenue Recognition

Sales are recognized when titles and risks of products are transferred to customers. Domestic sales-when products are delivered to and accepted by the customer; export sales-when products are loaded aboard.

Income Tax

Income tax is provided on an inter-period allocation basis. Tax effects of deductible temporary differences, unused tax credits and operating loss carryforwards are recognized as deferred income tax assets, and those of taxable temporary differences are recognized as deferred income tax liabilities. A valuation allowance is provided for deferred tax assets with uncertain realizability. A deferred tax asset or liability is classified as current or noncurrent according to the classification of its related assets or liabilities. However, if it cannot be related to an asset or liability in the financial statements, it is classified as current or noncurrent based on the expected length of reversal period.

The tax credits arising from expenditures for the purchase of equipment is recognized as income tax credits when such credits are granted.

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

Annual earnings shall be appropriated by the Company's stockholders resolution in the following year. The undistributed earnings, as determined by the tax regulation, shall be subject to 10% income taxes. Such taxes are recorded as expenses after the stockholders resolved that the earnings should be retained.

Treasury Stock

Acquisition of treasury stock is accounted for at cost and reflected as a deduction of stockholders' equity in the balance sheet. Upon disposition of the treasury stock, the excess of proceed over the par value, is credited to capital surplus; the excess of par value over proceed, is charged to such capital surplus that is arising from the treasury stock transaction, otherwise, the excess is charged to retained earnings.

Effective January 1, 2002, the Company's shares acquired and held by subsidiaries are accounted for as treasury stocks (Note 3) .

Foreign-currency Transactions

Foreign-currency transactions, except derivative financial instruments, are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of different foreign exchange rates when foreign-currency receivables and payables are settled will be credited or charged to income in the year of settlement. At the balance sheet date, foreign-currency assets and liabilities are restated at the prevailing exchange rates and resulting adjustments are credited or charged to income. The changes in investments of foreign subsidiaries arising from changes in foreign exchange rate are reflected as cumulative translation adjustments under stockholders' equity.

Derivative Financial Instruments

Forward exchange transactions entered into as hedge for foreign-currency net assets or net liabilities are recorded in New Taiwan dollars at the spot rates on the date of each forward contract. The effects of the differences between spot rates and forward rates are amortized over the period of each forward contract and recognized as gains or losses. Year-end balances of adjustments are credited or charged to income.

3. ACCOUNTING CHANGE

Effective January 1, 2002, the Company adopted the ROC Statement of Financial Accounting Standards No. 30 "Accounting for Treasury stock". As a result of this adoption, the Company's shares acquired and held by its subsidiaries, based on the book value of such shares at the beginning of 2002, were adjusted from the long-term investments and accounted for as treasury stock under stockholders' equity. The effects of this accounting change on the consolidated financial statements were as follows: long-term investments were decreased by \$388,243, and treasury stock, current liabilities, capital surplus and retained earnings were increased by \$514,718, \$81,854, \$24,478, and 20,143, respectively, as of December 31, 2002. Net income for the year ended December 31, 2002 was increased by \$20,143. Earnings per share for the year ended December 31, 2002 was increased by \$0.24 dollars.

4. SHORT-TERM INVESTMENTS

	<u>2002</u>	<u>2001</u>
Security investment fund	\$ 2,006	\$ 2,006
High yield bond fund	510	-
Non-guarantee convertible bond	1,500	1,500
Listing stocks	<u>1,000</u>	<u>1,271</u>
	5,016	4,777
Less: Allowance for decline in value (Note 2)	<u>1,345</u>	<u>1,487</u>
	<u>\$ 3,671</u>	<u>\$ 3,290</u>

5. RECEIVABLES

	<u>2002</u>	<u>2001</u>
Receivables	\$ 1,062,398	\$ 1,447,144
Less: Allowance for doubtful accounts (Note 2)	<u>28,465</u>	<u>37,271</u>
	<u>\$ 1,033,933</u>	<u>\$ 1,409,873</u>

6. INVENTORIES

	<u>2002</u>	<u>2001</u>
Finished goods	\$ 1,917,472	\$ 1,962,383
Work in process	186,420	209,996
Raw materials and supplies	283,903	214,252
Raw materials in transit	209,971	206,436
Merchandise	<u>19,088</u>	<u>43,447</u>
	2,616,854	2,636,514
Less: Allowance for losses (Note 2)	<u>18,120</u>	<u>19,797</u>
	<u>\$ 2,598,734</u>	<u>\$ 2,616,717</u>

7. LONG-TERM INVESTMENTS

	<u>2002</u>		<u>2001</u>	
	<u>Carrying</u>	<u>% of</u>	<u>Carrying</u>	<u>% of</u>
	<u>Value</u>	<u>Owner-</u>	<u>Value</u>	<u>Owner-</u>
		<u>ship</u>		<u>ship</u>
<u>Equity method</u>				
Ta-Ji Investment Co., Ltd. (Ta-Ji)	\$ 152,322	99.9	\$ 146,943	99.9
Ta Chen Steel Investment Co., Ltd. (TCSI)	119,212	99.9	91,176	99.9
Ta Ever International Investment Co., Ltd. (TEIC)	<u>174,873</u>	89.1	<u>171,524</u>	85.5
	446,407		409,643	
Less: Shares held by subsidiaries accounted for as treasury stock	514,718		-	
Add: Credit balance of investments classified as other current liabilities	<u>81,854</u>		-	
	<u>\$ 13,543</u>		<u>\$ 409,643</u>	
 Other current liabilities				
Ta-Ji	\$ 23,310		\$ -	
TCSI	<u>58,544</u>		-	
	<u>\$ 81,854</u>		<u>\$ -</u>	

Investment losses under the equity method, based on the investees' audited financial statements, are summarized as follows:

	<u>2002</u>	<u>2001</u>
Ta-Ji	\$ 5,142	\$ 3,535
TCSI	6,984	7,085
TEIC	<u>2,448</u>	<u>5,111</u>
	<u>\$ 14,574</u>	<u>\$ 15,731</u>

In May and November 2001, the stockholders of TCSI and Ta-Ji, respectively, resolved to have the capital decrease of NT\$174,101 and NT\$157,340, respectively, to offset their current deficits. The registration for such capital decrease had been approved by the government.

The assets and revenues of the above individual subsidiaries are less than 10% of the Company's assets and revenues, and the total assets and total revenues of all subsidiaries are less than 30% of the Company's total assets and revenues, respectively. Therefore, in accordance with the ROC regulations, those subsidiaries' financial statements are not included the consolidated financial statements.

8. PROPERTIES

Accumulated depreciation consists of:

	<u>2002</u>	<u>2001</u>
Building and improvements	\$ 76,122	\$ 62,510
Machinery and equipment	626,896	503,444
Electrical equipment	27,648	23,063
Transportation equipment	18,901	17,739
Furniture and fixtures	47,954	36,415
Leased assets	13,351	14,468
Other equipment	<u>132,378</u>	<u>168,635</u>
	<u>\$ 943,250</u>	<u>\$ 826,274</u>

Information for capitalized interest follows:

	<u>2002</u>	<u>2001</u>
Total interest	\$ 227,603	\$ 293,423
Interest capitalized	1,100	7,380
Capitalized interest rate	7.88%	8.54%

The capitalized interest is included in prepayments for machinery and equipment.

In December 2002, the Company purchased a piece of land at the price of \$13,730, for construction of an office building. As of December 31, 2002, the Company made a partial payment of \$10,900 and the title of land was transferred to the Company in January 2003.

9. OTHER ASSETS

This includes a parcel of farmland purchased at a cost of \$156,407. Title to such land can not be registered in the name of the Company, but was registered in the name of a related party. The Company had obtained a waiver notice for the ownership from the nominal owner.

10. SHORT-TERM BANK LOANS

	<u>2002</u>	<u>2001</u>
Revolving loans: Interest at 5.25%-8.38% in 2002 and 4.15%-8.99% in 2001	\$ 816,353	\$ 863,473
New Taiwan dollar loans: Interest at 7.32%-8.17% in 2002 and 7.74%-8.75% in 2001	681,954	650,952
US dollar loans: Interest at 2.95%-7.78% in 2002 and 3.45%-6.2% in 2001	123,404	105,636
Merchandise financial loans: Interest at 5.55%-5.58% in 2002 and 7.805% in 2001	<u>39,471</u>	<u>9,473</u>
	<u>\$ 1,661,182</u>	<u>\$ 1,629,534</u>

As of December 31, 2002, the Company has unused credit lines for short-term loans aggregating NT\$77,119.

11. COMMERCIAL PAPERS

	<u>2002</u>	<u>2001</u>
Commercial papers: Interest at 2.9% in 2002 and 2.8%-6.5% in 2001	\$ 20,000	\$ 160,000
Less: Unamortized discount	<u>103</u>	<u>968</u>
	<u>\$ 19,897</u>	<u>\$ 159,032</u>

12. PAYABLES

	<u>2002</u>	<u>2001</u>
Notes payable for purchases of		
Supplies	\$ 119,031	\$ 58,880
Properties	3,392	7,737
Other	<u>20,217</u>	<u>8,223</u>
	<u>\$ 142,640</u>	<u>\$ 74,840</u>
Accounts payable for purchases of		
Supplies	\$ 260,561	\$ 245,275
Properties	11,787	17,289
Other	<u>3,715</u>	<u>2,024</u>
	<u>\$ 276,063</u>	<u>\$ 264,588</u>

13. LONG-TERM DEBTS

	<u>2002</u>	<u>2001</u>
Bank loans	\$ 1,487,502	\$ 1,513,583
Lease obligation payable	71,168	63,453
Financing for purchases of merchandise	<u>22,589</u>	<u>-</u>
	1,581,259	1,557,036
Portion due within one year	<u>137,504</u>	<u>102,534</u>
	<u>\$ 1,443,755</u>	<u>\$ 1,474,502</u>

a. Bank loans are detailed as follows:

	<u>2002</u>	<u>2001</u>
<u>The Parent Company</u>		
Repayable in 16 equal consecutive quarterly installments starting March 2000; interest at 8.12% in 2002 and 8.35% in 2001	\$ 35,000	\$ 39,375
Repayable in 36 equal consecutive monthly installments starting September 2001; interest at 7.99% in 2002 and 8.53% in 2001	30,000	48,000
Repayable in 16 equal consecutive quarterly installments starting March 2000; interest at 5.87% in 2002 and 6.48% in 2001	29,060	32,692
Repaid in September 2002, interest at 9%	-	4,999
<u>The Subsidiaries</u>		
Due in July 2005; interest at 7%, with commitment fee at 0.375% on the unused credit balances	1,235,550	1,216,219
Due in December 2007; interest at 4.5% in 2002 and 5.0% in 2001	86,672	93,861
Due in January 2005; interest at 4.15% in 2002 and 4.65% in 2001	53,520	54,665
Due in February 2016; interest at 7.88% in 2002 and 8.00% in 2001	4,496	4,564
Due in February 2006; interest at 4.6% in 2002 and 5.1% in 2001	13,204	13,281
Repaid in 2002	<u>-</u>	<u>5,927</u>
	1,487,502	1,513,583
Less: Portion due within one year	<u>58,342</u>	<u>51,929</u>
	<u>\$ 1,429,160</u>	<u>\$ 1,461,654</u>

The loan agreement with TCIC contains various restrictions and financial covenants including the maintenance of specified level of tangible net worth, minimum EBITDA, and maximum capital expenditures. TCIC's management is not aware of any violations of the covenants as of December 31, 2002.

As of December 31, 2002, the Company has unused credit lines for long-term debts aggregating NT\$328,200.

b. Long-term lease obligation payable

2002

The Parent Company

The Company acquired certain machinery and equipment under capital leases. The Company issued the installment promissory notes of \$61,389 to the lessor as future minimum lease payments as follows:

Long-term lease obligation payable	\$ 61,389
Less: Imputed interest (at 5.45%-12.92%)	(<u>2,657</u>)
Present value of net minimum lease payments	58,732
Less: Portion due within one year	<u>50,696</u>
	<u>\$ 8,036</u>

The Subsidiaries

The Subsidiaries acquired certain machinery and equipment under capital leases obligations. Future minimum lease payments under capital leases are as follows:

2003	\$ 6,679
2004	4,671
2005	1,686
2006	780
2007	<u>101</u>
	13,917
Less: Imputed interest	(<u>1,481</u>)
Present value of future minimum lease payments	12,436
Less: Current portion within one year	<u>5,877</u>
Non-current portion of capital lease obligations	<u>\$ 6,559</u>

2001

The Parent Company

The Company acquired certain machinery and equipment under capital leases. The Company issued the installment promissory notes of \$46,820 to the lessor as future minimum lease payments are as follows:

Long-term lease obligation payable	\$ 46,820
Less: Imputed interest	(<u>2,157</u>)
Present value of net minimum lease payments—current portion	<u>\$ 44,663</u>

The Subsidiaries

The Subsidiaries acquired certain machinery and equipment under capital leases obligations. Future minimum lease payments under capital leases are as follows:

2002	\$	7,171
2003		6,825
2004		4,864
2005		1,941
2006		<u>653</u>
		21,454
Less: Imputed interest	(<u>2,664</u>)
Present value of future minimum lease payments		18,790
Less: Current portion within one year		<u>5,942</u>
Non-current portion of capital lease obligations	\$	<u>12,848</u>

- c. Financing for purchases of merchandise represents the sales and purchase back for raw materials, which is due December 2003. The Company issued the promissory notes of NT\$23,940 which included the interest of NT\$1,351 (imputed interest at 10.86%). The future minimum payments amount to NT\$22,589.

14. PENSION PLAN

The Company is obligated by law to pay pension benefits to its employees based on length of service and average salaries or wages for the six months before retirement.

The Company makes monthly contributions, equal to 2% of salaries and wages, to a pension fund, which is deposited in the name of, and administered by, the employees pension plan committee.

Changes in the pension fund are as follows:

	<u>2002</u>	<u>2001</u>
Balance, beginning of year	\$ 18,591	\$ 16,663
Deposits	12,920	3,996
Interests	1,308	1,321
Payments	(<u>7,672</u>)	(<u>3,389</u>)
Balance, end of year	<u>\$ 25,147</u>	<u>\$ 18,591</u>

Based on the actuarial calculation, certain pension information are summarized as follows:

a. Net pension cost

	<u>2002</u>	<u>2001</u>
Service cost	\$ 9,282	\$ 8,907
Interest cost	4,478	4,613
Projected return on plan assets	(1,250)	(1,497)
Amortization	<u>1,188</u>	<u>975</u>
	<u>\$ 13,698</u>	<u>\$ 12,998</u>

b. Reconciliation of the funded status of the plan and accrued pension cost

	<u>2002</u>	<u>2001</u>
Benefit obligations		
Vested	\$ 1,538	\$ 2,219
Nonvested	<u>73,385</u>	<u>71,585</u>
Accumulated benefit obligation	74,923	73,804
Additional benefits based on future salaries	<u>20,129</u>	<u>18,731</u>
Projected benefit obligation	95,052	92,535
Fair value of plan assets	(<u>25,147</u>)	(<u>19,380</u>)
Funded status	69,905	73,155
Unrecognized net transitional obligation	(6,402)	(7,338)
Unrecognized pension loss	(13,761)	(13,289)
Additional liability	<u>34</u>	<u>1,888</u>
Accrued pension liabilities	<u>\$ 49,776</u>	<u>\$ 54,416</u>

c. Vested obligation

<u>\$ 1,724</u>	<u>\$ 2,482</u>
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d. Actuarial assumptions

Discount rate	5%	5%
Annual salary increase	2%	2%
Expected rate of return on plan assets	5%	5%

15. STOCKHOLDERS' EQUITY

Treasury Stock

<u>Purpose</u>	<u>Thousand Shares</u>			<u>End of year</u>	
	<u>Beginning of Year</u>	<u>Increase</u>	<u>Decrease</u>	<u>Thousand Shares</u>	<u>Book Value</u>
<u>2002</u>					
Shares held by subsidiaries	67,625	303	7,302	60,626	\$ 514,718
Shares acquired for transfer to employees	<u>3,257</u>	<u>-</u>	<u>-</u>	<u>3,257</u>	<u>29,629</u>
	<u>70,882</u>	<u>303</u>	<u>7,302</u>	<u>63,883</u>	<u>\$ 544,347</u>

<u>Purpose</u>	<u>Thousand Shares</u>			<u>End of year</u>	<u>Book Value</u>
	<u>Beginning of Year</u>	<u>Increase</u>	<u>Decrease</u>		
<u>2001</u>					
Shares acquired for transfer to employees	<u>3,257</u>	<u>-</u>	<u>-</u>	<u>3,257</u>	<u>\$ 29,629</u>

In 2002, the subsidiaries sold 6,999 thousand shares of the Company's stock. Gain of \$24,478 on this disposal, which represents the proceeds of \$83,799 over the cost of \$59,321, are accounted for as capital surplus.

As stated in Note 3, the Company's shares acquired and held by subsidiaries, based on book value of such shares as of January 1, 2002, were accounted for as treasury stocks. As of December 31 2002, the carrying value and market value of such treasury stocks both were \$470,097. Those shares although are treated as treasury stocks in the financial statements, the stockholders are entitled to exercise their rights.

The Company purchased its stocks of 3,257 thousand shares at a cost of \$29,629 for the purpose of transferring to employees. As of December 31, 2002, the treasury stock remained unchanged.

In accordance with the ROC Securities and Exchange Law, the maximum number shares of treasury stock purchased should not exceed 10% of total outstanding shares and the aggregated purchase cost should not exceed retained earnings, plus capital in excess of par value and realized capital surplus. The treasury stocks should not be pledged and the Company can not exercise the rights of a stockholder in respect to those stocks. Furthermore, the Company should transfer those shares to employees within three years. Otherwise, these stock shares are deemed as unissued shares and shall be registered with the government for capital decrease.

Capital Surplus

Under the ROC Company Law, capital surplus arising from the capital issued with premium can be used to offset a deficit or transferred to capital but restricted to specific limits. Furthermore, capital surplus arising from gain on disposal of properties of \$23,800 before 2001 has been transferred to retained earning based on the resolution of the stockholders' meeting in June 2002.

The remaining capital surplus can only be used to offset a deficit.

Earning Appropriation and Dividend Policy

The Company's Articles of Incorporation provide that the following shall be appropriated from the annual net income:

- a. 10% as legal reserve, until the cumulative balance equals the paid-in capital.
- b. A portion appropriated as special reserve as required.
- c. 5% and 3% of the remainder, respectively, as bonus to employees and compensation to directors and supervisors.
- d. The remaining net income may be distributed as dividends was proposed by the Company's board of directors.

The above appropriation and allocation shall be resolved by the stockholders in the following year and given effect to in the financial statements of that year.

The appropriation of 2002 earnings has not been proposed by Board of Directors by the date of the auditors' report. The information related to appropriation of 2002 earnings to be proposed by the Board of Directors and to be resolved by stockholders' meeting may be obtained from the website of Taiwan Stock Exchange Corporation.

The 2001 earnings appropriation to employee bonus and compensation to directors and supervisors, in accordance with the Company's Article of Incorporation, were as follows:

a. Earnings appropriation:

1) Bonus to employees—cash	\$ 908
2) Compensation to directors and supervisors—cash	545

b. The information related to earnings per share:

1) Earnings per share	0.08 (dollars)
2) Pro forma earnings per share (as if the bonus to employee and compensation to directors and supervisors have been charged to expense)	0.08 (dollars)

The Company dividend policy focuses on the stable and growing in dividend distribution. The dividends to stockholders shall not less than 50% of the earnings available for distribution, of which not less than 20% will be cash dividend.

Under the ROC Company Law, the legal reserve can be used to offset or reduce a deficit; also, when the reserve has reached 50% of capital, up to 50% thereof may be transferred to capital.

The Company is required to appropriate annual earnings as special reserve for the net debit balance resulting from the adjustment items to the stockholders equity, excluding treasury stock. If the market price is lower than carrying value of the Company's shares held by subsidiaries, the Company should appropriate earnings as special reserve with the same amount of the difference between market price and carrying value proportionately. The Company may release that portion of earnings from such special reserve when that debit balance are partially or fully reversed.

Integrated Tax System

Under the Integrated Tax System, resident stockholders are allowed a tax credit for the income tax paid or payable by the Company on earnings generated in 1999 (the Company's original fiscal year) and onwards. Imputation Credit Account (ICA) is maintained by the Company for such income tax and the tax credit allocated to each stockholder. The maximum credit available for allocation to stockholders cannot exceed the balance shown in the ICA on the date of distribution of dividends.

As of December 31, 2002, the balance of ICA amounted to NT\$127,241. The ratios of tax credit allocated to stockholders for 2002 and 2001 distributed earnings both were 33.33%.

16. INCOME TAX

	<u>2002</u>	<u>2001</u>
Income tax based on accounting income at statutory rate	\$ 41,630	\$ 6,699
Add (deduct) tax effects of differences:		
Investment loss (income) under equity method	(16,187)	54,725
Capitalized interest	2,009	-
Inventory loss	5,835	-
Investment loss	-	(82,827)
Realized foreign exchange gain	-	23,849
(Realized) unrealized profit on intercompany sales	3,527	(24,309)
Other—net	(<u>781</u>)	<u>11,011</u>
Income tax payable (income tax benefit)	36,033	(10,852)
Prior year's loss carryforwards	(23,282)	-
Deferred income tax	36,405	(80,983)
Income taxes (10%) on undistributed earnings	-	33,284
Investment tax credits	(1,389)	(16,641)
Adjustments of prior year's tax payable	(<u>785</u>)	(<u>419</u>)
Income tax expense (benefit)	<u>\$ 46,982</u>	<u>(\$ 75,611)</u>

Deferred income tax assets consist of:

	<u>2002</u>	<u>2001</u>
Deferred income tax assets—current		
Investment tax credits	\$ 20,486	\$ -
Loss carryforward	-	7,500
Provision for doubtful accounts and sales allowance	11,121	14,304
Provision for inventory loss	7,047	14,425
Capitalized interest	7,601	-
Other	<u>1,225</u>	<u>2,341</u>
	47,480	38,570
Less: Valuation allowance-noncurrent	<u>978</u>	<u>-</u>
	<u>46,502</u>	<u>38,570</u>
Deferred income tax assets		
Investment tax credits	24,719	24,156
Unrealized profit on intercompany sales	13,482	9,955
Deferred pension cost	12,444	13,621
Depreciation	9,952	10,397
Inventory loss	5,835	-
Capitalized interest	2,009	-
Loss carryforward	<u>135,939</u>	<u>169,018</u>
	204,380	227,147
Less: Valuation allowance	<u>80,795</u>	<u>59,225</u>
	<u>123,585</u>	<u>167,922</u>
Net deferred income tax assets	<u>\$ 170,087</u>	<u>\$ 206,492</u>

Net operating loss carryforward of the subsidiaries as of December 31, 2002 approximated NT\$135,939 and expires in 2021.

As of December 31, 2002, unused investment tax credits under the ROC tax regulations are as follows:

<u>Year of Expiry</u>	<u>Total Deductible Amount</u>	<u>Unused Balance</u>
2004	\$ 36,558	\$ 19,916
2005	18,984	18,984
2006	<u>7,694</u>	<u>6,305</u>
	<u>\$ 63,236</u>	<u>\$ 45,205</u>

The above investment tax credits may be used to reduce the income tax payable for the year that the credits are granted and the following four years. The amount used in each year shall be limited to 50% of the tax payable with the exception to the latest year in which the entire amount can be fully used.

Income tax returns through 2000 have been examined by the tax authorities.

17. BASIC EARNINGS PER SHARE

	<u>Numerator—Net Income (Loss)</u>			<u>Denominator (Thousand Shares)</u>
	<u>Before Tax</u>	<u>After Tax</u>		
			<u>2002</u>	
2002	<u>\$ 153,700</u>	<u>\$106,718</u>	Weighted average number of outstanding common shares	248,041
			Less: Weighted average number of treasury stocks	
			—Purchased by the Company	3,257
			—Held by subsidiaries	<u>63,899</u>
				<u>180,885</u>
			<u>2001</u>	
2001	<u>(\$ 55,438)</u>	<u>\$ 20,173</u>	Weighted average number of outstanding common shares	248,041
			Less: Weighted average number of treasury stocks	
			—Purchased by the Company	<u>3,257</u>
				<u>244,784</u>

Pro forma information, as if the Company's stock shares held by subsidiaries accounted for as investments rather than treasury stock.

	<u>Numerator—Net Income</u>			<u>Earnings Per Share</u>	
	<u>Before Tax</u>	<u>After Tax</u>	<u>(Thousand Shares)</u>	<u>Before Tax</u>	<u>After Tax</u>
2002	<u>\$133,557</u>	<u>\$86,575</u>	<u>\$244,784</u>	<u>\$ 0.55</u>	<u>\$ 0.35</u>

18. RELATED PARTY TRANSACTIONS

The Company engages in business transactions with the following related parties:

	<u>Relationship with the Company</u>
AMS Specialty Steel Inc. (AMS)	Affiliate before December 2002
Ta Chen Stainless Investment Co., Ltd. (TCSI)	Wholly-owned subsidiary
Ta Ji Investment Co., Ltd. (Ta-Ji)	Wholly-owned subsidiary
Mr. R. H. Shieh	Supervisor
Mrs. D. Tseng	Relative to the president
Mr. W. D. Shieh	Relative to the president
Mr. R. K. Shieh	The president
Gene Mitchell	Relative to the affiliate

Significant related parties' transactions are summarized as follows:

During the years

a. Purchases

The purchases from AMS in 2002 and 2001 are \$21,622 and \$129,596 (2% of total purchases). The purchasing prices and payment terms are similar to that for third parties.

b. Financing

	<u>2002</u>		<u>2001</u>	
	<u>Highest outstanding balance</u>	<u>Balance, end of year</u>	<u>Highest outstanding balance</u>	<u>Balance, end of year</u>
Mr. R.K.Shieh	\$ 9,535	\$ 9,535	\$ -	\$ -
Gene Mitchell	7,104	<u>7,104</u>	7,145	<u>7,145</u>
		<u>\$ 16,639</u>		<u>\$ 7,145</u>

The loan bears no interest.

c. Management service income

The Company charged management service fees of \$3,495 to AMS for 2001, which is treated as other income.

d. The Company issued promissory notes to guarantee certain indebtedness for the related companies as follows:

	<u>2002</u>	<u>2001</u>
Ta Chen BVI	\$ 64,000	\$ 64,000
Ta Chen Investment	25,300	30,000
Ta-Jim	-	15,000
BFI	84,095	15,507
TCIC	-	19,003
AMS	-	16,220
	<u>\$ 173,395</u>	<u>\$ 159,730</u>

e Partial indebtedness of subsidiaries are guaranteed by Mr. R. K. Shieh.

At year-end

	<u>2002</u>	<u>2001</u>
a. Receivables		
Other receivables		
Ta-Ji	\$ 1,568	\$ 1,568
AMS	-	3,495
Mr. R. K. Shieh	-	3,983
	<u>\$ 1,568</u>	<u>\$ 9,046</u>

	<u>2002</u>	<u>2001</u>
b. Payables		
AMS	\$ 49	\$ 19,059

19. PLEDGED OR MORTGAGED ASSETS

<u>Assets</u>	<u>Indebtedness Secured</u>	<u>Carrying Value</u>	
		<u>2002</u>	<u>2001</u>
Pledged time deposits and commercial papers	Short-term and long-term loans , commercial paper and guarantee for employment of foreign labors	\$ 362,880	\$ 319,260
Accounts receivables	Short-term and long-term loans	874,468	1,302,893
Inventories	Short-term and long-term loans	1,783,640	1,841,262
Properties-net	Short-term and long-term loans	928,786	838,397
Land (included in other assets)	Long-term loans	59,110	156,406
Short-term investment	Short-term loans	<u>1,297</u>	<u>1,089</u>
		<u>\$ 4,010,181</u>	<u>\$ 4,459,307</u>

20. COMMITMENTS AND CONTINGENCIES AS OF DECEMBER 31, 2002

- a. Unused letters of credit of NT\$52,926; purchase commitments on property of NT\$10,838.
- b. Lease of land and plant under agreements expiring September 2010. The current annual rentals approximate NT\$8,231.
- c. Future minimum lease payments in the aggregate under operating leases for the Company's office and warehouse at December 31, 2002, consist of the following:

2003	\$ 99,097
2004	75,841
2005	38,400
2006	38,400
2007	38,400
Thereafter	<u>86,576</u>
	<u>\$ 376,714</u>

- d. The dumping events of TCIC are summarized as follow:

On May 9, 1997, the US Department of Commerce (DOC) determined preliminarily that TCIC is liable for dumping duties of about 31.9% on its imports of welded stainless steel pipes for the period June 1992 to November 1994 and 76.2% on stainless steel butt-welded pipe fittings imported for the period December 1992 to May 1994, with totaling dumping tax of US\$11,000 plus interest. On June 14, 1999, the DOC issued its final decision affirming its prior preliminary decision. Such final decision is adverse to TCIC and TCIC has appealed to the US court of International Trade (CIT).

In August 2001, the CIT issued its first ruling on the DOC decision and found it is contrary to law. According to the Company's legal counsel, the CIT will send the matter back to the DOC for a new decision in accordance with law. Although the DOC indicated its view, the CIT has not yet decided the Company's appeal of the fitting decision. But on December 10, 2001, the CIT upheld DOC's pipe decision, albeit recognizing that DOC (a) in 2001 changed to penalize the Company for not gathering resale data of a customer in 1992-94 on the possibility that the law might change in 2001 to make the customer an affiliate and the resale data relevant. The Company appealed the CIT decision to the Court of Appeals for the Federal Circuit ("CAFC") as contrary to law and will also file a motion with the CIT that it reconsiders its pipe decision.

TCIC's legal counsel believes that the DOC decision is contrary to law as it was (a) based on an disallowed retroactive application of a new definition of related parties and was (b) also contrary to the then existing dumping statute. The legal counsel does not change its assessment of the prospects for court appeals and believes that TCIC has a slightly more than 50% chance of success given the inherent uncertainty of litigation. The ultimate resolution of this case is not ascertainable at this time. No provision has been made in the accompanying financial statements related to the DOC final decision.

- e. Tax audit—the Internal Revenue Service is conducting an audit on the TCIC's 1999 income tax return. The outcome of the tax audit is not determinable at this time. Consequently, no additional taxes is provided in these financial statements.

21. FINANCIAL INSTRUMENTS

a. Forward Exchange Contracts

The Company entered into forward exchange contracts to hedge the foreign exchange risk of its existing assets. The Company's strategy is to hedge most of its market risk.

The net losses on forward exchange contracts amounted to NT\$14,049 in 2002.

b. The credit risks on above contracts is not expected to be material. Neither is the market risk.

c. The Company entered into forward exchange contracts to hedge the foreign exchange risk of its existing assets. As the Company has sufficient operating capital to meet cash requirement upon the maturity of these constructs, the Company believes there are no significant liquidity or cash flow risk.

d. As of December 31, 2002 and 2001, the estimated fair value of financial instruments are as follows:

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Assets				
Cash	\$ 97,832	\$ 97,832	\$ 81,141	\$ 81,141
Short-term investments	3,671	3,671	3,290	3,290
Notes Receivables	9,044	9,044	9,850	9,850
Accounts receivables	1,035,501	1,035,501	1,418,919	1,418,919
Pledged time deposits and commercial papers	272,581	272,581	288,529	288,529
Long-term investments	(68,311)	(80,883)	409,643	399,881
Liabilities				
Short-term bank loans	1,661,182	1,661,182	1,629,534	1,629,534
Commercial paper	19,897	19,897	159,032	159,032
Notes payable	142,640	142,640	74,840	74,840
Accounts payable	276,112	276,112	283,647	283,647
Loans from related parties	16,639	16,639	7,145	7,145
Income tax payable	4,807	4,807	16,867	16,867
Long-term debts	1,581,259	1,581,259	1,577,036	1,577,036

The Company estimates fair values of its financial instruments based on the following assumptions:

- 1) Cash, receivables and payables, pledged time deposits and commercial papers, and short-term borrowings at carrying amounts, which approximate to their fair values.
- 2) Short-term and long-term investments at market value or net asset value.
- 3) Fair value of long-term debts is carrying value because of floating interest rates are applied.

22. SEGMENT INFORMATION

- a. The Company is engaged in single industry segment, namely manufacturing and sales of stainless products:
- b. Information on geographic areas:

	<u>North America</u>	<u>Asia</u>	<u>Local</u>	<u>Adjustments and Elimination</u>	<u>Consolidation</u>
<u>2002</u>					
Sales from unaffiliated customers	\$ 6,256,735	\$ 186,513	\$ 1,022,040	\$ -	\$ 7,465,288
Sales from affiliated customers	<u>53,441</u>	<u>163,409</u>	<u>2,489,425</u>	(<u>2,706,275</u>)	<u>-</u>
Total sales	<u>\$ 6,310,176</u>	<u>\$ 349,922</u>	<u>\$ 3,511,465</u>	(<u>\$ 2,706,275</u>)	<u>\$ 7,465,288</u>
Segments profits	<u>\$ 156,333</u>	<u>\$ 53,653</u>	<u>\$ 193,909</u>	(<u>\$ 3,518</u>)	\$ 400,377
Interest expenses					(226,503)
Other income—net					(<u>16,250</u>)
Pre-tax income from continued operating segments					<u>\$ 157,624</u>
Identical assets	<u>\$ 3,981,272</u>	<u>\$ 667,774</u>	<u>\$ 5,105,337</u>	(<u>\$ 2,846,181</u>)	<u>\$ 6,908,242</u>
	<u>North America</u>	<u>Asia</u>	<u>Local</u>	<u>Adjustments and Elimination</u>	<u>Consolidation</u>
<u>2001</u>					
Sales from unaffiliated customers	\$ 5,952,126	\$ 307,171	\$ 1,037,808	\$ -	\$ 7,297,105
Sales from affiliated customers	<u>20,245</u>	<u>88,741</u>	<u>1,619,406</u>	(<u>1,728,392</u>)	<u>-</u>
Total sales	<u>\$ 5,972,371</u>	<u>\$ 395,912</u>	<u>\$ 2,657,214</u>	(<u>\$ 1,728,392</u>)	<u>\$ 7,297,105</u>
Segments profits	(<u>\$ 185,623</u>)	<u>\$ 42,478</u>	<u>\$ 273,479</u>	<u>\$ 7,883</u>	\$ 138,217
Interest expenses					(286,043)
Other income—net					<u>94,954</u>
Pre-tax income from continued operating segments					(<u>\$ 52,872</u>)
Identical assets	<u>\$ 4,282,966</u>	<u>\$ 617,408</u>	<u>\$ 5,468,930</u>	(<u>\$ 3,101,714</u>)	<u>\$ 7,267,590</u>

c. Export sales

	Years Ended December 31			
	2002		2001	
	<u>NT\$</u>	<u>% of Total Revenues</u>	<u>NT\$</u>	<u>% of Total Revenues</u>
America	\$ 6,305,739	84	\$ 6,127,420	84
Europe	276,901	4	248,452	3
Asia	660,373	9	579,439	8
Australia	58,567	1	50,645	1
Others	<u>46,480</u>	<u>-</u>	<u>53,075</u>	<u>1</u>
	<u>\$ 7,348,060</u>	<u>98</u>	<u>\$ 7,059,031</u>	<u>97</u>

d. Customers representing more than 10% of total sales: None.

Ta Chen Stainless Pipe Co., Ltd.

**Financial Statements for the Six Months Ended
June 30, 2003 and 2002
Together with Independent Auditors' Report**

Notice to Readers

Readers are advised that the original version of these financial statements is in Chinese. This English translation is solely for the readers' convenience and may present financial statements for periods not previously presented in a single document. Also, these financial statements do not include additional disclosures that are required for Chinese-language reports under the Guidelines for Securities Issuers' Financial Reporting promulgated by the Securities and Futures Commission of the Republic of China. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

English Translation of a Report Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

August 22, 2003

The Board of Directors and Stockholders
Ta Chen Stainless Pipe Co., Ltd.

We have audited the balance sheets of Ta Chen Stainless Pipe Co., Ltd. (the Company), a company incorporated under the laws of the Republic of China, as of June 30, 2003 and 2002, and the related statements of income, changes in stockholders' equity, and cash flows for the six months then ended, which are required to be prepared in accordance with accounting principles generally accepted in the Republic of China and expressed in thousands of 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 the Company's subsidiaries with a recorded carrying value in long-term investments of NT\$1,292,941 thousand and \$1,177,130 thousand as of June 30, 2003 and 2002, respectively, representing 24% of the Company's total assets as of those dates, and the related recognized investment income under the equity method of accounting of NT\$16,499 thousand and NT\$9,841 thousand for the six months ended June 30, 2003 and 2002, respectively, representing 20% and 43% of the Company's income before income tax, respectively, for those periods. The financial statements of those subsidiaries were audited by other auditors whose reports have been furnished to us which expressed a modified unqualified opinion which emphasized the essence of the related party transactions, and our opinion insofar as it relates to the amounts included for the subsidiaries, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to the first paragraph present fairly, in all material respects, the financial position of Ta Chen Stainless Pipe Co., Ltd. as of June 30, 2003 and 2002, and the results of its operations and its cash flows for the six months then ended in conformity with generally accepted accounting principles in the Republic of China.

Deloitte & Touche
(T N Soong & Co and Deloitte & Touche (Taiwan)
Established Deloitte & Touche Effective June 1, 2003)
Kaohsiung, Taiwan
The Republic of China

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of a Report Originally Issued in Chinese

TA CHEN STAINLESS PIPE CO., LTD.

BALANCE SHEETS

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

ASSETS	June 30			
	2003		2002	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash	\$ 62,462	1	\$ 232,119	5
Short-term investments (Notes 3 and 20)	3,659	-	3,671	-
Notes receivable	11,301	-	7,599	-
Receivables				
Related parties (Note 19)	696,861	13	710,109	14
Others—net of allowance (Note 4)	117,672	2	96,422	2
Other financial assets—current	10,836	-	2,364	-
Inventories (Notes 2 and 5)	686,950	13	579,022	12
Deferred tax assets (Notes 2 and 16)	21,520	1	22,319	-
Pledged time deposits and commercial papers (Note 20)	283,132	5	244,011	5
Prepayments and other	21,080	-	29,249	1
Total current assets	<u>1,915,473</u>	<u>35</u>	<u>1,926,885</u>	<u>39</u>
LONG-TERM INVESTMENTS				
Long-term investment under equity method (Notes 2 and 6)	1,589,294	29	1,442,177	29
Other financial assets—non-current	20,709	1	25,432	1
Total Long-term investments	<u>1,610,003</u>	<u>30</u>	<u>1,467,609</u>	<u>30</u>
PROPERTIES (Notes 2, 7 and 20)				
Cost				
Land	235,566	4	221,835	5
Building and improvements	138,701	3	137,851	3
Machinery and equipment	1,371,685	25	713,434	14
Electrical equipment	71,624	1	67,474	1
Transportation equipment	18,783	1	18,278	-
Furniture and fixtures	13,147	-	13,155	-
Leased assets	128,776	3	231,485	5
Other equipment	167,239	3	198,352	4
Total cost	2,145,521	40	1,601,864	32
Accumulated depreciation	728,983	14	612,316	12
	1,416,538	26	989,548	20
Prepayments for machinery and equipment	302,121	6	344,029	7
Net properties	<u>1,718,659</u>	<u>32</u>	<u>1,333,577</u>	<u>27</u>
DEFERRED TAX ASSETS (Notes 2 and 16)	22,545	-	35,756	1
OTHER ASSETS (Notes 8, 14 and 20)	157,039	3	157,445	3
TOTAL ASSETS	<u>\$5,423,719</u>	<u>100</u>	<u>\$4,921,272</u>	<u>100</u>

LIABILITIES AND STOCKHOLDERS' EQUITY	June 30			
	2003		2002	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term bank loans (Notes 9 and 20)	\$1,432,778	27	\$1,266,681	26
Commercial papers (Note 10 and 20)	19,926	-	99,433	2
Notes payable (Note 11)	152,789	3	142,893	3
Payables				
Related parties (Note 19)	2,945	-	5,623	-
Other (Note 11)	59,789	1	157,240	3
Loan from related parties (Note 19)	115,831	2	47,109	1
Income tax payable	2,171	-	-	-
Current portion of long-term debts (Notes 12 and 20)	57,950	1	43,688	1
Accrued expenses	39,633	1	31,418	1
Current portion of long-term lease obligation payable (Notes 13 and 20)	66,115	1	92,338	2
Other (Note 6)	118,956	2	127,368	2
Total current liabilities	<u>2,068,883</u>	<u>38</u>	<u>2,013,791</u>	<u>41</u>
LONG-TERM DEBTS				
Long-term loans (Notes 12 and 20)	80,215	2	70,545	2
Long-term lease obligation payable (Notes 13 and 20)	2,624	-	20,925	-
Total long-term debts	<u>82,839</u>	<u>2</u>	<u>91,470</u>	<u>2</u>
ACCRUED PENSION COST (Note 2)	46,379	1	51,559	1
DEFERRED PROFIT ON INTERCOMPANY SALES (Note 2)	65,717	1	43,380	1
Total liabilities	<u>2,263,818</u>	<u>42</u>	<u>2,200,200</u>	<u>45</u>
STOCKHOLDERS' EQUITY (Notes 2, 6 and 15)				
Capital stock—common stock, par value \$10, authorized 300,000 thousand shares and issued 248,041 thousand shares	2,480,410	46	2,480,410	50
Capital surplus	621,493	11	615,848	13
Retained earnings				
Legal reserve	77,844	1	67,172	1
Unappropriated retained earnings	160,426	3	56,029	1
Total retained earnings	<u>238,270</u>	<u>4</u>	<u>123,201</u>	<u>2</u>
Cumulative translation adjustments	106,197	2	60,338	1
Treasury stock—33,509 thousand and 65,577 thousand shares as of June 30, 2003 and 2002	(286,469)	(5)	(558,725)	(11)
Total stockholders' equity	<u>3,159,901</u>	<u>58</u>	<u>2,721,072</u>	<u>55</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$5,423,719</u>	<u>100</u>	<u>\$4,921,272</u>	<u>100</u>

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche report dated August 22, 2003)

English Translation of a Report Originally Issued in Chinese

TA CHEN STAINLESS PIPE CO., LTD.

STATEMENTS OF INCOME

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

	Six Months Ended June 30			
	2003		2002	
	Amount	%	Amount	%
SALES (Note 2)	\$ 1,697,523	100	\$ 1,671,280	100
COST OF SALES (Note 17)	<u>1,493,397</u>	<u>88</u>	<u>1,491,671</u>	<u>89</u>
GROSS PROFIT	204,126	12	179,609	11
UNREALIZED PROFIT ON INTERCOMPANY SALES (Note 2)	(<u>11,789</u>)	(<u>1</u>)	(<u>3,562</u>)	<u>-</u>
	<u>192,337</u>	<u>11</u>	<u>176,047</u>	<u>11</u>
OPERATING EXPENSES (Note 17)				
Selling	39,851	2	35,922	2
Administrative	<u>46,535</u>	<u>3</u>	<u>41,231</u>	<u>3</u>
Total operating expenses	<u>86,386</u>	<u>5</u>	<u>77,153</u>	<u>5</u>
OPERATING INCOME	<u>105,951</u>	<u>6</u>	<u>98,894</u>	<u>6</u>
NON-OPERATING INCOME				
Interest	3,657	-	4,282	-
Investment income under equity-method (Notes 2 and 6)	32,267	2	14,555	1
Others	<u>447</u>	<u>-</u>	<u>470</u>	<u>-</u>
Total non-operating income	<u>36,371</u>	<u>2</u>	<u>19,307</u>	<u>1</u>
NON-OPERATING EXPENSES				
Interest (Notes 2 and 7)	58,525	3	59,746	4
Foreign exchanges loss—net (Note 2)	15	-	35,606	2
Others	<u>17</u>	<u>-</u>	<u>100</u>	<u>-</u>
Total non-operating expenses	<u>58,557</u>	<u>3</u>	<u>95,452</u>	<u>6</u>
INCOME BEFORE INCOME TAX	83,765	5	22,749	1
INCOME TAX (Notes 2 and 16)	<u>4,294</u>	<u>-</u>	<u>4,843</u>	<u>-</u>
NET INCOME	<u>\$ 79,471</u>	<u>5</u>	<u>\$ 17,906</u>	<u>1</u>
BASIC EARNINGS PER SHARE (Note 18)				
Before tax	<u>\$ 0.42</u>		<u>\$ 0.12</u>	
After tax	<u>\$ 0.40</u>		<u>\$ 0.10</u>	
PRO FORMA INFORMATION—AS IF THE COMPANY'S SHARES HELD BY SUBSIDIARIES ACCOUNTED FOR AS INVESTMENTS RATHER THAN TREASURY STOCKS				
Net income	<u>\$ 108,623</u>		<u>\$ 133,382</u>	
Basic earnings per share				
Before tax	<u>\$ 0.46</u>		<u>\$ 0.56</u>	
After tax	<u>\$ 0.44</u>		<u>\$ 0.54</u>	

The accompanying notes are an integral part of the financial statement
(With Deloitte & Touche report dated August 22, 2003)

English Translation of a Report Originally Issued in Chinese

TA CHEN STAINLESS PIPE CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands of New Taiwan Dollars)

	Capital Stock	Capital Surplus			Total	Retained Earnings			Cumulative Translation Adjustments	Treasury Stock	Total Stockholders' Equity
		Capital in Excess of Par Value	Transaction of treasury stock	Net gain on disposal of properties		Legal reserve	Unappropriated earnings	Total			
BALANCE, JANUARY 1, 2003	\$ 2,480,410	\$ 591,671	\$ 24,478	\$ -	\$ 616,149	\$ 67,172	\$ 144,841	\$ 212,013	\$ 112,720	(\$ 544,347)	\$ 2,876,945
Appropriations of prior years' earnings (Note 15)											
Legal reserve	-	-	-	-	-	10,672	(10,672)	-	-	-	-
Bonus to employees	-	-	-	-	-	-	(2,661)	(2,661)	-	-	(2,661)
Compensation to directors and supervisors	-	-	-	-	-	-	(1,596)	(1,596)	-	-	(1,596)
Cash dividends—2%	-	-	-	-	-	-	(48,957)	(48,957)	-	-	(48,957)
Net income for the six months ended June 30, 2003	-	-	-	-	-	-	79,471	79,471	-	-	79,471
Translation adjustments	-	-	-	-	-	-	-	-	(6,523)	-	(6,523)
Disposal of the Company's shares held by subsidiaries—30,374 thousand shares	-	-	5,344	-	5,344	-	-	-	-	257,878	263,222
BALANCE, JUNE 30, 2003	<u>\$ 2,480,410</u>	<u>\$ 591,671</u>	<u>\$ 29,822</u>	<u>\$ -</u>	<u>\$ 621,493</u>	<u>\$ 77,844</u>	<u>\$ 160,426</u>	<u>\$ 238,270</u>	<u>\$ 106,197</u>	<u>(\$ 286,469)</u>	<u>\$ 3,159,901</u>
BALANCE, JANUARY 1, 2002	\$ 2,480,410	\$ 591,671	\$ -	\$ 23,800	\$ 615,471	\$ 62,775	\$ 20,173	\$ 82,948	\$ 120,692	(\$ 29,629)	\$ 3,269,892
Transfer of capital surplus from gain on disposal of properties to unappropriated Earnings	-	-	-	(23,800)	(23,800)	-	23,800	23,800	-	-	-
Legal reserve	-	-	-	-	-	2,380	(2,380)	-	-	-	-
Appropriations of prior years' earnings											
Legal reserve	-	-	-	-	-	2,017	(2,017)	-	-	-	-
Bonus to employees	-	-	-	-	-	-	(908)	(908)	-	-	(908)
Compensation to directions and supervisors	-	-	-	-	-	-	(545)	(545)	-	-	(545)
Net income for the six months ended June 30, 2002	-	-	-	-	-	-	17,906	17,906	-	-	17,906
Translation adjustments	-	-	-	-	-	-	-	-	(60,354)	-	(60,354)
Disposal of the Company's shares held by subsidiaries	-	-	24,177	-	24,177	-	-	-	-	-	24,177
Company's share held by subsidiaries accounted for as treasury stock—62,320 thousand shares	-	-	-	-	-	-	-	-	-	(529,096)	(529,096)
BALANCE, JUNE 30, 2002	<u>\$ 2,480,410</u>	<u>\$ 591,671</u>	<u>\$ 24,177</u>	<u>\$ -</u>	<u>\$ 615,848</u>	<u>\$ 67,172</u>	<u>\$ 56,029</u>	<u>\$ 123,201</u>	<u>\$ 60,338</u>	<u>(\$ 558,725)</u>	<u>\$ 2,721,072</u>

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche report dated August 22, 2003)

English Translation of a Report Originally Issued in Chinese

TA CHEN STAINLESS PIPE CO., LTD.

STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)

	Six Months Ended	
	June 30	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 79,471	\$ 17,906
Depreciation	89,809	70,087
Amortization	178	261
Unrealized profit on intercompany sales	11,789	3,562
Investment income under equity method	(32,267)	(14,555)
Gain on disposal of properties	-	(83)
Provision (reversal of allowance) for loss on short-term investments	12	(142)
Deferred income tax	341	4,834
Changes in operating assets and liabilities		
Accounts receivable	155,570	565,493
Inventories	(126,703)	(17,771)
Other financial assets-current	(2,765)	369
Prepayment and other current assets	(949)	(13,069)
Notes and accounts payable	(37,819)	129,683
Accounts payable—related parties	(15,488)	5,623
Income tax payable	1,691	(15,186)
Accrued expense	(7,262)	4,524
Other current liabilities	10,755	6,852
Accrued pension cost	(3,397)	(2,857)
Net cash provided by operating activities	<u>122,966</u>	<u>745,531</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties	(370,331)	(326,329)
Decrease (increase) in long-term investments	219,388	(2,900)
Decrease (increase) in pledged time deposits and commercial papers	(10,551)	26,521
Increase in short-term investments	-	(510)
Increase in other financial assets - noncurrent	(5,570)	(10,293)
Other	-	2,404
Net cash used in investing activities	<u>(167,064)</u>	<u>(311,107)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank loans	(56,264)	(224,409)
Increase (decrease) in commercial papers	30	(59,599)
Increase in long-term debts	31,523	57,767
Increase (decrease) in loan from related parties	71,681	(19,750)
Bonus to employees	-	(908)
Compensation to directors and supervisors	-	(545)
Net cash provided by (used in) financing activities	<u>46,970</u>	<u>(247,444)</u>

(Forward)

English Translation of a Report Originally Issued in Chinese

	Six Months Ended	
	June 30	
	<u>2003</u>	<u>2002</u>
NET INCREASE IN CASH	\$ 2,872	\$ 186,980
CASH, BEGINNING OF PERIOD	<u>59,590</u>	<u>45,139</u>
CASH, END OF PERIOD	<u>\$ 62,462</u>	<u>\$ 232,119</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized amounts)	<u>\$ 59,991</u>	<u>\$ 55,538</u>
Income tax paid	<u>\$ 2,262</u>	<u>\$ 16,642</u>
Non-cash financing activities		
Current portion of long-term debts	<u>\$ 57,950</u>	<u>\$ 43,688</u>
Current portion of long-term lease obligation payable	<u>\$ 66,115</u>	<u>\$ 92,338</u>
Cash paid for acquisition of properties		
Acquisition costs	\$ 376,232	\$ 326,721
Increase in notes and accounts payable	(5,901)	(392)
	<u>\$ 370,331</u>	<u>\$ 326,329</u>

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche report dated August 22, 2003)

TA CHEN STAINLESS PIPE CO., LTD.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003 AND 2002

(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Stated)

1. HISTORY AND ORGANIZATION

The Company was incorporated in November 1986. Its operations consist of the manufacture of stainless pipe and pipe fitting products, and sales of stainless sheets.

In November 1989, the Company invested in Ta Chen International (CA) Corporation, a wholly-owned subsidiary which is mainly engaged in distribution and sales of coils, sheets, tubing, bar, stainless pipe and fitting products, and manufacture and sale of fasteners in the United States.

The Company's stock has been traded on the Taiwan Stock Exchange since October 1996.

As of June 30, 2003 and 2002, the Company had 428 and 401 employees, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company are prepared in conformity with generally accepted accounting principles in the Republic of China (ROC GAAP). The significant accounting policies are summarized below:

Use of Estimates

The preparation of financial statements in conformity with ROC GAAP requires management to make estimates and judgments that affect the recorded amounts of assets, liabilities, revenues and expenses of the Company. The Company continually evaluates these estimates, including those related to allowances for doubtful accounts and sales allowance, valuation of inventories, useful lives of properties, pension costs and valuation allowances for deferred income tax. The Company bases its estimates on historical experience and assumptions, which it believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

Assets and Liabilities Classified as Current and Non-current

Current assets include cash and other assets that are reasonably expected to be realized in cash, or to be consumed within one year from the balance sheet date; otherwise classified as non-current assets. Current liabilities are liabilities that are reasonably expected to be liquidated within one year; otherwise are classified as non-current liabilities.

Short-term Investments

Short-term investments consist of stocks, convertible bonds and funds listed on the Taiwan Stock Exchange and UMC ADR, are stated at the lower of weighted average cost or market value. Declines in market value are charged to income at time of occurrence. The allowance for investment loss is credited to account for the loss resulting from the excess of total cost over market value. If the market price recovers, the allowance account will be reversed only to the extent of the remaining balance. The cost of investments sold is calculated under the weighted average method. Market value represents the net asset value at the balance sheet date for listed funds and the average price in the latest month of the investments in listed period for the stock, convertible bonds and ADR.

Allowance for Doubtful Accounts

The allowance for doubtful accounts are provided based on evaluation of the collectibility of the

receivables.

Inventories

Inventories consist of raw materials, supplies, work in process, finished goods and merchandise are stated at the lower of weighted average cost or market. Market value represents net realizable value for merchandise, finished goods and work in process; and replacement cost for raw materials and supplies. Loss from decline in market value of inventories is charged to cost of sales.

Long-term Investments

Long-term investments of which the Company owns at least 20% of the outstanding voting shares or where the Company exercises significant influence over the investee company's operations are accounted for by the equity method. Under the equity method, the Company's proportionate share in the net earnings or losses of the investee companies are recognized as investment income or losses in the same period. The difference between the investment cost and the proportionate equity in the investee, when a stock is acquired or when equity method is initially adopted, is amortized over ten years.

Properties

Land is stated at cost.

Properties except for land are stated at cost less accumulated depreciation. Major additions, renewals, betterment and interest incurred during construction or acquisition period are capitalized, while maintenance and repairs are expensed currently.

Depreciation is provided by the straight-line method over estimated service lives which range as follows: building and improvements, 3 to 50 years; machinery and equipment, 2 to 15 years; electrical equipment, 2 to 15 years; transportation equipment, 2 to 6 years; furniture and fixtures, 3 to 10 years; leased assets, 3 to 25 years; other equipment, 2 to 10 years. The residual value of a property, which has reached its original service life but is still in use, is further depreciated over its reestimated remaining service life.

When assets are retired or disposed of, their costs and related accumulated depreciation are removed from the accounts and any loss or gain is reflected to income.

Capital Lease

Leased assets and its related liabilities under capital lease are stated at the lower of the following at the inception of the lease: (1) fair value of the leased assets on the inception date of lease; (2) the present value of rental plus the bargain purchase price.

The imputed interest of such lease obligation payable is charged as interest expense when accrued.

Deferred Profits on Intercompany Sales

Profits on intercompany sales are deferred and recognized as income in the year of realization.

Pensions

Pension costs are recognized based on actuarially determined amounts. The difference between the pension costs recognized and the amount appropriated to a special fund (Note 14) is recognized as accrued pension cost. Prior service cost and actuarial gains or losses, and unrecognized net transition obligation are amortized over 15 years.

Pension benefits paid in excess of the pension fund and accrual are charged to expense.

Revenue Recognition

Sales are recognized when titles and risks of products are transferred to customers. Domestic sales-when products are delivered to and accepted by the customer; export sales-when products are loaded aboard.

Sales are measured by fair value which is a price (net of trade discounts and sale discounts) agreed to by the Company and customers.

Income Tax

Income tax is provided on an inter-period allocation basis. Tax effects of deductible temporary differences, unused tax credits and operating loss carryforwards are recognized as deferred income tax assets, and those of taxable temporary differences are recognized as deferred income tax liabilities. Valuation allowance is provided for deferred tax assets that are not certain to be realized. A deferred tax asset or liability is classified as current or noncurrent according to the classification of its related assets or liabilities. However, if it cannot be related to an asset or liability in the financial statements, it is classified as current or noncurrent based on the expected length of reversal period.

The tax credits arising from expenditures for purchase of equipment is recognized as income tax credits when those credits are granted.

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

Annual earnings shall be appropriated by the Company's stockholders resolution in the following year. The undistributed earnings, as determined by the tax regulation, shall be subject to 10% income taxes. Such taxes are recorded as expenses after the stockholders resolved that the earnings should be retained.

Treasury Stock

The Company's shares acquired and held by subsidiaries are accounted for as treasury stocks.

Acquisition of treasury stock is accounted for at cost and reflected as a deduction of stockholders' equity in the balance sheet. Upon disposition of the treasury stock, the excess of proceeds over the par value, is credited to capital surplus; the excess of par value over proceeds, is charged to such capital surplus that is arising from the treasury stock transaction, otherwise, the excess is charged to retained earnings.

Foreign-currency Transactions

Foreign-currency transactions, are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of different foreign exchange rates when foreign-currency receivables and payables are settled will be credited or charged to income in the period of settlement. At the balance sheet date, foreign-currency assets and liabilities are restated at the prevailing exchange rates and resulting adjustments are credited or charged to income. The changes in investments of foreign subsidiaries arising from exchange rate are reflected as cumulative translation adjustments under stockholders' equity.

Reclassification

Certain accounts for the six months ended June 30, 2002 have been reclassified to conform to the classification for the six months ended June 30, 2003.

3. SHORT-TERM INVESTMENTS

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Security investment fund	\$ 2,006	\$ 2,006
Non-guarantee convertible bond	1,500	1,500
Listing preferred stock	1,000	1,000
American depository receipt	510	-
High yield bond fund	<u>-</u>	<u>510</u>
	5,016	5,016
Less: Allowance for decline in value (Note 2)	<u>1,357</u>	<u>1,345</u>
	<u>\$ 3,659</u>	<u>\$ 3,671</u>

4. RECEIVABLES

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Receivables	\$ 120,132	\$ 97,882
Less: Allowance for doubtful accounts (Note 2)	<u>2,460</u>	<u>1,460</u>
	<u>\$ 117,672</u>	<u>\$ 96,422</u>

5. INVENTORIES

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Finished goods	\$ 123,820	\$ 130,302
Work in process	193,244	180,833
Raw materials	329,908	205,364
Raw materials in transit	14,688	24,711
Supplies	10,411	9,710
Merchandise	<u>14,879</u>	<u>28,102</u>
	<u>\$ 686,950</u>	<u>\$ 579,022</u>

6. LONG-TERM STOCK INVESTMENTS

	<u>June 30</u>			
	<u>2003</u>		<u>2002</u>	
	<u>Carrying</u>	<u>% of</u>	<u>Carrying</u>	<u>% of</u>
	<u>Value</u>	<u>Owner-</u>	<u>Value</u>	<u>Owner-</u>
		<u>ship</u>		<u>ship</u>
<u>Equity method</u>				
Ta Chen International (CA) Corp. (TCIC)	\$1,273,541	100.0	\$1,176,488	100.0
Ta Chen (B.V.I.) Holding Ltd. (Ta Chen BVI)	294,163	100.0	252,065	100.0
Ta-Ji Investment Co., Ltd. (Ta-Ji)	63,153	99.9	150,930	99.9
Ta Ever International Investment Co., Ltd. (TEIC)	63,191	89.1	175,763	89.1
Ta Chen Steel Investment Co., Ltd. (TCSI)	<u>101,200</u>	99.9	<u>101,467</u>	99.9
	1,795,248		1,856,713	
Less: Shares held by subsidiaries accounted for as treasury stock	<u>(256,841)</u>		<u>(529,096)</u>	
	1,538,407		1,327,617	

(Continued)

	June 30			
	2003		2002	
	Carrying Value	% of Owner- ship	Carrying Value	% of Owner- ship
Add: Credit balance of investments classified as other current liabilities	<u>50,887</u>		<u>114,560</u>	
	<u>\$1,589,294</u>		<u>\$1,442,177</u>	
Other current liabilities				
TCSI	\$ 50,887		\$ 79,252	
Ta-Ji	<u>-</u>		<u>35,308</u>	
	<u>\$ 50,887</u>		<u>\$ 114,560</u>	

Ta-Ji and TEIC's stockholders' meetings in June 2003 resolved to effect a capital decrease of NT\$127,505, and NT\$232,715, respectively to offset their deficits of NT\$26,085 and NT\$132,191, and a capital refund of NT\$101,420 and NT\$100,524, respectively. The registration for such capital decrease was approved by the government in July, 2003 and the Company may recognize investment losses of NT\$143,852 for tax reporting of 2003.

As of June 30, 2003, the Company's original investment in TCIC amounted to NT\$1,453,017 (US\$44,000).

Ta Chen (B.V.I.) Holding Ltd. was incorporated in May, 1997, to acquire the Company's previous investments in Shijiazhuang Ji-Tai Precision Casting Co (Ji Tai) in Mainland China. As of June 30, 2003, the investment in Ji-Tai amounted to NT\$115,594 (US\$4,203).

In August 1999, Ta Chen (B.V.I.) Holding Ltd. made an investment of NT\$7,761 (US\$242) in Ta Chen (Bao-Ding) Precision Casting Co in Mainland China.

Investment income (loss) under equity method, are summarized as follows:

	Six Months Ended June 30	
	2003	2002
TCIC	\$ 17,109	\$ 6,077
Ta Chan B.V.I.	19,977	17,038
Ta Ji	(1,566)	(2,948)
TEIC	(766)	(1,446)
TCSI	<u>(2,487)</u>	<u>(4,166)</u>
	<u>\$ 32,267</u>	<u>\$ 14,555</u>

Certain long-term investments accounted for under the equity method (TCIC and Banner Fasteners Inc. subsidiary of Ta Chen (B.V.I.) Holding Ltd.) with carrying value in long-term investments of \$1,292,941 and \$1,177,130 as of June 30, 2003 and 2002, respectively and the recognized investment income of \$16,499 and \$9,841, respectively for the six months ended June 30, 2003 and 2002, respectively, were recognized based on the audited financial statements of other auditors.

The changes of foreign subsidiaries cumulative translation adjustments under stockholders' equity are summarized as follows:

	Six Months Ended June 30	
	2003	2002
Beginning of period	\$ 112,720	\$ 120,692
Net decrease	(<u>6,523</u>)	(<u>60,354</u>)
End of period	<u>\$ 106,197</u>	<u>\$ 60,338</u>

7. PROPERTIES

Accumulated depreciation consists of:

	June 30	
	2003	2002
Building and improvements	\$ 49,917	\$ 43,683
Machinery and equipment	494,557	338,785
Electrical equipment	29,982	25,354
Transportation equipment	13,470	13,341
Furniture and fixtures	11,904	11,464
Leased assets	15,240	20,773
Other equipment	<u>113,913</u>	<u>158,916</u>
	<u>\$ 728,983</u>	<u>\$ 612,316</u>

Information for capitalized interest follows:

	Six Months Ended June 30	
	2003	2002
Total interest	\$ 60,275	\$ 60,930
Interest capitalized	1,750	1,184
Capitalized interest rate	7.0%	7.6%

The capitalized interests are included in prepayments for machinery and equipment.

8. OTHER ASSETS

This includes a parcel of farmland with a purchased cost of \$156,407. Title to such land can not be registered in the name of the Company, but was regiseered in the name of a related party. The Company had obtained a waiver notice for the ownership from the nominal owner.

9. SHORT-TERM BANK LOANS

	June 30	
	2003	2002
New Taiwan dollar loans: Interest at 5.44%-8.17% in 2003 and 6.52%-8.74% in 2002	\$ 1,251,721	\$ 1,173,544
US dollar loans: Interest at 2.80%-5.25% in 2003 and 3.5%-7.0% in 2002	99,875	93,137
Merchandise financial loans: Interest at 5.00%-5.80%	<u>81,182</u>	<u>-</u>
	<u>\$ 1,432,778</u>	<u>\$ 1,266,681</u>

As of June 30, 2003, the Company has unused credit lines for short-term loans aggregating NT\$97,289

10. COMMERCIAL PAPERS

	June 30	
	2003	2002
Commercial papers: Interest at 2.1% in 2003 and 2.97%-3.20% in 2002	\$ 20,000	\$ 100,000
Less: Unamortized discount	<u>74</u>	<u>567</u>
	<u>\$ 19,926</u>	<u>\$ 99,433</u>

11. PAYABLES

	New Taiwan Dollars	
	June 30	
	2003	2002
Notes payable for purchases of		
Supplies	\$ 135,709	\$ 114,783
Properties	7,454	9,067
Other	<u>9,626</u>	<u>19,043</u>
	<u>\$ 152,789</u>	<u>\$ 142,893</u>
Accounts payable for purchase of		
Supplies	\$ 44,071	\$ 131,066
Properties	13,626	16,351
Others	<u>2,092</u>	<u>9,823</u>
	<u>\$ 59,789</u>	<u>\$ 157,240</u>

12. LONG-TERM DEBTS

	June 30	
	2003	2002
Repayable in 9 equal consecutive monthly installments starting March 2004; interest at 4.25%	\$ 60,000	\$ -
Repayable in 16 equal consecutive monthly installments starting March 2000; interest at 7.97% in 2003 and 8.30% in 2002	26,250	39,375
Repayable in 16 equal consecutive quarterly installments starting March 2000; interest at 5.72% in 2003 and 6.05% in 2002	21,795	32,693
Repayable in 36 equal consecutive monthly installments starting September 2001 ; , interest at 7.5% in 2003 and 8.0% in 2002	21,000	40,500
Repayable in 20 equal consecutive quarterly installments starting April 2003 ; interest at 4.95%	9,120	-
Repaid in September 2002, interest at 9%	<u>-</u>	<u>1,665</u>
	138,165	114,233
Current portion	<u>57,950</u>	<u>43,688</u>
	<u>\$ 80,215</u>	<u>\$ 70,545</u>

13. LONG-TERM LEASE OBLIGATION PAYBLE

	<u>New Taiwan Dollars</u>	
	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Capital leases of equipment	\$ 41,320	\$ 84,917
Financing for purchases of merchandise	<u>30,590</u>	<u>35,910</u>
	71,910	120,827
Less: Amount representing interest (intrinsic interest at 4%-12.92% on June 30, 2003 and 7.82%-12.92% on June 30, 2002)	<u>3,171</u>	<u>7,564</u>
Present value of net minimum payments	68,739	113,263
Less: Current portion	<u>66,115</u>	<u>92,338</u>
	<u>\$ 2,624</u>	<u>\$ 20,925</u>

The Company acquired certain machinery and equipment under capital leases. The Company issued the installment promissory notes of NT\$41,320 and NT\$84,197 as of June 30, 2003 and 2002, respectively to the lessor and the minimum lease payments for the next two years are NT\$39,725 and NT\$80,263, respectively.

Financing for purchases of merchandise represent the sales and purchase back for raw materials. The Company issued the installment notes of NT\$30,590 and NT\$35,910 as of June 30, 2003 and 2002, respectively. The minimum payments for the next two years are NT\$29,014 and NT\$33,000, respectively.

14. PENSION PLAN

The Company is obligated by law to pay pension benefits to its employees based on length of service and average salaries or wages for the six months before retirement.

The Company makes monthly contributions, equal to 2% of salaries and wages, to a pension fund, which is deposited in the name of, and administered by, the employees pension plan committee.

Changes in the pension fund are as follows:

	<u>Six Months Ended June 30</u>	
	<u>2003</u>	<u>2002</u>
Balance, beginning of period	\$ 25,147	\$ 18,591
Deposits	6,884	7,818
Interests	-	789
Payments	(<u>2,323</u>)	(<u>2,765</u>)
Balance, end of period	<u>\$ 29,708</u>	<u>\$ 24,433</u>

Based on the actuarial calculation, the pension costs aggregated NT\$6,849 and NT\$6,849 for the period ended June 30, 2003 and 2002, respectively.

15. STOCKHOLDERS' EQUITY

Treasury Stock

<u>Purpose</u>	<u>Thousand Shares</u>			<u>End of Period</u>	
	<u>Beginning of Period</u>	<u>Increase</u>	<u>Decrease</u>	<u>Thousand Shares</u>	<u>Book Value</u>
<u>Six months ended June 30, 2003</u>					
Shares held by subsidiaries	60,626	-	30,374	30,252	\$ 256,840
Shares acquired for transfer to employees	<u>3,257</u>	<u>-</u>	<u>-</u>	<u>3,257</u>	<u>29,629</u>
	<u>63,883</u>	<u>-</u>	<u>30,374</u>	<u>33,509</u>	<u>\$ 286,469</u>
<u>Six months ended June 30, 2002</u>					
Shares held by subsidiaries	67,625	303	5,608	62,320	\$ 529,096
Shares acquired for transfer to employees	<u>3,257</u>	<u>-</u>	<u>-</u>	<u>3,257</u>	<u>29,629</u>
	<u>70,882</u>	<u>303</u>	<u>5,608</u>	<u>65,577</u>	<u>\$ 558,725</u>

For the six months ended June 30, 2003, the subsidiaries sold 30,374 thousand shares of the Company's stock. The gain of \$5,344 on this disposal of shares, which represents the proceeds of \$263,221 over the cost of \$257,877, was accounted for as capital surplus.

The Company's shares acquired and held by subsidiaries, based on the book value of such shares as of January 1, 2002, were accounted for as treasury stocks. As of June 30, 2003, the carrying value and market value of such treasury stocks were \$236,027 and \$620,395, respectively. Those shares although are treated as treasury stocks in the financial statements, the stockholders are entitled to exercise their rights.

The Company purchased its shares (3,257 thousand shares) at a cost of NT\$29,629 for the purpose of transferring to employees. As of June 30, 2003, the treasury stock remained unchanged.

In accordance with Securities and Exchange Law, the maximum number shares of treasury stock purchased should not exceed 10% of total outstanding shares and the aggregated purchase cost should not exceed retained earnings, plus paid-in capital in excess of par value and realized capital surplus. The treasury stocks should not be pledged and the Company can not exercise the rights of a stockholder in respect to those stocks. Furthermore, the Company should transfer those shares to employees within three years.

Capital Surplus

Under the regulations, capital surplus arising from the capital issued with premium can be used to offset a deficit or transferred to capital but restricted specific limits.

Furthermore, capital surplus arising from gain on disposal of properties of \$23,800 before 2000 was transferred to retained earnings based on the resolution of the stockholders' meeting in June 2002.

The remaining capital surplus can only be used to offset a deficit.

Earning Appropriation and Dividend Policy

The Company's Articles of Incorporation provide that the following shall be appropriated from the annual net income:

- a. 10% as legal reserve, until the cumulative balance equals the paid-in capital.
- b. A portion appropriated as special reserve as required.

The Company is required to appropriate annual earnings as special reserve for the net debit balance resulting from the adjustment items to the stockholders' equity, excluding treasury stock. If the market price is lower than carrying value of the Company's shares held by subsidiaries, the Company should appropriate earnings as special reserve with the same amount of the difference between market price and carrying value proportionately. The Company may release that portion of earnings from such special reserve when that debit balance are partially or fully reversed.

- c. 5% and 3% of the remainder respectively as bonus to employees and compensation to directors and supervisors, respectively.
- d. The remaining net income may be distributed as dividends was proposed by the Company's board of directors.

The above appropriation and allocation shall be resolved by the stockholders meeting in the following year and given effect to in the financial statements of that year.

The 2002 earning distribution as proposed by the board of directors was approved by the shareholders' meeting in June 2003.

The Company's dividend policy focuses on stable and growing in dividend distribution. The dividends to stockholders shall not less than 50% of the earnings available for distribution, of which not less than 20% will be cash dividend.

Under the Company Law, the legal reserve can be used to offset or reduce a deficit; also, when the reserve has reached 50% of capital, up to 50% thereof may be transferred to capital.

The 2002 and 2001 earnings appropriation as approved by the stockholders' meeting, were as follows:

	<u>Earnings Appropriation</u>		<u>Dividend Per Share</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
a. Legal reserve	\$ 10,672	\$ 4,397		
b. Cash dividend	48,957	-	\$ 0.20	\$ -
c. Compensation to directors and supervisors—cash	1,596	545		
d. Bonus to employee—cash	<u>2,661</u>	<u>908</u>		
	<u>\$ 63,886</u>	<u>\$ 5,850</u>		

Integrated Tax System

Under the Integrated Tax System, resident stockholders are allowed a tax credit for the income tax paid or payable by the Company on earnings generated in 1999 (the Company's original fiscal year) and onwards. Imputation Credit Account (ICA) is maintained by the Company for such income tax and the tax credit allocated to each stockholder. The maximum credit available for allocation to stockholders cannot exceed the balance shown in the ICA on the date of distribution of dividends.

As of June 30, 2003, the balance of ICA amounted to NT\$126,261. The (estimated and actual) ratios of tax credit allocated to stockholders for 2003 and 2002 distributed earnings were 37.23% and 33.33%, respectively.

16. INCOME TAX

	<u>Six Months Ended June 30</u>	
	<u>2003</u>	<u>2002</u>
Income tax based on accounting income at statutory rate (25%)	\$ 20,941	\$ 5,687
Add (deduct) tax effects of difference		
Investment income under equity method	(8,067)	(3,639)
Unrealized foreign exchange gain	228	4,538
Investment loss	(35,963)	-
(Realized) unrealized profit on intercompany sales	(580)	890
Other—net	<u>182</u>	<u>3,928</u>
Income tax payable (income tax benefit)	(23,259)	11,404
Tax credits from loss carryforward	-	(11,404)
Deferred income tax adjustments	23,600	4,834
Taxes on undistributed earnings	4,959	-
Investment tax credits	(2,479)	-
Prior period's adjustment	<u>1,473</u>	<u>9</u>
Income tax	<u>\$ 4,294</u>	<u>\$ 4,843</u>

Income tax payable is net of prepaid taxes of \$309 as of June 30, 2003.

Deferred income tax assets consist of:

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Deferred income tax assets—current		
Loss carryforward	\$ -	\$ 11,879
Investment tax credits	21,320	5,894
Unrealized foreign exchange gain	228	4,546
Other	(28)	-
	<u>21,520</u>	<u>22,319</u>
Deferred income tax assets		
Unrealized inventory loss	5,609	-
Investment tax credits	21,871	33,900
Unrealized profit on intercompany sales	15,037	10,845
Deferred pension cost	11,595	12,889
Depreciation	10,326	13,122
Capitalized interest	<u>1,707</u>	<u>-</u>
	66,145	70,756

(Continued)

	June 30	
	2003	2002
Less: Valuation allowance	\$ 43,600	\$ 35,000
	<u>22,545</u>	<u>35,756</u>
Net deferred income tax assets	\$ 44,065	\$ 58,075

The loss carryforward of NT93,130 in 2001 can be used to offset the taxable income within five years, starting the year that the loss incurred..

As of June 30, 2003, unused investment tax credits are as follows:

<u>Year of Expiry</u>	<u>Total Deductible Amount</u>	<u>Unused Balance</u>
2004	\$ 36,558	\$ 17,320
2005	18,984	18,984
2006	8,364	5,491
2007	<u>1,396</u>	<u>1,396</u>
	<u>\$ 65,302</u>	<u>\$ 43,191</u>

Investment tax credits are eligible to reduce the income tax payable for the year that the credits are granted and four years thereafter. The amount used are limited to 50% of the income tax payable with the exception to the latest year in which any remainder can be used entirely.

Income tax returns through the year ended December 31, 2000 have been examined by the tax authorities.

17. PERSONNEL EXPENDITURES, DEPRECIATION AND AMORTIZATION

	<u>Six Months Ended June 30, 2003</u>			<u>Six Months Ended June 30, 2002</u>		
	<u>Cost of Sales</u>	<u>Operating Expense</u>	<u>Total</u>	<u>Cost of Sales</u>	<u>Operating Expense</u>	<u>Total</u>
	<u>NT\$</u>	<u>NT\$</u>	<u>NT\$</u>	<u>NT\$</u>	<u>NT\$</u>	<u>NT\$</u>
Personnel expenditures						
Salary	\$ 76,634	\$ 22,568	\$ 99,202	\$ 67,920	\$ 22,715	\$ 90,635
Labor and health insurance	5,973	1,003	6,976	5,192	1,089	6,281
Pension cost	5,264	1,585	6,849	5,000	1,849	6,849
Others	3,934	590	4,524	3,472	630	4,102
Depreciation	88,563	1,246	89,809	68,405	1,682	70,087
Amortization	178	-	178	261	-	261
	<u>\$ 180,546</u>	<u>\$ 26,992</u>	<u>\$ 207,538</u>	<u>\$ 150,250</u>	<u>\$ 27,965</u>	<u>\$ 178,215</u>

18. EARNINGS PER SHARE

	<u>Numerator—Net Income</u>			<u>Denominator</u>
	<u>Before Tax</u>	<u>After Tax</u>		<u>(Thousand Shares)</u>
			<u>Six months ended June 30, 2003</u>	
Six months ended June 30, 2003	<u>\$ 83,765</u>	<u>\$ 79,471</u>	Weighted average number of issued common shares	248,041
			Less: Weighted average number of treasury stocks	
			—Purchased by the Company	3,257
			—Held by subsidiaries	<u>46,713</u>
				<u>198,701</u>
			<u>Six months ended June 30, 2002</u>	
Six months ended June 30, 2002	<u>\$ 22,749</u>	<u>\$ 17,906</u>	Weighted average number of issued common shares	248,041
			Less: Weighted average number of treasury Stocks	
			—Purchased by the Company	3,257
			—Held by subsidiaries	<u>62,320</u>
				<u>182,464</u>

Pro forma information—as if the Company’s stock shares held by subsidiaries were accounted for as investments rather than treasury stock.

	<u>Numerator—Net Income</u>		<u>(Thousand Shares)</u>	<u>Earnings Per Share</u>	
	<u>Before Tax</u>	<u>After Tax</u>		<u>Before Tax</u>	<u>After Tax</u>
Six months ended June 30, 2003	<u>\$ 112,917</u>	<u>\$ 108,623</u>	<u>\$ 244,784</u>	<u>\$ 0.46</u>	<u>\$ 0.44</u>
Six months ended June 30, 2002	<u>\$ 138,225</u>	<u>\$ 133,382</u>	<u>\$ 244,784</u>	<u>\$ 0.56</u>	<u>\$ 0.54</u>

19. RELATED PARTY TRANSACTIONS

The Company is engaged in business transactions with the following related parties:

	<u>Relationship with the Company</u>
Ta Chen International (CA) Corp. (TCIC)	Wholly-owned subsidiary
Shijiazhuang Jitai Precision Casting Co., (Ji-Tai)	Substantially owned
Ta Chen (Baoding) Precision Casting Co.	Substantially owned
Tension Control Bolting Inc.	Substantially owned
Banner Fasteners Inc. (BFI)	Substantially owned
AMS Specialty Steel Inc.	Substantially owned before December 2002
Ta Chen (B.V.I.) Holding Ltd. (Ta Chen (B.V.I.))	Wholly-owned subsidiary
Ta Chen Stainless Investment Co., Ltd. (Ta Chen Investment)	Subsidiary
Ta Ji Investment Co., Ltd. (Ta Ji)	Subsidiary
Ta Ever Investment Co., Ltd. (TEIC)	Subsidiary
Mr. R. H. Shieh	Supervisor
Mrs. D. Tseng	Relative of the president
Mr. W. D. Shieh	Relative of the president

Significant related parties' transactions are summarized as follows:

For the year

	<u>New Taiwan Dollars</u>			
	<u>Six Months Ended June 30</u>			
	<u>2003</u>	<u>%</u>	<u>2002</u>	<u>%</u>
a. Sales				
TCIC	\$ 984,166	58	\$ 1,183,466	71
BFI	<u>164,902</u>	<u>10</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,149,068</u>	<u>68</u>	<u>\$ 1,183,466</u>	<u>71</u>

TCIC is the Company's main distributor in the United States and the selling prices to TCIC are determined based on US market prices. The selling prices to other related parties approximate those to third parties. The credit terms for TCIC and BFI are 180 days and L/C payment, respectively. Those for non-related parties are 90 days and 30-90 days for domestic and export sales, respectively.

b. Purchases

The purchases from BFI for the six months ended June 30, 2003 and 2002 are NT\$29,454 and NT\$15,155 (2.2% and 1.2% of total purchases, respectively.) The purchases from related parties are made under normal arms-length terms.

c. The Company issued promissory notes for guarantees of certain indebtedness for the related companies as follows:

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Ta Chen (BVI)	\$ 64,000	\$ 64,000
TCIC	-	19,003
Ta Chen Investment	25,300	30,000
BFI	<u>84,095</u>	<u>-</u>
	<u>\$ 173,395</u>	<u>\$ 113,003</u>

Based on the Company's evaluation, the aboved-mentioned guarantees would not incur material losses to the Company

d. Financing

Receivables

The highest outstanding balance due from TCIC was NT\$21,829 for the six months ended June 30, 2003.

Payables

	Six Months Ended June 30			
	2003		2002	
	<u>Highest Balance</u>	<u>Balance</u>	<u>Highest Balance</u>	<u>Balance</u>
Ta Chen (BVI)	\$ 74,137	\$ 74,072	\$ 66,859	\$ 47,109
Ta Ji	127,932	26,570	-	-
Ta Ever	100,000	10,433	-	-
Ta Chen Investment	8,240	<u>4,756</u>	-	<u>-</u>
		<u>\$ 115,831</u>		<u>\$ 47,109</u>

These represent funds loaned from related parties and interest-free thereon.

At period-end

	June 30			
	<u>2003</u>	<u>%</u>	<u>2002</u>	<u>%</u>
a. Receivables				
Account receivable				
TCIC	\$ 696,549	84	\$ 708,541	87
Other receivables				
Jitai	312	-	-	-
Ta Ji	<u>-</u>	<u>-</u>	<u>1,568</u>	<u>-</u>
	<u>\$ 696,861</u>	<u>84</u>	<u>\$ 710,109</u>	<u>87</u>
b. Payables				
BFI	\$ 2,945	1	\$ 5,448	2
TCIC	<u>-</u>	<u>-</u>	<u>175</u>	<u>-</u>
	<u>\$ 2,945</u>	<u>1</u>	<u>\$ 5,623</u>	<u>2</u>

20. PLEDGED OR MORTGAGED ASSETS	Assets	Indebtedness Secured	Carrying Value	
			June 30	
			2003	2002
Pledged time deposits and commercial papers		Short-term and commercial papers and guarantees for employment of foreign labors	\$ 283,132	\$ 244,011
Short-term investment		Short-term loans	1,476	1,347
Properties—net		Long-term loans	588,695	506,764
Land (included in other assets)		Long-term loans	<u>59,110</u>	<u>156,407</u>
			<u>\$ 932,413</u>	<u>\$ 908,529</u>

21 COMMITMENTS AND CONTINGENCIES AS OF JUNE 30, 2003

- a. Unused letters of credit amounted to NT\$27,000 and purchase commitments on property amounted to NT\$90,244.
- b. Leasehold of land and plant under agreements will expire in September 2010. The annual rental amounts to NT\$9,181.
- c. As of June 30, 2003, the Company provided certain indebtedness guarantee of NT\$173,395 for the investee. (See Note 19)
- d. Dumping events of TCIC are summarized as follow:

On May 9, 1997, the US Department of Commerce (DOC) determined preliminarily that TCIC is liable for dumping duties of about 31.9% on its imports of welded stainless steel pipes imported for the period June 1992 to November 1994 and 76.2% on stainless steel butt-welded pipe fittings imported for the period December 1992 to May 1994, with totaling dumping tax of US\$11,000 plus interest. On June 14, 1999, the DOC issued its final decision affirming its prior preliminary decision. Such final decision is adverse to TCIC and TCIC has appealed to the US court of International Trade (CIT).

The CIT issued its first ruling in August 2001 on the DOC decision and found it is contrary to law. According to the Company's legal counsel, the CIT will send the matter back to the DOC for a new decision in accordance with law. Although the DOC indicated its view, the CIT has not yet decided the Company's appeal of the fitting decision. But on December 10, 2001, the CIT upheld DOC's pipe decision, albeit recognizing that DOC (a) in 2001 changed to penalize the Company for not gathering resale data of a customer in 1992-94 on the possibility that the law might change in 2001 to make the customer an affiliate and the resale data relevant. The Company appealed the CIT decision to the Court of Appeals for the Federal Circuit ("CAFC") as contrary to law and will also file a motion with the CIT that it reconsiders its pipe decision.

TCIC's legal counsel believes that the DOC decision is contrary to law as it was (a) based on an impermissible retroactive application of a new definition of related parties which was (b) also contrary to the then existing dumping statute. The legal counsel does not change its assessment of the prospects for court appeals and believes that TCIC has a slightly more than 50% chance of success given the inherent uncertainty of litigation. The ultimate resolution of this case is not ascertainable at this time. No provision has been made in the accompanying financial statements related to the DOC final decision.

e) Tax audit of income tax returns

The Internal Revenue Service is conducting an audit of the TCIC's 1999 income tax returns. The result of the tax audit is not determinable. Consequently, no additional taxes is provided in these financial statements.

f) Subsequent events

In August 2003, the Company entered into a new bank loan agreement of US\$45,000 with guarantees from Ta Chen, Mr. Robert Shieh and their family. The agreement contains various financial covenants of its financial ratios and will expire in August 2004.

22. FINANCIAL INSTRUMENTS

As of June 30, 2003 and 2002, the estimated fair value of financial instruments were as follows:

	June 30			
	2003		2002	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Assets				
Cash	\$ 62,462	\$ 62,462	\$ 232,119	\$ 232,119
Short-term investments	3,659	3,659	3,671	3,671
Notes receivable	11,301	11,301	7,599	7,599
Accounts Receivable (related parties included)	814,533	814,533	806,531	806,531
Pledged time deposits and commercial papers	283,132	283,132	244,011	244,011
Financial assets (included current and noncurrent portion)	31,545	31,545	27,796	27,796
Long-term investments (charged as long-term investment and other current liabilities)	1,538,407	1,533,517	1,327,617	1,320,203
Liabilities				
Short-term bank loans	1,432,778	1,432,778	1,266,681	1,266,681
Commercial papers	19,926	19,926	99,433	99,433
Notes payable	152,789	152,789	142,893	142,893
Accounts payable (related parties included)	62,734	62,734	162,863	162,863
Loans from related parties	115,831	115,831	47,109	47,109
Income tax payable	2,171	2,171	-	-
Long-term debts (include current portion of long-term debts)	138,165	138,165	114,233	114,233
Long-term lease obligation payable (include current portion)	68,739	68,739	113,263	113,263

The assumptions and methods used to estimate fair values of its financial instruments are as follows:

- a. The carry values of Cash, receivables and payables, pledged time deposits and commercial papers, and short-term borrowings approximate fair values because of short maturity of these instrument.

- b. The fair values of short-term and long-term investments are determined at market value or net asset value.
- c. Fair value of long-term debts is carrying value because of floating interest rates are applied.

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