



ORIENT SEMICONDUCTOR ELECTRONICS, LTD.

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

U.S.\$70,000,000

Credit Enhanced Zero Coupon Convertible Bonds due 2008

Supported by an irrevocable standby letter of credit issued by Chinatrust Commercial Bank, Ltd.

Issue Price: 100%

The U.S.\$70,000,000 Credit Enhanced Zero Coupon Convertible Bonds due 2008 (the “**Bonds**”) will be issued by Orient Semiconductor Electronics, Ltd. (the “**Company**”). Unless previously purchased and cancelled, converted or redeemed, the Bonds will be redeemed on January 23, 2008 at 100% of their principal amount.

The Bonds will have the benefit of an irrevocable standby letter of credit (the “**Letter of Credit**”) issued by Chinatrust Commercial Bank, Ltd. providing for the payment of principal in respect of the Bonds upon the failure by the Company to pay such amounts on the due date or upon the Bonds being declared due and payable on the occurrence of an Event of Default (as defined herein) pursuant to the Terms and Conditions of the Bonds. The letter of Credit does not support any other obligations of the Company under the Bonds, including the obligation in connection with conversion and the obligation to pay Additional Amount (as defined herein).

The Bonds will not bear interest. Bondholders may convert the Bonds into the Company’s common shares, par value NT\$10 per share (the “**Shares**”) on or after February 22, 2003 and prior to the close of business on January 13, 2008. The Conversion Price will initially be NT\$6.03 per Share, which is equivalent to U.S.\$0.175 per Share, based on a fixed rate of exchange of NT\$34.467 = U.S.\$1.00, subject to adjustment in certain events. In addition, the Conversion Price will be adjusted from time to time in certain circumstances relating to the then prevailing closing price of the Shares relative to the Conversion Price. The Shares are listed on the Taiwan Stock Exchange (the “**TSE**”) and application will be made to list the Shares issued upon conversion of the Bonds on the TSE. On January 17, 2003, the closing price of the Shares on the TSE was NT\$6.50 per Share.

Bondholders have the option to require the Company to redeem all or part of the holder’s Bonds on January 23, 2006 at the principal amount. The Company has the option to redeem all, or part only, of the Bonds on or at any time after January 23, 2004 at their principal amount in the event that the closing price of the Shares on the TSE in U.S. Dollars, calculated at the prevailing exchange rate, of any 20 Trading Day (as defined herein) in each 30 consecutive Trading-Day period, the last of which occurs not more than five days prior to the date upon which notice of such redemption is published, is at least 130% of the Conversion Price in effect on each such Trading Day translated into U.S. Dollars at the fixed exchange rate of NT\$34.467 = U.S.\$1.00. The Bonds may also be redeemed in whole, but not in part, at any time at the Company’s option at their principal amount in the event that (i) the Bonds outstanding are 10% or less of the issue amount; or (ii) certain changes relating to Republic of China taxation have been made which will result in additional costs to the Company.

For a discussion of certain factors that should be considered in connection with an investment in the Bonds, see “Risk Factors” on page 8 herein.

Application has been made to list the Bonds on the Luxembourg Stock Exchange. It is expected that delivery of the Bonds will be made in book entry form through the facilities of Euroclear and Clearstream, Luxembourg (each as defined herein) on January 23, 2003.

The Bonds and the Shares deliverable 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**”) or any state securities laws and subject to certain exceptions, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. The Bonds will be offered and sold outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act. The Bonds may not be offered in the Republic of China.

Sole Bookrunner and Lead Manager



This Offering Circular is dated January 20, 2003

Investors should rely only on the information contained in this Offering Circular. The Company has not authorized anyone to provide the investors with different information. The Company is not, and the Manager (as defined in “Underwriting”) is not, making an offer of these securities in any state or other jurisdiction where the offer is not permitted. The investors should not assume that the information contained in this Offering Circular is accurate as of any date other than the date on the front of this Offering Circular. The Company confirms to the best of its knowledge and belief having made all reasonable inquiries that the information contained in this Offering Circular regarding it and the Bonds is true and accurate in all material respects and does not omit anything likely to affect materially the import of such information. Information provided herein with respect to the ROC, its securities market, 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 this Offering Circular comes are required by the Company and the Manager to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the Bonds and distribution of this Offering Circular, see “Underwriting”. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company, the Manager or the Trustee 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 Manager or the Trustee. 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.

Neither the Securities and Exchange Commission, any state securities commission nor any other U.S. regulatory authority, has approved or disapproved the securities nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense.

The Bonds are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and the applicable state securities laws pursuant to registration or exemption therefrom. Please refer to the sections in this Offering Circular entitled “Underwriting” and “Notice to Investors”.

NOTICE TO INVESTORS

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

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

- (1) it is purchasing the Bonds for its own account or for an account with respect to which it exercises sole investment discretion, and it and any such account is outside the United States and is not a U.S. person;
- (2) it acknowledges that neither the Bonds nor the Shares issued upon conversion of the Bonds have been or will be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States except as set forth below;
- (3) it understands and agrees that if in the future it decides to resell, pledge or otherwise transfer any Bond or beneficial interest therein, or any Shares issued upon conversion of the Bonds, it may do so only (i) in an offshore transaction meeting the requirements of Rule 903 or Rule 904 of Regulation S, (ii) pursuant to an exemption from registration under the Securities Act, if available, or (iii) pursuant to an effective registration statement under the Securities Act, and in each of cases (ii) and (iii), in accordance with applicable securities laws of the states of the United States;
- (4) if it is purchasing Bonds prior to the expiration of 40 days after the later of the commencement of the offering and the latest closing date (the “**distribution compliance period**”), it is purchasing the Bonds in an offshore transaction meeting the requirements of Rule 903 or 904 of Regulation S and the Bonds will not be sold, pledged or otherwise transferred to, or for the account or benefit of, any U.S. person outside the United States or any person in the United States during the distribution compliance period;
- (5) it agrees to, and each subsequent holder is required to, notify any purchaser from it of a Bond or beneficial interest therein of the resale restrictions referred to in sections (3) and (4) above, if then applicable;
- (6) it understands that, except in the circumstances referred to under the heading “The Form of the Bonds”, the Bonds, and beneficial interests therein, will be represented by the Global Certificate (as defined herein);
- (7) it understands that the Global Certificate will bear a legend to the following effect (unless otherwise agreed by the Company):

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY JURISDICTION AND, ACCORDINGLY, MAY NOT BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED TO A U.S. PERSON OR WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.”

“THIS LEGEND MAY BE REMOVED AFTER THE EXPIRATION OF 40 DAYS FROM THE ORIGINAL ISSUANCE OF THE CREDIT ENHANCED ZERO COUPON CONVERTIBLE BONDS DUE 2008 OF ORIENT SEMICONDUCTOR ELECTRONICS, LTD.”; and

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

ENFORCEABILITY OF FOREIGN JUDGMENTS IN THE ROC

The Company is a company limited by shares incorporated under the ROC Company Law. All of the Company’s directors and executive officers, and its respective supervisors, 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 the ROC, or to enforce against any of them judgments obtained in courts outside the ROC, including those predicated upon the civil liability provisions of the federal securities law of the United States.

Any final judgment obtained against the Company or such persons in any court other than the courts of the ROC in respect of any legal suit or proceeding arising out of or relating to the Bonds will be enforced by the courts of the ROC without further review of the merits only if the court of the ROC in which enforcement is sought is satisfied that:

- ▶ the court rendering the judgment has jurisdiction over the subject matter according to the laws of the ROC;
- ▶ the judgment is not contrary to the public order or good morals of the ROC;
- ▶ the judgment was a final judgment for which the period for appeal has expired or from which no appeal may be made;
- ▶ 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
- ▶ judgments of the courts of the ROC are recognized and enforceable in the court rendering the judgment on a reciprocal basis.

A party seeking to enforce a foreign judgment in the ROC would, except under limited circumstances, be required to obtain foreign exchange approval from the Central Bank of China for the payment out of the ROC of any amounts recovered in connection with the judgment denominated in a currency other than NT Dollars if conversion from NT Dollars to a foreign currency is involved.

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CERTAIN DEFINED TERMS, CONVENTIONS AND CURRENCY OF PRESENTATION

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

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

References herein to the Group and to financial or statistical information relating to the Group are for convenience of presentation only. Except as otherwise indicated, all financial information set forth herein with respect to various members of the Company has been presented in New Taiwan Dollars.

The Company publishes its financial statements in New Taiwan Dollars, the lawful currency of the ROC. All references herein to “**New Taiwan Dollars**”, “**NT Dollars**” and “**NT\$**” are to New Taiwan Dollars and all references herein to “**United States Dollars**”, “**U.S. Dollars**” and “**U.S.\$**” are to United States Dollars. All translations from New Taiwan Dollars to United States Dollars were made on the basis of

the average of buying and selling exchange rates in Taipei for cable transfers in NT Dollars per U.S. Dollars as certified by the International Commercial Bank of China of NT\$35.00 = U.S.\$1.00 as of December 31, 2001, and of NT\$34.96 = U.S.\$1.00 as of September 30, 2002, with respect to information for the nine months ended September 30, 2002. All amounts translated into United States Dollars as described above are provided solely for the convenience of the reader, and no representation is made that the NT Dollar or U.S. Dollar amounts referred to herein could have been or could be converted into U.S. Dollars or NT Dollars, as the case may be, at any particular rate, the above rates or at all. See "Exchange Rates". The closing rate between the NT Dollar and the U.S. Dollar on January 17, 2003 was NT\$34.467 = U.S.\$1.00.

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SUMMARY

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

OSE

The Company is a leading manufacturing services provider offering a complete range of semiconductor assembly and test services, as well as integrated electronic manufacturing services ("EMS"), to original equipment manufacturers ("OEMs") and original design manufacturers ("ODMs"). The Company's Semiconductor Group provides assembly and test services for semiconductors used in a broad range of applications such as personal computers and computer networking, communications, graphic and audio-video applications, industrial products and consumer electronics. The Company's Finished Products Group provides EMS to customers in a wide range of industries, including communications, computer systems and peripherals and industrial products. The Company is uniquely positioned to benefit from increases in outsourcing of manufacturing services due to the technological leadership and manufacturing capabilities gained from each of its businesses.

The Company is the third largest independent semiconductor assembly and test company in Taiwan in terms of net sales in 2001. The Company focuses on the assembly of advanced leadframe and ball grid array ("BGA") packages, as well as testing services for logic, mixed signal and memory devices. The Company's current semiconductor assembly customers include many of Taiwan's semiconductor fabrication plants and integrated circuits ("IC") design houses, including MXIC, SiS and Winbond, as well as some of the world's leading semiconductor companies, including Dialog and Ericsson in Europe and Analog, ATI, Cypress, Pericom, Kendin and TI in North America.

According to independent market researches conducted by *Technology Forecasters, Inc.* and *Manufacturing Market Insider*, a leading EMS trade magazine, the Company is one of the largest EMS providers in Taiwan. The Company provides integrated EMS and supply chain support activities, such as design support, materials procurement, manufacturing, product distribution and upgrades, to original equipment manufacturers and brand name electronics companies on both a turnkey and consignment basis. The Company's principal EMS products include motherboards for server and TFT-LCD display controlling modules for computer systems and home appliances, wireless communication devices, including wireless local area network ("WLAN"), Bluetooth and global positioning system ("GPS") modules, broadband network devices and other products that integrate the Company's technologies in IC packaging and manufacturing sectors. The Company's primary EMS customers include companies that have experienced rapid growth such as @Road, ActionTec, Chi-Mei, Ericsson, Fujitsu, HannStar, Sharp, and Tyan.

The Company is the only major company in Taiwan providing semiconductor assembly and test services as well as EMS. This enables the Company to offer integrated manufacturing services and solutions to customers who require highly customized products and services. To achieve this, the Company leverages its expertise in advanced semiconductor assembly technologies, such as flip chip packaging, multi-chip modules and stacked-die packaging, to manufacture unique electronics products for its customers that require increasingly smaller packages with greater functionality. For example, the Company has implemented mass production Bluetooth modules and high density memory modules that draw upon the resources of both of its business groups.

The Company's principal operations are located in Kaohsiung City, the largest city in southern Taiwan. The Company also provides semiconductor assembly and test services at the facilities of its wholly-owned Philippine subsidiary, Orient Semiconductor Electronics Philippines, Inc. ("OSE Philippines"), located in Calamba Laguna, and at the facilities of one of its United States subsidiaries, OSE USA Inc. ("OSE USA"), located in San Jose, California. In addition, the Company provides EMS services at the facilities of its other United States subsidiary, Sparqtron Corp., located in Fremont, California.

Although the Company experienced operating and net losses in 2001, the net revenues of the Company grew at a compound annual growth rate of 7.7% from NT\$8,914.1 million in 1997 to NT\$11,975.8 million (U.S.\$342.2 million) in 2001. The Company's net revenues in 2001 decreased by 24.4% from NT\$15,834.6 million in 2000 due to the general downturn in the semiconductor and electronic manufacturing service

industry commencing in the second quarter of 2001. The Company's earnings before interest, income tax, and depreciation and amortization were NT\$2,027.1 million and NT\$891.3 million (U.S.\$25.5 million) in 2000 and 2001, respectively, compared to NT\$2,085.7 million in 1999.

Competitive Strengths

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

- ▶ Established technological leadership;
- ▶ Demonstrated capabilities in providing turnkey services;
- ▶ Established high growth customer base;
- ▶ Integrated management information systems; and
- ▶ Experienced management, research and development and marketing teams.

Strategy

The Company believes the outsourcing trend in the semiconductor and electronics industries will continue to grow and that electronics products will continue to demonstrate increasing levels of specialization and customization. The Company's objective is to capitalize on these trends and to pursue leading positions in both the semiconductor assembly and test and EMS industries. The principal elements of the Company's business strategy include the following:

- ▶ Focus on maximizing production utilization;
- ▶ Focus on the development of high value-added products and services and advanced manufacturing processes;
- ▶ Focus on customers in high growth industries;
- ▶ Focus on providing premium services to selected key customers;
- ▶ Capitalize on the synergies between semiconductor assembly and test services and EMS; and
- ▶ Further improve services by providing real time information and E-design.

Recent Development

The Company has obtained the approval of the ROC SFC to conduct a capital increase and the Company expects to issue 150,000,000 Shares by the end of January 2003. After such 150,000,000 Shares being issued, the paid-in capital of the Company will be increased to NT\$13,913,825,880, representing 1,241,382,588 Shares and 150,000,000 preferred shares.

Corporate Information

The Company was incorporated on June 12, 1971 and its Shares have been listed on the Taiwan Stock Exchange since April 20, 1994. The corporate headquarters of the Company are located at No. 9 Central 3rd Street, N.E.P.Z. Kaohsiung City, Taiwan, Republic of China. The Company's telephone number is 886-7-361-3131. The Company's internet address is www.ose.com.tw. The information on the corporate web site is not part of this Offering Circular.

The Offering

Issuer	Orient Semiconductor Electronics., Ltd.
Bonds	U.S.\$70,000,000 Credited Enhanced Zero Coupon Convertible Bonds due 2008 convertible into fully-paid common shares with a par value of NT\$10 each of the Company.
Issue Price	100%
The Offering	The Bonds will not be offered or sold in the United States and the ROC. The Bonds will be offered only in offshore transactions in reliance on Regulation S under the Securities Act.
Closing Date	January 23, 2003
Maturity Date	January 23, 2008
Status	The Bonds will constitute direct, unsecured and unsubordinated general obligations of the Company and will rank at least equally with all other outstanding unsecured and unsubordinated general obligations of the Company.
Letter of Credit.	The Bonds will have the benefit of an irrevocable standby letter of credit (the “Letter of Credit”) issued by Chinatrust Commercial Bank, Ltd. (the “LOC Issuing Bank”) providing for the payment of principal in respect of the Bonds upon the failure by the Company to pay such amount on the due date or upon the Bonds being declared due and payable on the occurrence of an Event of Default (as defined herein) pursuant to the Terms and Conditions of the Bonds. See “The Letter of Credit”. The Letter of Credit does not support any other obligations of the Company under the Bonds, including the obligations described under “Condition 6 — Conversion” below and the obligations to make payments of Additional Amount as herein defined in Condition 9(B).
Interest	No interest will be payable on the Bonds prior to maturity.
Withholding Tax.	Premium (if any) derived from conversion of the Bonds and received by non-residents of the ROC may be deemed as taxable gain, additional interest income (subject to the 20% withholding tax) or otherwise subject to other ROC taxes.
Tax Redemption	The Company may redeem all, but not part, of the Bonds at their principal amount in the event of changes in ROC taxation which will result in additional costs to the Company to gross up for payment of principal. See “Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation”.

Conversion	Subject to prior redemption and subject as otherwise provided herein, the Bonds are convertible at any time on or after February 22, 2003 and prior to the close of business (at the place at which the Bond is deposited for conversion) on January 13, 2008, except during any Closed Period (as defined herein), into Shares at a conversion price (subject to adjustment in certain circumstances) (the “Conversion Price”) of NT\$6.03 per Share, which is equivalent to U.S.\$0.175 per Share, determined on the basis of a fixed exchange rate of NT\$34.467 = U.S.\$1.00. The Conversion Price will be subject to adjustment for, among other things, subdivision or consolidation of Shares, bonus issues of Shares, right issues, distributions of stock dividends and other dilution events. Fractional Shares will not be issued or paid in cash, or by any other means. For a fuller description, see “Terms and Conditions of the Bonds — Conversion”. The Company shall as soon as practicable, and in any event within five Trading Days (as defined herein) after Conversion Date (as defined herein), deliver Shares, through the book entry system maintained by the Taiwan Securities Central Depositary Co. Ltd (“TSCD”), to the converting Bondholder (or its designee) provided that the converting Bondholder (or its designee) has opened a book entry account with its local agent or broker.
Conversion Price Reset . .	The Conversion Price shall be adjusted downward on the date of every six month after January 23, 2003 (the “Reset Dates” and each a “Reset Date”) in the event that the closing price of the Shares on the TSE translated into U.S. Dollars at the then prevailing exchange rate for 20 consecutive Trading Days immediately prior to the Reset Dates is lower than the Conversion Price, converted into U.S. Dollars at the fixed exchange rate of NT\$34.467 = U.S.\$1.00; provided that the Reset Price (as defined herein) (on a cumulative basis, if applicable) shall not be less than 80% of the initial Conversion Price after anti-dilution adjustments, if any. See “Terms and Conditions of the Bonds — Conversion — Conversion Price Reset”.
Alternative Price Reset . .	The Company may (but is not obliged to) grant the Bondholders options, within a seven Trading-Day period after December 24, 2005 and December 24, 2007, (the first day of such seven Trading-Day period will be determined by the Company), to convert the Bonds into Shares based on an Alternative Conversion Price equal to 95.24% of the then market price. See “Terms and Conditions of the Bonds — Conversion — Alternative Conversion Price Reset”.
Final Redemption	Unless previously redeemed, converted or repurchased and cancelled in the circumstances referred to in “Terms and Conditions of the Bonds,” the Bonds will be redeemed at their principal amount in U.S. Dollars on January 23, 2008. See “Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation”.

Redemption at the Option of the Company	The Company may, having given not less than 40 nor more than 60 days' notice to the Bondholders, call all, or part only, of the Bonds on or at any time after January 23, 2004 at their principal amount in the event that the Closing Price (as defined herein) of the Shares on the TSE in U.S. Dollars, calculated at the prevailing exchange rate, for each of the 20 Trading Days in a 30 consecutive Trading-Days period, the last of which occurs not more than five days prior to the date upon which notice of such redemption is published, is at least 130% of the Conversion Price in effect on each such Trading Day translated into U.S. Dollars at the Fixed Exchange Rate of NT\$34.467 = U.S.\$1.00. The Company may at any time, having given notice, redeem the outstanding Bonds in whole, but not in part, at their principal amount in the event that (i) at least 90% of the Bonds have been previously redeemed, repurchased, cancelled or converted, or (ii) in the event of changes in ROC taxation which will result in additional costs to the Company. See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at the Option of the Company".
Redemption at the Option of Bondholders	Until and unless previously redeemed, converted or repurchased and cancelled, the Company will, at the Bondholder's option, redeem all or part of the Bondholder's Bonds on January 23, 2006 at the principal amount. See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at the Option of Bondholders".
Form and Registration of the Bonds	The Bonds will be issued in registered form, without coupons, in denominations of U.S.\$10,000 and integral multiples thereof. The Bonds will initially be represented by a permanent global certificate (the " Global Certificate ") deposited with The Bank of New York, as common depositary for, and registered in the name of a nominee for, Euroclear Bank S.A./N.V as operator of the Euroclear System (" Euroclear ") and Clearstream Banking, <i>société anonyme</i> (" Clearstream, Luxembourg "). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates for Bonds will not be issued in exchange for beneficial interests in the Global Certificate. See "The Form of the Bonds — Registration of Title".
Governing Law	The laws of the State of New York.
Trustee	The Bank of New York.
Listing	Application has been made to list the Bonds on the Luxembourg Stock Exchange. The Shares are listed on the TSE and application will be made for the Shares issuable upon conversion of the Bonds to be listed on the TSE.
Use of Proceeds	The Company will use the net proceeds to restructure its indebtedness, including repayment of short- and long-term debts.

Summary Financial Data

The following table presents summary financial data for the Company. The summary consolidated financial data for the years ended December 31, 1999, 2000 and 2001 presented in this table are derived from the Company's audited consolidated financial statements and notes thereto that are included elsewhere in this Offering Circular. The summary non-consolidated financial data for the nine months ended September 30, 2001 and 2002 have been derived from the Company's reviewed non-consolidated financial statements and notes thereto that are included elsewhere in this Offering Circular. The summary income statement data for the years ended December 31, 1997 and 1998 and the summary balance sheet data as of December 31, 1997 and 1998, set forth below are derived from the Company's audited financial statement not included in this Offering Circular. The Company's financial statements were prepared using accounting principles, procedures and reporting practices generally accepted in the ROC and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions, including the U.S. and U.K. ROC GAAP differs in many material respects from U.S. GAAP. For a discussion of these differences, see "Summary of Significant Differences Between ROC GAAP and U.S. GAAP" included elsewhere in this Offering Circular. The summary financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's financial statements and the notes to those statements included elsewhere in this Offering Circular.

Audited, consolidated ⁽¹⁾ year ended December 31,						Reviewed, non-consolidated nine months ended September 30,		
1997	1998	1999	2000	2001	2001	2001	2002	2002
NT\$	NT\$	NT\$	NT\$	NT\$	U.S.\$ ⁽¹⁾	NT\$	NT\$	U.S.\$ ⁽²⁾
(in thousands)								

Statement of Income Data: ROC GAAP

Net sales	8,914,130	8,312,517	9,744,856	15,834,654	11,975,812	342,166	7,773,314	9,501,017	271,768
Cost of goods sold	7,475,410	7,592,652	8,746,053	14,219,424	13,475,030	385,001	8,826,430	10,383,641	297,015
Gross profit . . .	1,438,720	719,865	998,803	1,615,230	(1,499,218)	(42,835)	(1,053,116)	(882,624)	(25,247)
Total operating expenses . . .	610,663	732,006	1,224,580	1,625,046	1,476,472	42,185	851,337	775,309	22,177
Operating income	828,057	(12,141)	(225,777)	(9,816)	(2,975,690)	(85,020)	(1,904,453)	(1,657,933)	(47,424)
Net non-operating income	49,284	410,238	593,301	(697,274)	(267,674)	(7,648)	(117,976)	(757,577)	(21,670)
Income tax expenses . . .	75,456	273,025	678,992	809,348	(11,083)	(316)	150,999	64,457	1,844
Extraordinary gain	—	68,286	—	—	—	—	—	—	—
Minority Interest	17	6	26	1,575	64,410	1,840	—	—	—
Net income (loss)	952,814	739,414	1,046,542	103,833	(3,190,037)	(91,144)	(1,871,430)	(2,351,053)	(67,250)
EBITDA⁽³⁾	1,764,902	1,807,154	2,085,689	2,027,103	891,347	25,467	599,830	353,805	10,120

- (1) Translated into United States Dollars using the exchange rate published by International Commercial Bank of China at December 31, 2001 of NT\$35.0 = U.S.\$1.00.
- (2) Translated into United States Dollars using the exchange rate published by International Commercial Bank of China at September 30, 2002 of NT\$34.96 = U.S.\$1.00.
- (3) EBITDA refers to earnings before interest, income tax, depreciation and amortization. EBITDA should not be construed as an alternative to operating income or any other measure of performance or as an indicator of the Company's operating performance, liquidity or cash flows generated by operating, investing and financing activities. The items of net income excluded from EBITDA are significant components in understanding and assessing the Company's financial performance, and the Company's computation of EBITDA may not be comparable with other similarly titled measures of other companies. The Company has included the information concerning EBITDA because the Company believes it is a useful supplement to cash flow data as a measure of the Company's performance.

	Audited, Consolidated As of December 31,						Reviewed, Non-consolidated As of September 30,		
	1997	1998	1999	2000	2001	2001	2001	2002	2002
	NT\$	NT\$	NT\$	NT\$	NT\$	U.S.\$ ⁽¹⁾	NT\$	NT\$	U.S.\$ ⁽²⁾
(in thousands, except per share data)									
Balance Sheet Data:									
ROC GAAP									
Cash and cash equivalents . . .	216,271	706,954	3,758,073	1,118,508	714,406	20,411	939,548	154,754	4,427
Working capital . .	793,862	685,188	3,338,996	(2,308,958)	(4,126,072)	(117,888)	(2,392,342)	(5,769,258)	(165,024)
Property, plant and equipment .	6,486,420	9,280,007	12,789,299	22,285,464	21,447,350	612,781	19,077,248	16,829,831	481,402
Total assets	11,486,444	15,188,853	24,432,222	33,954,505	30,948,013	884,229	30,093,210	27,545,068	787,902
Total liabilities . .	3,664,736	6,466,359	11,307,804	19,775,493	18,104,380	517,268	15,998,450	17,113,784	489,525
Stockholders' equity	7,821,708	8,722,494	13,124,398	14,179,012	12,843,633	366,961	14,094,760	10,431,284	298,377
Per Share Data									
Earnings per share									
— income before minority interest ⁽³⁾ . . .	1.47	1.05	1.08	0.09	(2.98)	(0.09)	(1.73)	(2.24)	(0.06)
Earnings per share — net income ⁽⁴⁾ . . .	1.47	1.05	1.08	0.09	(2.98)	(0.09)	(1.73)	(2.24)	(0.06)

(1) Translated into United States Dollars using the exchange rate published by International Commercial Bank of China at December 31, 2001 of NT\$35.0 = U.S.\$1.00.

(2) Translated into United States Dollars using the exchange rate published by International Commercial Bank of China at September 30, 2002 of NT\$34.96 = U.S.\$1.00.

(3) Earnings per Common Share are calculated by dividing net income by the weighted average number of shares outstanding during each year after adjusting retroactively for the effect of stock dividends and employees' bonuses.

(4) Earnings per Common Share are calculated by dividing net income by the weighted average number of shares outstanding during each year after adjusting retroactively for the effect of stock dividends.

RISK FACTORS

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

This Offering Circular contains forward-looking statements made as of the date of this Offering Circular regarding the expected performance of the Company that involve risks and uncertainties. The actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by the Company described below and elsewhere in this Offering Circular.

Risks Related to The Company's Business

The Company experienced operating and net losses in 2001

The markets for semiconductor assembly products and EMS and related services are highly competitive. Rapid technological changes may lead to the entry of additional competitors. Pricing has been very aggressive at all levels of competition and pressure on margins has been persistent and intense. The Company experienced operating and net losses in 2001, primarily because that its investment in equipment, which started depreciation after acquisition, did not generate expected utilization rate, due to general downturn in the semiconductor industry commencing in the second quarter of 2001. Both the volume and the average unit prices of sales for 2001 were affected. In addition, due to negative market conditions, the Company's customers increasingly requested concessions on pricing, which was the primary cause of a 34.5% decrease in sales returns and allowances from NT\$106.1 million in 2000 to NT\$69.5 million (U.S.\$2.0 million) in 2001. There is no assurance that the Company will regain the levels of profitability that it has achieved in the past or that losses will not occur in the current period or future periods.

The Company may be in default in repayment of principal and payment of interests under certain credit facilities and may be in breach of certain financial covenants under such credit facilities

As of December 20, 2002, the Company had entered into three long-term credit facilities with syndicated banks led by ABN AMRO Bank (Taiwan), Industrial Bank of Taiwan and Chinatrust Commercial Bank. The Company is obligated to repay principal semi-annually or quarterly under these credit facilities. For information relating to the repayment schedule for these credit facilities, see "Management's Discussion and Analysis of Financial Condition and Results of Operation — Liquidity and Capital Resources".

These credit facilities contain certain undertakings and covenants relating to, among other things, the maintenance of certain financial ratios, as is usual in borrowing agreements of this nature. See "Management's Discussion and Analysis of Financial Condition and Results of Operation — Liquidity and Capital Resources". The Company was in breach of certain such undertakings and restrictive covenants including the current ratio, owner's equity ratio and interest coverage ratio for the period ended on December 31, 2002. However, the Company has entered into agreements with these three syndicates for them to waive for such breaches as of December 31, 2002 and to defer 50% of the principal payments due on November 29, 2002 and December 9, 2002, respectively, to February 28, 2003.

The Company plans to use the proceeds received from this Offering and a rights issue, which is expected to be completed by the end of January 2003 to finance its repayment and payment obligations in February 2003. However, there can be no assurance that the Company may fulfill its future payment obligations at the time when such payments fall due or the syndicated banks will further extend the Company's future payment obligations before they fall due.

Also, there is no assurance that the Company will fully comply with the financial covenants during the terms of these credit facilities or can successfully obtain waivers to the financial covenants from the banks in the future.

If the Company is unable to fulfill its future payment obligations under the credit facilities on a timely basis and comply with the financial covenants under the credit facilities, the Company will be in default with respect to the relevant long-term credit facilities, which may trigger cross default in other long- and short-term borrowings, as well as the Bonds. The occurrence of any of these events will seriously harm the Company's liquidity, business and financial conditions.

The Company has experienced problems due to lack of adequate liquidity, and may continue to experience such problems if the Offering or any planned funding activities are not complete successfully

Due to the decrease in the Company's sales, and the increase in costs, expenses and depreciation, in 2001, the Company has encountered problems of limited liquidity during the third quarter of 2001 and the first quarter of 2002. Historically, the Company has been able to finance its capital expenditures through the issuance of equity, long-term borrowings and issuance of convertible bonds. The Company's ability to expand will continue to be largely dependent on its ability to source external funding. Since 2001, the Company has taken several steps to deal with this situation, including:

- ▶ Issuance of preferred shares in 2001 to generate NT\$1,725,000,000;
- ▶ obtaining consent from its banks to waive the financial ratio covenants made by the Company in syndicated credit facility agreements, which avoids immediate repayment of the relevant indebtedness;
- ▶ restructuring unmatured syndicated credit facility by entering into an NT\$1,550 million loan agreement with Chinatrust Commercial Bank and other 9 banks and repay NT\$200 million to Central Trust of China;
- ▶ dispose of short- and long-term investment of NT\$246.2 million, including @Road and Vanguard International Semiconductor, which generated NT\$434.5 million cash flow;
- ▶ dispose of idled assets in the amount of NT\$1.5 million; and
- ▶ conducting a 150,000,000 Shares rights issue to be implemented by the end of January 2003.

Although the Company believes, based on current levels of cash flow from operations, that it is able to make required payments of interest and meet its other costs and expenses as they fall due, if revenues decline there can be no assurance that the Company may be able to make such payments as they fall due.

Approximately NT\$1,819.8 million and NT\$525.2 million of the net proceeds of the Bonds will be applied toward the repayment of long- and short-term debt, respectively. The Company has obtained the approval from the ROC Securities and Futures Commission for issuance of 150,000,000 new common shares for cash which is expected to generate NT\$750,000,000 by the end of January 2003 to repay the Company's bank loans. The Company believes that, after giving effect to the issue and sale of the Bonds and issuance of 150,000,000 new Shares for cash, it will have sufficient liquidity to fund its operations through the end of 2003.

The Company expects that it will be necessary in the future to raise funds through the issue of equity securities, debt securities and bank loans to finance its operations and capital expenditures. There is no assurance that the Company will be able to raise such funds on terms that are acceptable to the Company, or at all.

The Company expects to incur significant capital expenditures in the future in connection with its growth plans and therefore may require additional financing

To grow its business, the Company may in the future increase assembly and testing and electronics manufacturing capacities. This will require substantial capital expenditures for facility expansion and renovation and additional equipment purchases. The Company cannot assure you that its sales will increase after incurring these expenditures, which potentially could reduce its profitability. The Company may need

to obtain additional debt or equity financing to fund its capital expenditures. Additional equity or equity-linked financing may result in dilution to the holders of the Bonds as well as the Shares. Additional debt financing, if obtained, will cause increase in the Company interest expenses and may:

- ▶ limit the Company's ability to pay dividends or require it to seek consents for the payment of dividends;
- ▶ increase the Company's vulnerability to general adverse economic and industry conditions;
- ▶ limit the Company's ability to pursue its growth plan;
- ▶ require the Company to dedicate a substantial portion of its cash flow from operations to payments on the debt, thereby reducing the availability of its cash flow to fund capital expenditures, working capital and other general corporate purposes; and
- ▶ limit the flexibility in planning for, or reacting to, changes in its business and its industry.

There can be no assurance that the Company will be able to obtain additional financing on terms that are acceptable to the Company or at all.

Even if the Company obtains sufficient funding for its planned capital expenditures, the Company may experience delays in facility renovation projects and the purchase, delivery and installation of the additional equipment, which may cause delay in the implementation of the Company's growth plans. In addition, the significant planned capital expenditures will result in substantial increases in the Company's depreciation and amortization expenses, which may reduce the Company's profitability.

The cyclical nature and periodic over-capacity of the semiconductor industry make the semiconductor assembly business of the Company particularly vulnerable to economic downturns

The semiconductor assembly and testing business of the Company is affected by market conditions in the semiconductor industry, which is highly cyclical. At various times, the semiconductor industry has been subject to significant economic downturns characterized by reduced product demand, rapid erosion of average selling prices and periodic production over-capacity. Cyclical industry downturns in the past have often been unforeseen and severe. For example, in the most recent semiconductor industry downturn in 2001, the average selling prices of assembly and test services decreased due to excess worldwide capacity relative to demand and resulted in intense competition among independent semiconductor assembly and test service providers. The Company's operating results for 2001 and for the three quarters of 2002 were seriously harmed by this downturn in the semiconductor market. If the Company cannot offset declines in selling prices in times of cyclical downturns by reducing the costs of delivering those services, increasing the number of units assembled, or shifting the focus to higher margin assembly, test and electronics manufacturing services ("EMS"), the Company's results of operations and financial condition could be seriously harmed. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

The electronics manufacturing services industry is characterized by variations in demand and prices as well as short product cycles which could adversely affect the Company's business

The Company's EMS business is vulnerable to variations in the pattern of customer orders due to significant customer and industry concentration. The markets for EMS products are characterized by short product cycles due to frequent new product introductions resulted from rapid technology change and evolving industry standards and by steep decreases in price during the advanced stages of a product's life cycle. To reduce manufacturing costs and to satisfy customer requirements, the Company is required to continue to introduce new manufacturing processes, improve manufacturing efficiency and expand manufacturing capacity in a timely manner. There can be no assurance that the Company will continue to receive orders from its existing customers, be able to deliver commercial quantities of new products in a timely manner or continue to increase or maintain its profitability.

The Company may not be able to compete successfully in its markets

The independent semiconductor assembly and testing markets are highly competitive. The Company faces substantial competition from established assembly and test services providers, many of which possess substantially greater manufacturing capacity, financial resources and other capabilities. Such companies have also established relationships with many large semiconductor companies that are current or potential customers of the Company. Some of these competitors have announced plans to significantly expand their production capacity. It is impossible to accurately predict the impact of the expansion of the Company's competitors on the results of operations of the Company. On a larger scale, the Company also competes with in-house semiconductor assembly and test capabilities of many of its customers.

Furthermore, the EMS market has become more competitive as semiconductor companies and original equipment manufacturers ("OEMs") increasingly outsource parts of the electronics production process to independent EMS companies. The Company competes against numerous domestic and foreign EMS providers. Some of the competitors of the Company have substantially greater manufacturing, financial and marketing resources. The Company also faces potential competition from the manufacturing operations of its current and potential customers, who are continually evaluating the merits of manufacturing products internally relative to the advantages of outsourcing. The Company's business and profitability will suffer if it is unable to compete successfully with these companies.

The operating results of the Company fluctuate from quarter to quarter, which makes predicting future performance of the Company difficult

Many factors may contribute to significant variability in the quarterly results of operations of the Company, many of which are beyond its control. These factors include, among others:

- ▶ the seasonality of the semiconductor and EMS industries;
- ▶ the timing and volume of orders relative to the Company's capacity;
- ▶ changes in the Company's product mix;
- ▶ the timing of expenditures in anticipation of future orders;
- ▶ possible disruptions caused by the installation of new equipment;
- ▶ any currency and interest rate fluctuations that may not be adequately hedged;
- ▶ effectiveness in managing production processes;
- ▶ the fast-paced changes in demand from the key customers of the Company;
- ▶ the short term nature of the Company's customer commitments; and
- ▶ changes in costs and availability of labor, raw materials and components.

As a result, the investors of the Bonds should not rely on quarter to quarter comparisons to predict the Company's future performance. Unfavorable changes in the above or other factors have in the past adversely affected and may in the future adversely affect the results of operations on a quarterly or annual basis. In 2001, the Company's financial performance was negatively affected by a decrease in demand for the assembly and test services of the Company as a result of an overall downturn in the semiconductor industry. In addition, the Company's operating results may be below the expectations of public market analysts and investors in some future periods. In this event, the price of the Bonds and the Shares of the Company may fall.

Since the Company relies on the computer and communications industries, an industry downturn and downward pricing pressure on computer and communications products could have a material adverse effect on the Company's business

During 2001, 74.0% of the Company's total semiconductor assembly and testing net sales were derived from customers who utilized its products in personal computers, computer peripherals and telecommunications equipment and related applications. Any significant decrease in the demand for computers, computer peripherals or communications equipment may decrease the demand for the Company's services and could adversely affect the results of operation. In addition, the declining average selling prices of these products place significant pressure on the prices of the components used. These factors may reduce the Company's revenue and therefore significantly reduce its gross profit margin.

Any decrease in the Company's capacity utilization rates could decrease its profitability

As a result of the capital intensive nature of the Company's business, its operations are characterized by high fixed costs. As such, its ability to maintain or increase the profitability will continue to be dependent, in large part, upon the ability to maintain high capacity utilization rates. Capacity utilization rates may be affected by a number of factors and circumstances, including:

- ▶ market conditions;
- ▶ installation of new equipment in anticipation of future business;
- ▶ operating efficiencies;
- ▶ mechanical failure;
- ▶ disruption of operations due to expansion of operations, introduction of new packages; or
- ▶ relocation of equipment.

There can be no assurance that the capacity utilization rates of the Company will not be materially adversely affected by future declines in the demand for semiconductors or other factors. Any inability on maintenance or increase capacity utilization rates could result in decreases in revenues or increases in unit expenses that could seriously harm the results of operations and financial condition of the Company.

The Company faces challenges in managing its expansion as it integrates new facilities and operations in Taiwan and abroad

The Company has experienced, and may continue to experience, growth in the scope and complexity of its facilities and operations and in the number of the employees. In September 1999, the Company's Philippine subsidiary, Orient Semiconductors Electronics Philippines, Inc. ("**OSE Philippines**") commenced operations and the Company acquired a majority interest in a semiconductor assembly company, OSE USA, Inc. ("**OSE USA**"), formerly named as Integrated Packaging Assembly Corporation, in the United States. The Company also established Sparqtron Corp. in March 1999 for its quick-turn and high-end EMS business in the United States. In the third quarter of 2001, the Company moved its EMS operations and part of the semiconductor assembly operations to its new facilities in Kaohsiung, Taiwan. Currently, the Company is constructing a new test facilities in Nantze Economic Processing Zone in Kaohsiung, Taiwan. This growth has stretched the Company's managerial, financial, manufacturing and other resources.

There can be no assurance that the Company will not experience problems in starting production at new facilities, or in upgrading or expanding existing facilities, including cost overruns and shortages of capital equipment, materials or labor. There is no assurance that the Company will successfully hire and properly train a sufficient number of qualified management and technical personnel to effectively manage its growth. If the Company fails to properly manage growth or integrate new factories and employees into its operations, its financial performance could be materially adversely affected.

A small group of key customers and a lack of backlog make forecasting the Company revenues difficult

The largest customer of the Company's Semiconductor Group accounted for approximately 23.4% of the semiconductor sales in 2001, and aggregate sales to its top three semiconductor assembly customers accounted for approximately 39.4% of the semiconductor sales in 2001. The largest customer of the Company's Finished Products Group accounted for approximately 50.1% of the Finished Products Group's sales in 2001, and aggregate sales to the top three Finished Products Group customers accounted for approximately 77.2% of the Finished Products Group's sales in 2001. For the Company's business as a whole, the top five customers accounted for 54.3% and 48.39% of its net sales in 2001 and the first nine months of 2002, respectively. The Company's ability to maintain close, and satisfactory relationships with these customers is important to the ongoing success and profitability of the Company's business. Although in the past the Company has added new customers to offset losses of or decreased orders from existing customers and it does not resist to increase the customer base, the Company expects that it will continue to depend upon a relatively small number of customers for a substantial portion of its revenues for the foreseeable future.

Most of the Company's customers are presently not obligated to purchase its services for any period. The Company expects that in the future, its revenue in any quarter will continue to be substantially dependent on orders placed within that quarter. This lack of significant backlog common to the industry makes it difficult to forecast the Company's revenue for any future period. In addition, the Company's relatively concentrated customer base means that any loss of any particular large customer could have a significant effect on its financial results. There can be no assurance that its existing customers will continue to place orders with the Company in the future at the same levels as in prior periods. There is no assurance that the Company will continue to increase its customer base. Future losses of one or more of the major customers, or reduced orders by any key customers, could adversely affect the results of operations of the Company.

The Company's business may suffer if the cost or supply of materials and components adversely changes

The Company's production depends upon its ability to obtain adequate supplies of raw materials and components on a timely basis. The Company obtains most of its raw materials, including the critical materials, such as leadframes and laminate substrates from a limited group of suppliers. Additionally, about 85% of the EMS net sales are turnkey manufacturing services, which the Company principally provides materials procurement in addition to contract manufacturing services. The Company purchases most of its materials on a purchase order basis and generally do not have long-term contracts with any of its suppliers, except when it believes there may be shortages.

Certain suppliers have in the past delayed delivery of materials, limited supply to the Company or increased prices due to capacity constraints or other factors. In some cases, supply shortages will substantially curtail production of all assemblies using a particular component. In the past, industry-wide shortages of electronic components, particularly of memory and logic devices, have produced significant levels of short-term interruption of the Company's operations, and future occurrences may cause a material adverse effect on the results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operation — Comparisons of Results of Operations". The results of operations would be adversely affected if the Company were unable to obtain materials and other supplies from vendors in acceptable quality, in a timely manner, in sufficient quantities and at competitive prices or if there is a loss of business with the Company's suppliers as a whole.

While some of the Company's significant or long-term customer contracts permit quarterly or other periodic adjustments to pricing based on decreases and increases in component prices and other factors, the Company typically bears the risk of component price increases that occur between any such repricings or, if such repricing is not permitted, during the balance of the term of the particular customer contract. Many of the Company's customers are not responsible for any unused raw materials or components that result from a forecast exceeding actual orders. Accordingly, component price increases could adversely affect the Company's gross profit margins, and the Company may incur losses purchasing raw materials that eventually are not used.

The Company may be unable to obtain assembly or test equipment when the Company requires it

The semiconductor assembly and test business requires capital investment in expensive equipment manufactured by a limited number of suppliers that are principally located in the United States, Europe and Japan. The market for capital equipment used in semiconductor assembly and test services is characterized, from time to time, by intense demand, limited supply, price increases and long delivery cycles. The Company's operations and expansion plans are highly dependent upon the timely supply of wire bonders and testers. The Company generally has no binding supply agreements with any of the equipment suppliers and acquire equipment on a purchase order basis, which exposes the Company to substantial risks. For example, the Company has experienced lead time of over ten months for certain types of testers it purchased. The Company has executed purchase order to increase its inventory of testers from 124 as of September 30, 2000 to 128 by September 30, 2002. The Company also has executed purchase order to increase its inventory of wire bonders from 1,500 as of September 30, 2000 to 1,557 wire bonders by September 30, 2002. If the Company is unable to obtain such equipment in a timely manner, it may be unable to fulfill the customers' orders which could harm the relationships with the customers and reduce the Company's profitability. In addition, adverse fluctuations in foreign exchange rates could result in increased prices for certain equipment purchases, which could have a material adverse effect on the business operations of the Company.

The assembly and testing processes are complex and prone to error, which may reduce the Company's production yields, damage its customer relationships and reduce the profitability

Semiconductor assembly and test processes are complex and involve the maintenance of a controlled environment, sophisticated equipment and high levels of precision. For example, the assembly and test operations take place in a clean room environment where air purity, temperature and humidity are controlled to ensure proper functioning of the Company's equipment. Both assembly and test processes are prone to human error and equipment malfunction. Defects may result from, among others, the following:

- ▶ contaminants in the manufacturing environment, including problems in the clean room environment;
- ▶ errors in testing software;
- ▶ defective raw materials; or
- ▶ defective plating services.

These factors have periodically contributed to lower production yields and may continue to do so, particularly as the Company expands its capacity and offering of packages.

Failure to maintain high standards or acceptable production yields, if significant and prolonged, could result in a loss of customers and increased operating costs, which would have a material adverse effect on the business, financial condition and results of operations of the Company.

If the Company cannot retain key personnel, its business will suffer

As is common in the semiconductor and EMS industries, the Company's success largely depends upon several factors, including the continued service of its key senior executives and other highly qualified personnel. The competition for qualified employees is intense within the industry. The Company does not maintain insurance with respect to the loss of any of its key personnel. The loss of the services of any key personnel without adequate replacement or an inability to attract new qualified personnel could have a material adverse effect on the operations of the Company.

The Duh family has significant control and may have interests that conflict with the interest of the other shareholders or Bondholders of the Company

Dr. Eugene C.Y. Duh, the Company's founder and a member of the board of directors of the Company, and his immediate family, or the Duh family, beneficially owned or controlled approximately 24.7% of the Company's common stock as of July 31, 2002. Mrs. Mei-Shou Yang (Mary S. Duh), the wife of Dr. Eugene C.Y. Duh, is the chairman of the Company's board of directors. In addition, Edward S. Duh, son of

Dr. Duh and Mrs. Duh, currently serves as the General Manager of Company and is also a member of the board of directors of the Company. As a result, the Duh family, acting together, has significant influence over matters including election of the board of directors, matters submitted for approval by the shareholders and board of directors and the general management of the Company's business. The interest of the Duh family may be different from the Company's other shareholders or Bondholders. The Duh family may influence certain decisions, such as preventing or delaying change of control, even if such decisions may not be in the best interest of the other shareholders of the Company.

The Company's business will suffer if it cannot keep up with technological advances in the industry

The semiconductor assembly and test industry and, to a lesser extent, EMS industry are experiencing rapid changes. The Company's success depends upon its ability to develop and implement new manufacturing process and package design technologies, which could be delayed due to the associated significant research and development and capital expenditure requirements.

Technological advances also typically lead to rapid and significant price erosion and may make the existing products of the Company less competitive or obsolete. If the Company cannot develop advanced package designs or obtain access to advanced package designs or manufacturing process technologies developed by others, it could lose customers or opportunities to benefit from the higher average selling prices of these products utilizing newer technologies.

Inability to obtain, preserve and defend intellectual property rights may harm the Company's business

The Company's ability to compete successfully and achieve growth will depend, in part, on its ability to protect the proprietary technology and the proprietary technology entrusted to the Company by its customers and to obtain critical technology from third parties on commercially reasonable terms. The Company currently holds 48 patents in a number of countries, including the United States, Japan, Germany, France, Korea, the PRC and Taiwan. The Company also has numerous pending patent applications. The Company expects to continue to file patent applications when appropriate to protect the proprietary technologies. However, there can be no guarantee that the Company will receive patents from pending or future applications. The Company also seeks to protect proprietary information and know-how from third parties through the use of confidentiality and non-disclosure agreements.

In addition, any patents obtained by the Company may be challenged, invalidated or circumvented and may not provide meaningful protection or other commercial advantage to it. The laws of some of the countries in which the products manufactured by the Company are marketed are uncertain or do not protect its intellectual proprietary rights to the same extent as in the United States. Legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in some countries in which the Company operates its business or market its products are uncertain and still evolving. There can be no assurance that other steps taken by the Company to protect its trade secrets and other proprietary rights, such as relying on confidentiality and non-disclosure agreements, will be adequate. There is also no assurance that the Company's competitors will not develop, acquire or gain access to similar know-how and technology, or reverse engineer the assembly services of the Company. Finally, while the Company may seek licenses from or enter into agreements with third parties covering any intellectual property that it needs to operate its business, there can be no guarantee that it will be able to obtain these licenses on acceptable terms, if at all. If the Company is unable to protect its intellectual property rights or obtain certain licenses covering the intellectual property required to operate its business, it could reduce the profitability and affect its ability to succeed in the business of the Company.

Disputes over intellectual property rights could be costly and deprive the Company of the technology to stay competitive

The Company may need to enforce its patents or other intellectual property rights or defend itself against alleged infringement of the rights of others through litigation and other dispute resolution mechanisms, which could result in substantial cost and diversion of the Company's resources. If the Company faces claims and litigation relating to patent infringement or other intellectual property matters, its business could suffer.

Ability to compete successfully also depends, in large part, on the ability to operate without infringing the proprietary rights of others. The Company may not be aware of the intellectual property rights of others or familiar with the laws governing those rights in other countries in which its products are or may be sold. As the number of patents, copyrights and other intellectual property rights in the Company's industry increases, the Company and other companies in its industry will face more frequent intellectual property infringement claims. The Company has, in the past, received notices from competitors or other third parties alleging that processes used in manufacturing its products or providing its services infringe on the intellectual property rights of third parties. Although there are no material pending or threatened intellectual property lawsuits against the Company, it may face litigation or patent infringement claims in the future. If any third party makes a valid claim against the Company, it could be required to:

- ▶ discontinue the use of certain processes,
- ▶ cease the manufacture, use, import and sale of infringing products,
- ▶ pay substantial damages,
- ▶ acquire licenses to the technology the Company had allegedly infringed, or
- ▶ seek to develop, if feasible, alternative non-infringing technologies.

The Company's business, financial condition and results of operations could be materially and adversely affected by any of these developments.

A fire, earthquake or other natural calamity at any of the facilities of the Company could adversely affect its business

The Company conducts its semiconductor assembly and test and EMS operations at a limited number of facilities. A fire, earthquake or other natural calamity resulting in significant damage at any of these facilities would have a material adverse effect on the Company's business, financial conditions and results of operations. None of the Company's operations were materially affected by the recent major Taiwan earthquakes which occurred on September 21, 1999, June 11, 2000 and March 30, 2002 or the major Philippine earthquake which occurred on July 16, 2000. The Company maintains insurance policies covering losses to its buildings, machinery and equipment and business interruption, including losses due to fire and earthquake. While the Company considers its insurance coverage to be consistent with industry practice, there can be no guarantee that it will be sufficient to cover all of the Company's potential losses. Any losses beyond the losses covered by the insurance policies could strain the Company's financial resources and may adversely affect its financial condition.

The Company's business could be materially adversely affected by the political and economic risks associated with doing business in the Philippines

The Company's wholly-owned Philippine subsidiary, OSE Philippines, started mass production for the Semiconductor Group in June 1999 and the Company intends to expand its semiconductor assembly operations in the Philippines in the future. Doing business in the Philippines involves political and economic risks. The political situation and the general state of the economy in the Philippines have historically been subject to significant instability. Most recently, a string of recent explosions in Manila, Philippines and other parts of the country have been blamed on Muslim rebels who are under attack by the military in the southern Philippines. Additionally, the devaluation of the Philippine peso relative to the U.S. Dollar beginning in July 1997 led to economic instability in the Philippines and negative GDP growth since 1998. There can be no assurance that the Philippines will not be subject to increased political or economic difficulties in the future or that Philippine economic indicators will improve from current levels. The Company believes that any future devaluations of the Philippine peso will eventually lead to inflation in the Philippines, which could affect the cost of the Company's semiconductor products assembled in the Philippine plant. Any future economic or political disruptions or instability in the Philippines could have a material adverse effect on the business of the Company.

Risks Relating to the Offering

The Letter of Credit does not support any obligation of the Company under the Bonds except for the payment of the principal in respect of the Bonds

Chinatrust Commercial Bank, Ltd. (the “**LOC Issuing Bank**”) has committed to issue an irrevocable standby letter of credit (the “**Letter of Credit**”) to the Trustee under the Guarantee Agreement dated January 20, 2003, for the benefit of the Bondholders. The Letter of Credit authorizes the Trustee to draw on the LOC Issuing Bank, on demand, an amount not exceeding the stated amount of the Letter of Credit, U.S.\$70 million. The Letter of the Credit will be issued on the Closing Date in favor of the Trustee for the benefit of the Bondholders. The Letter of Credit is intended to provide a source of funds for payment of the principal upon the Company’s failure to pay such amounts on the due date or upon the Bonds being declared due and payable on the occurrence of an Event of Default pursuant to the Terms and Conditions of the Bonds as the case may be.

The amount under the Letter of Credit is drawable by the Trustee on behalf of the Bondholders, upon the presentation of, *inter alia*, a certificate from the Trustee to the effect that (i) an acceleration of the bonds pursuant to any Event of Default described in the Terms and Conditions of the Bonds, or (ii) the Company has failed to pay the principal amount on the due date in respect of the Bonds being redeemed pursuant to the Terms and Conditions of the Bonds. However, as the stated amount of the Letter of Credit covers only the principal of the Bonds, the Letter of Credit does not cover the Additional Amount as defined in Condition 9(B) or support any other obligations of the Company under the Bonds, including the obligation in connection with the conversion. For further information please refer to the section headed “The Letter of Credit.”

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

The Bonds are convertible into Shares at the option of the converting holders 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, in particular, during the following periods:

- ▶ the period from the eighth Taiwan calendar day after the annual general meeting determining the annual dividend and bonus distribution to the relevant record date, and
- ▶ the period from the 15th Taiwan Trading Day (as defined herein) before the closure of the Company’s shareholders’ register for the Company’s rights issue where the shareholders are entitled to subscribe new shares to the relevant record date.

Under current ROC law, regulations and policy, PRC persons are not permitted to convert the Bonds or to register as shareholders of the Company.

Holders of the Bonds who wish to exercise their conversion right will be required to specify an account number of Taiwan Securities Central Depository Co., Ltd. (“**TSCD**”) in the conversion notice. Delivery of the Shares into which the Bonds may be converted will only be made through the book entry system maintained by TSCD. No physical share certificates will be delivered to the converting holder (or its designee) upon conversion. Thus, if the bondholder requests conversion of the Bonds into Shares, the converting holder shall specify the book entry account number of TSCD maintained by such holder (or its designee) in the conversion notice. The Conversion Agent (as defined herein) will deem any conversion notice which does not include an account number of TSCD incomplete or incorrect and will reject such conversion notice.

Under the current ROC laws and regulations, the converting holder (or its designee) may use such TSCD book entry account to receive any shares issued by any ROC company into which the overseas convertible bonds issued by such company may be converted. If the converting holder (or its designee) does not have such TSCD book entry account, the conversion notice executed by such holder will not be valid and will be rejected. Accordingly, such holder (or its designee) shall obtain an approval from TSE and opens a TSCD account prior to execution and delivery of the Conversion Notice. The Company will deliver the Shares through the book entry system maintained by the TSCD within five Trading Days after such TSCD account being opened.

Transfers of the Bonds and Shares are restricted

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

An active trading market for the Bonds may not develop

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

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

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

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

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

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

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

In addition, under current ROC law, non-ROC holders of the Bonds who exercise their conversion rights to receive Shares (“**converting bondholders**”) will be required to appoint a local agent in Taiwan to, among other things, open a securities trading account with a local securities brokerage firm and a bank account, remit funds, exercise shareholders’ rights, make confirmation and settle the trades, safekeep securities and cash proceeds and make reporting and declaration of information. Without appointing local agent, obtaining an approval from TSE for such appointment and opening a trading account, converting bondholders will not be able to hold, sell or otherwise transfer Shares.

Risks Relating to the ROC

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

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

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

The profitability of the Company may suffer if the hiring policies and employment terms are restricted by the ROC labor regulations or other conditions of the Taiwan labor market

Currently, the Company employs approximately 900 skilled workers from the Philippines at its Kaohsiung plant, or 17.7% of the total number of its employees in Taiwan. The ROC labor policy imposes a 30% limit on the ratio of foreign workers to the reasonable domestic workers approved by the ROC government that any company may hire to work in Taiwan. As the Company continue to expand, it will need additional skilled labor, which is in short supply in Taiwan. Such suspension may force the Company to seek skilled workers from other countries in order to comply with the ROC labor regulations, in which case it may incur higher costs for administration, training and other related matters.

The Company may be required by the ROC laws to announce financial projection in certain years and may not be able to meet such projection or may have to adjust the financial projection, both of which will affect the price of the Shares

From time to time, the Company may be required to announce financial projection in accordance with the ROC laws. However, the Company's actual operating results may not meet the announced financial results or that the Company may have to adjust the projections because it foresees that it will not meet the originally announced financial projections. If any of the foregoing events occurs, the price of the Company's Share may be materially adversely affected.

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

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

In particular, the Company paid employee bonuses of 10% of the distributable after-tax profits (after setting aside any gains on disposal of properties as capital surplus, the legal reserve and special reserve and payment of interest on Preferred Stock), in the form of Shares or cash or combination of the two. The Company issued an aggregate of 5,281,500 Shares and 6,882,500 Shares in the years 1999 and 2000 to its employees, respectively. In such case, the number of Shares distributed is obtained by dividing the total nominal NT Dollar amount of the bonus by the par value of the Shares rather than their market value, which has generally been substantially higher than par value. Under ROC GAAP, the distribution of employee bonus shares is treated as an allocation from retained earnings when the distribution of employees bonuses is approved by the shareholders and the relevant regulatory authorities, and the Company is not required to,

and does not, charge the value of the employee bonus shares to income. Under U.S. GAAP, however, the Company would be required to initially accrue the bonus as compensation costs when services are rendered. When bonuses are approved by shareholders in the subsequent year, an additional compensation cost would be recorded for the difference between the par value and the fair market value/intrinsic value of the shares granted to employees. Correspondingly, the Company's net income and income per share, if they had been calculated in accordance with U.S. GAAP, would be reduced. This difference in treatment between ROC GAAP and U.S. GAAP would be material. The Company has not quantified or identified the impact of the differences between ROC GAAP and U.S. GAAP. Potential investors should consult their own professional advisors for an understanding of such differences and how they might affect the financial information contained herein.

In addition, because the Shares issued under the employee share bonus scheme are issued at par value, which usually may be less than market value, such issuances may have a dilutive effect on existing shareholders. The Conversion Price of the Bonds will be adjusted to reflect the dilutive effect of employee stock bonus only to the extent of the excess of the market value of the Shares over their par value at NT\$10.

ROC corporate disclosure standards may not be comparable to those of other countries

The Company's corporate affairs are governed by its Articles of Incorporation and by the ROC laws and regulations. There may be less publicly available information on ROC public companies, such as the Company, than is regularly made available by public companies in other countries, including the United States. Such less public information could result in less than satisfactory disclosure by the Company to investors in certain countries.

USE OF PROCEEDS

The net proceeds from the offering will be approximately U.S.\$68,626,000. The Company will use the net proceeds to restructure its indebtedness, including repayment of short- and long-term debts.

MARKET PRICE INFORMATION

The Shares have been quoted and traded on the TSE since April 1994. The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the TSE for the Shares (adjusted for the effects of rights issues, employee bonus issues and stock dividends) and the high and low of the daily closing values of the TSE Index.

	Closing price per Share		Average daily trading volume (in thousands of Shares)	TSE index	
	High	Low		High	Low
	(NT\$)				
1998					
First Quarter	98.00	49.00	23,647	8,526.20	6,820.35
Second Quarter	100.50	34.30	16,605	9,024.48	7,952.12
Third Quarter	41.60	27.30	12,342	10,116.84	8,708.83
Fourth Quarter	39.80	27.10	14,430	8,695.02	7,089.56
1999					
First Quarter	43.70	29.20	14,447	7,043.23	5,474.79
Second Quarter	67.50	34.90	21,147	8,608.91	7,018.68
Third Quarter	54.50	35.20	21,664	8,593.35	6,823.52
Fourth Quarter	53.50	42.80	22,682	8,448.84	7,362.69
2000					
First Quarter	58.50	41.00	19,462	10,202.20	8,536.05
Second Quarter	63.50	46.80	16,063	10,186.17	8,120.89
Third Quarter	53.00	20.00	9,955	8,585.52	6,185.14
Fourth Quarter	20.20	7.25	10,714	6,353.67	4,614.63
2001					
First Quarter	15.90	9.45	15,130	6,104.24	4,894.79
Second Quarter	17.70	10.00	15,069	5,608.50	4,768.55
Third Quarter	9.30	5.75	6,727	4,886.86	3,493.78
Fourth Quarter	12.90	5.35	12,964	5,551.24	3,446.26
2002					
January	13.20	10.65	23,033	6,007.33	5,488.33
February	10.95	9.55	7,154	5,968.61	5,499.79
March	14.25	10.20	35,504	6,242.64	5,680.78
April	17.00	12.60	36,501	6,462.30	6,059.21
May	15.90	12.85	14,639	5,910.69	5,443.18
June	13.70	9.70	7,525	5,599.42	5,071.76
July	10.80	9.10	7,603	5,416.50	4,855.34
August	10.00	8.65	4,765	4,968.85	4,572.35
September	8.70	5.80	6,067	4,668.01	4,185.95
October	6.15	4.5	6,775	4,601.37	3,850.04
November	7.10	5.8	5,986	4,813.53	4,500.55
December	6.95	5.35	3,362	4,823.67	4,452.45

Source: Taiwan Stock Exchange Statistical Data 1999–2002, TSE

On January 17, 2003, the reported closing price of the Shares was NT\$6.50 per Share and the TSE Index closed at 4907.78.

DIVIDENDS AND DIVIDEND POLICY

In accordance with ROC market practice, the Company has not historically paid cash dividends on common stock, but rather has capitalized a portion of the earnings and capital reserves each year in the form of a stock dividend. The following table sets forth the aggregate number of outstanding Shares entitled to dividends, as well as the stock dividends paid during each of the years indicated. The stock dividends per Share represent dividends paid in the fiscal year for the Shares outstanding on the record date applicable to the payment of these dividends.

<u>Year</u>	<u>Stock Dividends Per Share⁽¹⁾ (NT\$)</u>	<u>Total Shares Issued as Stock Dividends</u>	<u>Outstanding Shares on Record Date⁽²⁾</u>
1995	2.50	32,935,750	164,678,750
1996	3.00	60,000,000	261,324,996
1997	3.80	102,960,503	407,986,692
1998	3.75	159,355,995	586,867,085
1999	2.00	117,373,418	810,532,407
2000	1.95	159,659,471	993,142,807
2001	1.00	98,239,781	1,091,382,588

Notes:

- (1) Holders of Shares receive as a stock dividend the number of Shares equal to the NT Dollar value per Share of the dividend declared multiplied by the number of Shares owned and divided by the par value of NT\$10 per share. Fractional Shares are not issued but are paid in cash.
- (2) The number denotes the aggregate number of shares of common stock outstanding on the record date falling during the specified period for the dividend paid in respect of the prior period.

The Company may distribute dividends in any year in which the Company has earnings. The ROC Company Law requires that 10% of annual earnings (less prior year losses and any gains on the disposal of properties) be set aside as a legal reserve until the accumulated legal reserve equals our total paid-in capital. Under the Company's articles of incorporation, the Company may distribute earnings to shareholders after having set aside the following items in the order they are listed:

- ▶ payment of all taxes;
- ▶ deduction of any past losses;
- ▶ deduction of any after-tax gains on disposal of properties as capital surplus;
- ▶ allocation of 10% as a legal reserve;
- ▶ allocation or re-transfer of a special reserve in accordance with government orders and regulations of the Company's supervising authority; and
- ▶ allocation to the holders of Preferred Stock as annual dividends calculated at interest rate 5.6% per annum.

When the Company makes an earnings distribution, it is made in the following manner:

- ▶ allocation of 1% to the Company's directors and supervisors as remuneration;
- ▶ allocation of 10% to the Company's employees as special bonus; and
- ▶ the balance after retaining a portion of the remaining earnings as bonus and dividend, together with the previously undistributed retained earnings, to the shareholders.

The articles of incorporation were amended on June 19, 2002 to provide that cash dividends should consist of not less than 10% and not more than 50% of the distributed shareholder dividends. See "Description of the Shares".

EXCHANGE RATES

Fluctuations in the exchange rate between NT Dollars and U.S. Dollars will affect the U.S. Dollar equivalent of the NT Dollar price of the Shares on the TSE and, as a result, may affect the market price of the Bonds.

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

<u>Year ended December 31,</u>	<u>At period-end</u>
1997	32.80
1998	23.27
1999	31.39
2000	32.90
2001	35.00
2002	
January	34.97
February	35.12
March	35.00
April	34.72
May	34.07
June	33.56
July	33.83
August	34.19
September	34.96
October	34.77
November	34.83
December	34.77

Source: International Commercial Bank of China

On January 17, 2003, the closing rate between the NT Dollar and the U.S. Dollar was NT\$34.467 = U.S.\$1.00.

CAPITALIZATION

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

	As at December 31, 2001			
	Actual		As adjusted	
	NT\$'000	U.S.\$'000 ⁽¹⁾	NT\$'000	U.S.\$'000 ⁽¹⁾
Short-term debt:				
(including current portion of long-term debt)	8,814,879	251,854	8,269,454	236,270
Long-term debt	8,834,155	252,404	9,359,396	267,411
The Bonds now being issued.	—	—	2,450,000	70,000
Shareholders' equity:				
Common stock	10,913,826	311,824	10,913,826	311,824
Preferred stock	1,500,000	42,857	1,500,000	42,857
Treasury stock	(96,931)	(2,769)	(96,931)	(2,769)
Capital reserve	2,731,300	78,037	2,731,300	78,037
Unappropriated earnings.	(3,025,895)	(86,454)	(3,025,895)	(86,454)
Legal reserve	520,886	14,882	520,886	14,882
Special reserve	6,964	199	6,964	199
Cumulative translation adjustment	293,483	8,385	293,483	8,385
Total shareholders' equity	12,843,633	366,961	12,843,633	366,961
Total consolidated capitalization	21,677,788	619,365	22,203,029	634,372

(1) New Taiwan Dollar amounts have been translated into U.S. Dollars (and the principal amount of the Bonds, being U.S.\$70,000,000, has been translated into New Taiwan Dollars) using the exchange rate published by International Commercial Bank of China at December 31, 2001 of NT\$35.00 = U.S.\$1.00 solely for the convenience of the reader.

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

	As at September 30, 2002			
	Actual		As adjusted	
	NT\$'000	U.S.\$'000 ⁽¹⁾	NT\$'000	U.S.\$'000 ⁽¹⁾
Short-term debt:				
(including current portion of long-term debt)	10,160,817	290,641	9,612,916	274,969
Long-term debt	6,293,111	180,009	5,294,080	151,432
The Bonds now being issued.	—	—	2,447,200	70,000
Shareholders' equity:				
Common stock	10,913,826	312,180	10,913,826	312,180
Preferred stock	1,500,000	42,906	1,500,000	42,906
Treasury stock	(96,931)	(2,773)	(96,931)	(2,773)
Capital reserve	2,667,465	76,302	2,667,465	76,302
Unappropriated earnings.	(4,838,903)	(138,413)	(4,838,903)	(138,413)
Legal reserve	—	—	—	—
Special reserve	—	—	—	—
Cumulative translation adjustment	285,827	8,176	285,827	8,176
Total shareholders' equity	10,431,284	298,378	10,431,284	298,378
Total consolidated capitalization	16,724,395	478,387	15,725,364	449,810

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- (1) New Taiwan Dollar amounts have been translated into U.S. Dollars (and the principal amount of the Bonds, being U.S.\$70,000,000, has been translated into New Taiwan Dollars) using the average of buying and selling exchange rates published by International Commercial Bank of China at September 30, 2002 of NT\$34.96 = U.S.\$1.00 solely for the convenience of the reader.

Except as set forth above, there has been no material change in non-consolidated long-term debt and common stock of OSE since September 30, 2002.

BUSINESS

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

Overview

The Company is a leading manufacturing services provider offering a complete range of semiconductor assembly and test services, as well as integrated electronic manufacturing services (“**EMS**”), to original equipment manufacturers (“**OEMs**”) and original design manufacturers (“**ODMs**”). The Company’s Semiconductor Group provides assembly and test services for semiconductors used in a broad range of applications such as personal computers and computer networking, communications, graphic and audio-video applications, industrial products and consumer electronics. The Company’s Finished Products Group provides EMS to customers in a wide range of industries, including communications, computer systems and peripherals and industrial products. The Company is uniquely positioned to benefit from increases in outsourcing of manufacturing services due to the technological leadership and manufacturing capabilities gained from each of its businesses.

The Company is the third largest independent semiconductor assembly and test company in Taiwan in terms of net sales in 2001. The Company focuses on the assembly of advanced leadframe and ball grid array (“**BGA**”) packages, as well as testing services for logic, mixed signal and memory devices. The Company’s current semiconductor assembly customers include many of Taiwan’s semiconductor fabrication plants and integrated circuits (“**IC**”) design houses, including Macronix International Co. Ltd. (“**MXIC**”), Silicon Integrated Systems Corp. (“**SiS**”), and Winbond Electronics Corp. (“**Winbond**”), as well as some of the world’s leading semiconductor companies, including Dialog Semiconductor Plc (“**Dialog**”) and Ericsson Microelectronics AB (“**Ericsson**”) in Europe and Analog Devices, Inc. (“**Analog**”), ATI Technologies Inc. (“**ATI**”), Cypress Semiconductor Corp. (“**Cypress**”), Pericom Semiconductor Corp. (“**Pericom**”), Kendin Communications Inc. (“**Kendin**”) and Texas Instruments Inc. (“**TI**”) in North America.

According to independent market researches conducted by *Technology Forecaster, Inc.* and *Manufacturing Market Insider*, a leading EMS trade magazine, the Company is one of the largest EMS providers in Taiwan. The Company provides integrated EMS and supply chain support activities, such as design support, materials procurement, manufacturing, product distribution and upgrades, to original equipment manufacturers and brand name electronics companies on both a turnkey and consignment basis. The Company’s principal EMS products include motherboards for server and TFT-LCD display controlling modules for computer systems and home appliances, wireless communication devices, including wireless local area network (“**WLAN**”), Bluetooth and global positioning system (“**GPS**”) modules, broadband network devices and other products that integrate the Company’s technologies in IC packaging and manufacturing sectors. The Company’s primary EMS customers include companies that have experienced rapid growth such as At Road, Inc. (“**@Road**”), ActionTec Electronics Inc. (“**ActionTec**”), Chi-Mei Optoelectronics Corp. (“**Chi-Mei**”), Ericsson, Fujitsu Corp. (“**Fujitsu**”), HannStar Display Corp. (“**HannStar**”), Sharp Corp. (“**Sharp**”), and Tyan Computer Corporation (“**Tyan**”).

The Company is the only major company in Taiwan providing semiconductor assembly and test services as well as EMS. This enables the Company to offer integrated manufacturing services and solutions to customers who require highly customized products and services. To achieve this, the Company leverages its expertise in advanced semiconductor assembly technologies, such as flip chip packaging, multi-chip modules and stacked-die packaging, to manufacture unique electronics products for its customers that require increasingly smaller packages with greater functionality. For example, the Company has implemented mass production of Bluetooth modules and high density memory modules that draw upon the resources of both of its business groups.

The Company’s principal operations are located in Kaohsiung City, the largest city in southern Taiwan. The Company also provides semiconductor assembly and testing services at the facilities of its wholly-owned Philippine subsidiary, Orient Semiconductor Electronics Philippines, Inc. (“**OSE**”).

Philippines”), located in Calamba Laguna, and at the facilities of one of its United States subsidiaries, OSE USA Inc. (“**OSE USA**”), located in San Jose, California. In addition, the Company provides EMS at the facilities of its other United States subsidiary, Sparqtron Corp., located in Fremont, California.

Although the Company experienced operating and net losses in 2001, the net revenues of the Company grew at a compound annual growth rate of 7.7% from NT\$8,914.1 million in 1997 to NT\$10,681.8 million (U.S.\$342.2 million) in 2001. The Company’s net revenues in 2001 decreased by 24.4% from NT\$15,834.6 million in 2000 due to the general downturn in the semiconductor and EMS industry commencing in the second quarter of 2001. The Company’s earnings before interest, income tax, depreciation and amortization were NT\$2,027.1 million and NT\$891.3 million (U.S.\$25.5 million) in 2000 and 2001, respectively, compared to NT\$2,085.7 million in 1999.

Competitive Strengths

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

Established technological leadership

The Company believes that it is a leader in the development of advanced products and manufacturing processes for both semiconductor assembly and test solutions and EMS. The Company designs and develop state-of-the-art assembly solutions, including high pin-count BGA packages, fine-pitch BGA, flip chip BGA, chip-scale packages (“**CSP**”), single-chip and multi-chip modules and stacked-die packages. The Company also develops advanced solutions such as multi-chip modules, TFT-LCD display controlling modules, Bluetooth modules, radio frequency (“**R/F**”) modules, and high density memory modules for its EMS customers. The Company has approximately 250 engineers and technical personnel. By having one of the largest research and development teams in the semiconductor assembly and test industry, the Company focuses on developing complex and high-performance product solutions.

Demonstrated capabilities in providing turnkey services

The Company offers a comprehensive range of manufacturing and supply chain services, which enables it to provide turnkey solutions to its customers. The Company is capable of fulfilling customers’ requirements from design to distribution, including design support, materials procurement and management, prototype and volume production, and distribution support services. The Company believes its ability to provide integrated turnkey services will be increasingly important to its customers as they face shorter product life cycles and growing time-to-market pressures for their products.

Established high growth customer base

The Company has over 100 customers worldwide, many of which are fast-growing companies in the communications, computer and consumer electronics industries. Major customers for the semiconductor assembly and test services include Analog Devices, ATI, Dialog, Ericsson, Macronix, SiS, and Winbond. The Company’s major EMS customers include @Road, ActionTec, Chi-Mei Optoelectronics, Ericsson, and Tyan.

Integrated management information systems

The Company has successfully implemented the SAP R/3, an enterprise resource planning (“**ERP**”) system and integrated it with the Company’s advanced manufacturing execution system (“**MES**”). The Company’s ERP and MES integration gives it improved control over and access to information concerning all aspects of its operations from order to delivery. The Company’s management is able to use these systems to control costs, improve production efficiency and evaluate employee performance. Moreover, with the real time information collected by the ERP and MES systems, the Company’s management is able to implement timely and informed marketing, strategy, manufacturing plans and material procurement plans.

The management information system is extremely valuable in oversight of process controls, real-time job tracking, assisting control of engineering changes and capacity planning. The Company believes its customers will increasingly demand advanced manufacturing information solutions to help them managing the outsourcing process. With the information collected from the ERP and MES systems, the Company will

lunch an online tracking system which will enable the Company's customers to track the status of the work in progress for their products. This integrated system will significantly enhance the Company's customers' ability to communicate with it, and thereby provide a significant competitive advantage. For example, some of the Company's customers in the semiconductor industry can access the e-design tools provided by the Company to view the packaged ICs in a practical manner.

The Company also uses the data provided by its key performance index ("KPI") internally to accurately calculate unit costs, inventory, deliver goods on time and assure the quality reliability of goods. The Company's management evaluates and reviews key performance and operational data automatically retrieved from the production line periodically and makes changes to processes as necessary. The Company believes the KPI provides it with a competitive advantage through its high level of automation and integration in support of its business processes.

Experienced management, research and development and marketing teams

The Company's executive management has extensive experience in the semiconductor and contract manufacturing industries. A large number of the Company's senior managers have considerable international experience with leading global semiconductor and electronics OEM companies. Key members of the Company's research and development and marketing teams have established track records in developing new designs, penetrating new markets, improving efficiency and delivering revenue and profit growth. The Company believes it has the leadership it needs to continue to leverage its core strengths in the future.

Strategy

The Company believes the outsourcing trend in the semiconductor and electronics industries will continue to grow and that electronics products will continue to demonstrate increasing levels of specialization and customization. The Company's objective is to capitalize on these trends and to pursue leading positions in both the semiconductor assembly and test and EMS industries. The principal elements of the Company's business strategy include the following:

Focus on maximizing production utilization

The semiconductor industry and the electronics manufacturing services industry have been experiencing market downturns since 2001. It is not clear when the market will fully recover. In response to the market downturns, the Company plans not to implement growth plans that will require significant capital expenditures. Instead, the Company will focus on maximizing production utilization of its existing production facilities. The Company plans to reinforce its marketing efforts to develop new customers and to increase sales to existing customers, concentrate on research and development to develop new products in fast growing market segments, and improve its technologies, production processes, and management and upgrade its equipment to improve its production utilization.

Focus on the development of high value-added products and services and advanced manufacturing processes

The Company has committed to developing high value-added products and services and advanced manufacturing processes in order to maintain its technological leadership and meet the emerging needs of customers. The Company is currently designing and developing the next-generation of packages and services for its customers including higher ball count and high density BGA devices, multi-chip modules and stacked-dies, as well as chip-scale, flip chip and wafer-level packaging. The Company will continue to focus on research and development efforts designed to increase synergies between the manufacturing processes of the Company's two business groups so that it may provide unique technological advantages to the customers.

Focus on customers in high growth market segments

The Company plans to shift its focus to customers in fast growing market segments. For EMS business, the Company has identified broadband network devices, TFT-LCD display controlling modules, and wireless communication devices as its target products. In addition, the Company will focus on provision

of assembly and test services to IC chipsets, graphic chipsets, networking devices and consumer electronic ICs. As the Company plans to focus on becoming the key supplier to the primary players in these markets, the Company believes it will be able to benefit from the rapid growth of these markets.

Focus on providing premium services to selected key customers

The Company will focus on providing quality and timely IC backend manufacturing services and electronics manufacturing services to a number of selected customers who have solid business relationships with the Company and are either primary players in their respective markets or control key technologies to have the potentials to become market leaders. In addition, the Company will focus its marketing efforts on those customers that are market leaders or have potentials to become market leaders in their respective industries. The Company believes that by focusing on providing premium services to a relatively smaller number of selected customers, it will therefore be able to (i) better utilize its resources to meet the quality, quantity and timeliness requirements of these selected customers, (ii) further solidify its relationships with these selected customers, and (iii) leverage its advanced technologies and solid customer relationships to secure the position as key supplier to the targeted customers.

Capitalize on the synergies between semiconductor assembly and test services and EMS

The Company plans to provide a broader range of products and high value-added services to its customers by capitalizing on the increasing operational and technological synergies between its semiconductor assembly and test and EMS operations. The Company will continue to engage in joint research and development efforts for projects involving both operations. In addition, the Company will increasingly cross market its semiconductor assembly and test services and EMS capabilities to existing and potential customers whose products require high levels of process integration and customization.

Further improve services by providing real time information and E-design

The Company plans to launch its online tracking system with which its customers can track the status of work in progress for their products in the Company's Kaohsiung facilities on a real time basis, with updated information available online every two hours. The Company believes that it will be one of the few semiconductor assembly and test and EMS companies that provide this service. In addition, the Company plans to launch an online E-design system that will automatically generate semiconductor assembly designs and enable the Company's customers to view the designs online. The E-design system will be supported by a software developed by the Company. The E-design system is expected to make the initial design stage for the Company's assembly services substantially easier and faster. With the online tracking system and E-design, the Company believes that it will be able to further improve the reliability, quality and timeliness of its services and enhance its relationships with its customers.

Industry Background

The semiconductor assembly and test industries experienced significant downturns recently. However, semiconductor assembly and test industry has grown since early 2002 with the development of new semiconductor applications and increased specialization and continuously outsourcing of different steps in the semiconductor production process. The EMS industry has experienced rapid growth as original equipment manufacturers and brand name electronics companies increasingly adopt an outsourcing strategy.

Semiconductor assembly and test industry

Semiconductors are critical components used in an increasingly wide variety of applications, including computer systems, communications equipment and systems, automobiles, consumer products and industrial automation and control systems. As performance has increased and size and cost have decreased, the use of semiconductors in these applications has grown significantly. According to a report by *World Semiconductor Trade Services* in 2001, worldwide semiconductor device market revenue will grow from U.S.\$149.0 billion in 1999 to U.S.\$239.0 billion in 2003, a compound annual growth of 12.5%, driven by increased sales of communication semiconductors used in applications including computer modems, networks, cellular phones and Internet and electronic commerce hardware and appliances.

The semiconductor manufacturing process. In the manufacturing process, semiconductor designs are physically embedded into round silicon wafers. Each wafer is then sliced into a number of semiconductor dies, which in turn are individually packaged into completed semiconductor devices and tested. A semiconductor package is a plastic or ceramic container that protects and insulates the enclosed semiconductor so that it can be attached to a printed circuit board. Leads on a leadframe or substrate are then connected by extremely fine gold wires to the input/output terminals on the chips, through the use of automated machines known as wire bonders, and encapsulated in molding compound. Semiconductor packages are an integral part of the basic functionality of semiconductor devices and contribute to their overall performance.

After a semiconductor has been packaged, the semiconductor device undergoes final test to ensure performance, functionality and reliability. Independent providers of semiconductor manufacturing services generally specialize in either wafer fabrication or packaging and test of individual devices.

Increasing demand for outsourced semiconductor manufacturing services. Facing increasing design complexity, shorter time-to-market requirements, and shorter product life cycles, semiconductor companies are increasingly focusing their resources on their core competencies of product design, marketing and sales. This has led to a growing demand for outsourced semiconductor manufacturing services. Today, most major semiconductor companies, including those with their own manufacturing facilities, use independent packaging and test service providers for at least a portion of their manufacturing needs. According to a *Electronics Trend Publications* report in 2002, total packaging service revenues for the semiconductor industry in 2001 were approximately U.S.\$13.7 billion of which revenues from independent test companies were U.S.\$5.2 billion, or 37.5% of total test revenues. According to the same report, independent packaging revenues are expected to grow at a compound annual growth rate of 13.4% from U.S.\$5.2 billion in 2001 to U.S.\$9.7 billion in 2006. Principal factors contributing to this outsourcing trend are:

- ▶ Significant capital expenditures are required for semiconductor test facilities

Backend semiconductor manufacturing services have evolved into increasingly complex processes that require substantial investment in specialized equipment and facilities. As a result, equipment must be utilized at a high capacity level in order to be cost effective. However, it has become increasingly difficult for semiconductor companies to sustain high levels of capacity utilization due to ever-shorter product life cycles and the need to continuously update or replace test equipment to accommodate new products. Independent providers of test services, on the other hand, can use their existing equipment at high utilization levels over a longer period of time by providing a broad range of services for a variety of customers.

Moreover, according to a report by *Industrial Technology Information Service* in 2001, the cost of a state-of-the-art wafer fabrication facility will grow from approximately U.S.\$200.0 million in 1983 to U.S.\$4.0 billion in 2002. As the cost to build wafer fabrication facilities has dramatically increased, semiconductor companies with their own manufacturing facilities have been forced to concentrate their capital resources on core wafer manufacturing activities. As a result, semiconductor companies are increasingly using independent test providers who are able to invest capital to develop new test technologies and expand their capacity.

- ▶ Time-to-market pressures are increasing for semiconductor companies

Consumers of electronic products are increasingly demanding more sophisticated devices and rapid access to the latest technologies. As a result, product life cycles are shortening which means manufacturers that are first to market can earn significant rewards. In response, semiconductor companies are increasingly seeking to shorten their time-to-market for new products. Having the right backend process technology and capacity in place is a critical factor in reducing time-to-market. Semiconductor companies frequently do not have the equipment or expertise to implement new backend process solutions or sufficient time to develop these capabilities before introducing a new product into the market. For this reason, semiconductor companies are increasingly utilizing the resources and capabilities of independent providers of test and other backend semiconductor manufacturing services in order to deliver their new products to market more quickly.

- Sophisticated expertise and technological innovation are necessary

Semiconductor companies are facing ever-increasing demands for miniaturization, higher lead counts for more connections and improved thermal and electrical performance from semiconductor device packaging. As a result, the backend semiconductor manufacturing processes increasingly require sophisticated expertise and technological innovation. Moreover, the numerous test options required to support the proliferation of new semiconductor technologies make it extremely difficult for semiconductor companies to invest their time and resources in research and development in backend semiconductor manufacturing technology and capacity. By specializing, independent providers of backend semiconductor manufacturing services have developed substantial expertise in backend semiconductor manufacturing technologies. Semiconductor suppliers, who find it difficult to keep pace using their internal resources, increasingly rely on independent service providers as a key source for new technology development and innovation in the backend semiconductor manufacturing process.

As a result of these factors, outsourcing of semiconductor manufacturing services continues to grow. Integrated device manufacturers with their own manufacturing capabilities continue to outsource an increasing amount of their manufacturing needs. Moreover, fabless IC design companies have proliferated in recent years due to the rapid growth of computing, communications and the Internet. Fabless IC design companies outsource every step of the manufacturing process, including all backend semiconductor manufacturing processes, so that they can focus on their core competence of designing and marketing advanced semiconductor products. According to a report by Industry Technology Information Service in 2001, revenues of fabless IC design companies in Taiwan grew from U.S.\$8.6 billion in 1992 to U.S.\$115.2 billion in 2000, a compound annual growth rate of 38.3%.

Electronics manufacturing services industry

Electronics manufacturing services companies provide manufacturing services to technology and industrial original equipment manufacturers, as well as brand name electronics companies. EMS companies provide services to manufacturers in a variety of industries, including communications products, personal computers and computer peripherals, consumer electronics, medical electronics and automotive and industrial products. EMS companies assemble products according to customer specifications for many different applications and generally do not manufacture their own branded products.

In recent years, the EMS industry has experienced rapid growth as customers have increasingly outsourced portions of their manufacturing processes to EMS companies in response to competitive pressures, such as compression of product life cycles, global competition, uncertain quantity requirements and increasingly complex technologies. Brand-name electronics companies outsource significant portions of their manufacturing processes. Utilizing services provided by EMS companies allows EMS customers to:

- reduce manufacturing costs;
- capitalize on economies of scale in component sourcing;
- gain ready access to manufacturing process technologies they do not possess; and
- accelerate product time-to-market.

The success of EMS companies largely depends on the employment of efficient component sourcing, timely investment in automated manufacturing equipment and application of sophisticated management systems to improve logistics and production efficiency. Their success also depends on ability to maintain a high level of production capacity utilization, despite varying market demands and cycles for finished products for different end markets.

Independent market research conducted by Technology Forecasters, Inc. indicates that the global market for EMS reached approximately U.S.\$78.0 billion in 1999, of which North America, Western Europe, and Japan accounted for approximately 78.1%. Technology Forecasters projected that the global EMS revenue will approach approximately U.S.\$13.3 billion in 2002, representing a compounded annual growth rate of approximately 22%.

Taiwan's leading role in semiconductor manufacturing and EMS industries

Assisted initially by Taiwan government subsidy programs and tax incentives and spurred by the recent outsourcing trend by fabless design system and integrated device manufacturers (“**IDMs**”), Taiwan has emerged as a leader in the global semiconductor manufacturing industry. Taiwan has a concentration of companies that specialize in various segments of the semiconductor production process, such as design, fabrication, assembly and testing. The significant growth of the semiconductor industry in Taiwan is expected to continue. According to Dataquest, semiconductor production in Taiwan is expected to grow from U.S.\$5.3 billion in 1999 to U.S.\$16.0 billion in 2003, representing a compound annual growth rate of approximately 32.0%. Furthermore, original equipment manufacturers and brand name electronics companies from around the world, especially those that produce telecommunications and computer products, have increasingly outsourced production to EMS companies located in Taiwan to benefit from the abundant network of suppliers in all segments of the electronics manufacturing industry, competitive labor costs, skilled work force and access to local customers.

History and Organization of the Company

The Company was founded on June 12, 1971, and its original product line focused on the integrated circuits packaging and test services for major fabless IC design companies, integrated device manufacturers and semiconductor foundries. In March 1990, the Company established the Finished Products Group to provide electronics manufacture services. The Company currently operates two major product groups, the Semiconductor Group and the Finished Product Group, which provides full range of electronic manufacturing services to customers globally.

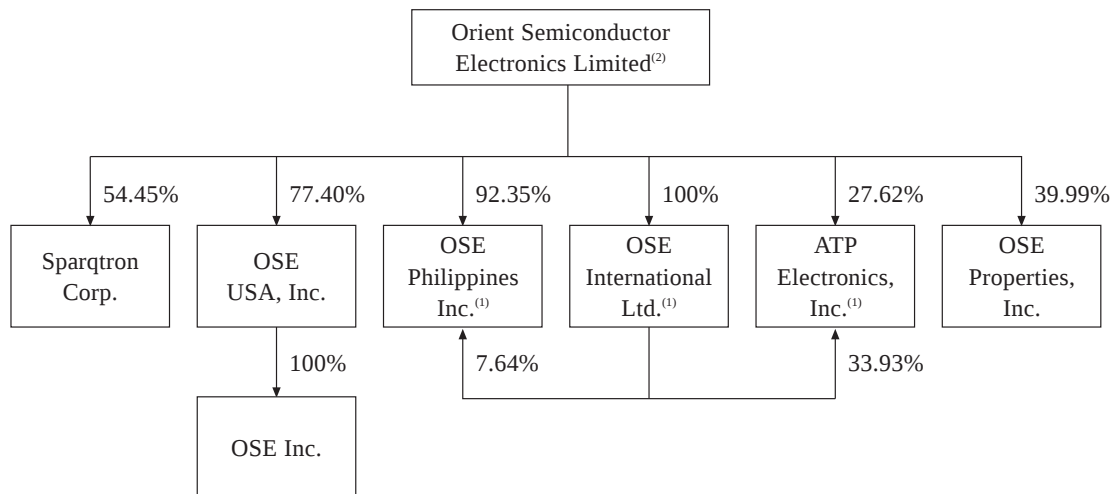
The Company's common shares (“**Shares**”) have been listed on the Taiwan Stock Exchange (“**TSE**”) since April 20, 1994.

In 1992, the Company's Semiconductor Group obtained ISO9002 accreditation for its manufacturing facilities in Taiwan. In 1993, the Semiconductor Group introduced quad flat packages (“**QFP**”) technology for integrated circuits for drivers. In 1997, the Semiconductor Group further successfully introduced BGA packaging technology for mass production, which was treated as a revolutionary packaging solution in comparison with traditional leadframe packages. In 1998, the Semiconductor Group obtained ISO14001 accreditation due to its effort on developing environmental friendly manufacturing processes and QS9000 certification. The Semiconductor Group started its overseas operation in 1999 by establishing OSE Philippines in the Philippines and acquiring OSE USA in the United States, which is formerly named as IPAC.

In 1993, 1998 and 2002, the Finished Product Group was accredited ISO9002, ISO14001 and TL9000 certifications, respectively. As part of its efforts to focus on advanced packaging technology, the Finished Products Group was appointed by Intel Corp. to provide Tape Carrier Package (“**TCP**”) services for PentiumTM central processing units in 1994. In 1998, the Finished Product Group was granted the EMS Excellent Award from Circuits Assembly and Technology Forecasters, Inc. as an excellent EMS provider for its reliability and rapid response to the customers' needs. The Company was further granted the EMS Excellent Award in 2000 for its manufacturing quality. In 1999, the Company established Sparqtron Corp. in California, U.S.A. as a manufacturing center in North America. Circuits Assembly and Technology Forecasters, Inc. granted the EMS Excellent Award to the Company and Sparqtron Corp. in 2001 for best manufacturing quality, rapidest response and on-time delivery and to Sparqtron Corp. alone for the best price and service value.

The Company's Semiconductor Group and Finished Product Group moved into their new corporate headquarters and main manufacturing plant in Nantze Economic Processing Zone in Kaohsiung City, Taiwan, where the Company commenced IC packaging and test as well as manufacturing finished products, in 2000.

The following diagram shows the structure of the Company and its principal subsidiaries, as of September 30, 2002, together with details of the Company's direct and indirect equity interests in such subsidiaries. See " — Principal Subsidiaries".



(1) The financial statements of these companies have been consolidated with those of the Company in the Consolidated Financial Statements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Basis of Presentation" and Note 2 to Consolidated Financial Statements for a discussion of principles of consolidation.

(2) There have been no material changes in the Company's direct and indirect equity interests in each of its principal subsidiaries since September 30, 2002.

The Company's corporate headquarters and principal place of business are located at No. 9, Central 3rd Street, N.E.P.Z., Kaohsiung City, Taiwan, R.O.C. The Company's telephone number and website are (886) 7-361-3131 and www.ose.com.tw, respectively. The information contained in the Company's website does not form part of this Offering Circular.

Semiconductor Group

The Company currently provides semiconductor assembly and test services through its Semiconductor Group at the primary manufacturing facilities in Kaohsiung, Taiwan and at manufacturing facilities in Calamba Laguna, Philippines and San Jose, California, U.S.A. As the third largest independent semiconductor assembly and test company in Taiwan, the Company offers a full range of assembly solutions and testing services for a broad spectrum of electronics applications. The Company's semiconductor packages are divided into two broad categories: leaded packaging and BGA packaging. In both leaded and BGA package categories, the Company focuses on high value-added packages, such as quad flat packages and thin small outline packages in the leaded packaging category and higher ball count and fine-pitch semiconductor devices in the BGA packaging category.

The following table sets out the breakdown of net sales attributable to the Company's semiconductor assembly and test business by product category for the periods indicated:

	Semiconductor assembly and test net sales									
	Year ended December 31,					Nine months ended September 30,				
	1999		2000		2001		2001 ⁽¹⁾		2002 ⁽¹⁾	
	(NT\$ thousands, except percentages)									
		%		%		%		%		%
Leaded packaging										
SOP	2,257,446	33.5	4,195,822	39.3	1,973,796	32.1	1,272,730	31.1	1,674,461	31.6
QFP	1,025,490	15.2	1,294,532	12.1	355,570	5.8	262,393	6.4	524,103	9.9
PDIP and PLCC	603,800	8.9	630,535	5.9	419,283	6.8	182,958	4.5	118,876	2.2
BGA packaging	1,987,794	29.5	3,122,318	29.2	2,657,951	43.2	1,853,996	45.4	2,380,032	44.9
Test services	847,180	12.6	1,394,898	13.1	709,673	11.5	490,905	12.0	574,851	10.9
Other ⁽²⁾	22,297	0.3	37,538	0.4	38,355	0.6	24,087	0.6	24,829	0.5
Total	<u>6,744,007</u>	<u>100.0%</u>	<u>10,675,643</u>	<u>100.0%</u>	<u>6,154,628</u>	<u>100.0%</u>	<u>4,087,069</u>	<u>100.0%</u>	<u>5,297,152</u>	<u>100.0%</u>

(1) Presents non-consolidated figures.

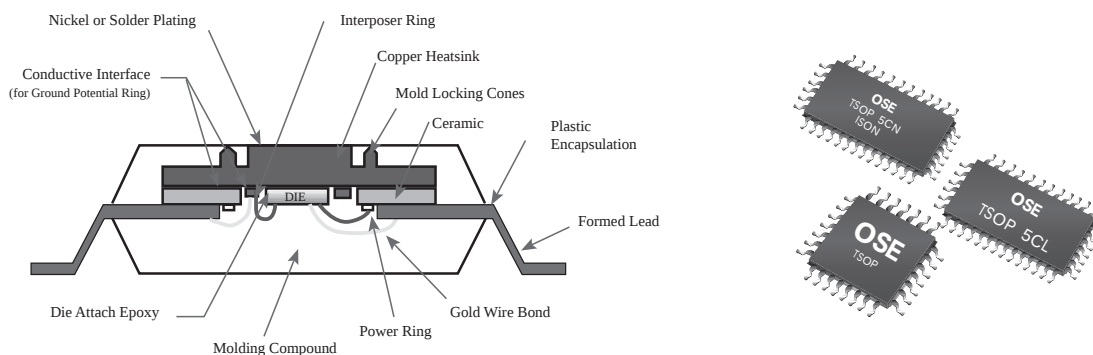
(2) Includes sales of raw materials.

Leaded packaging

Traditional leaded packages are the most widely used package family and have a semiconductor die encapsulated in a plastic mold compound with metal leads surrounding the perimeter of the package. The semiconductor die is connected to the metal leads by extremely fine gold wires in a process known as wire-bonding. The Company focuses on higher pin count traditional leadframe packages. The Company offers a wide range of lead, pin counts or body sizes to satisfy variations in the customers' semiconductor devices.

The advanced leadframe packages are similar in design to the Company's traditional leadframe packages. However, the advanced leadframe packages generally are thinner and smaller, have more leads and have advanced thermal and electrical characteristics necessary for many of the leading-edge semiconductor devices designed for communications applications. These advanced characteristics maximize the performance of high frequency semiconductor chips used in sophisticated end-products. To keep pace with continually shrinking semiconductor device sizes and demand for miniaturization of portable electronic products, the Company plans to continue to develop increasingly smaller-sized versions of these packages, as well as multi-chip package assembly capabilities.

The following illustrates one of the leadframe packages produced by the Company:



The table below sets out the Company's traditional and advanced leadframe packages available for mass production, including the range of pin counts and a general description of and example applications, for each package format:

Package format	Pin count	Description	Applications
Small outline package — SOP . .	8–70	Small leadframe package designed for applications requiring smaller size	Pagers, cordless telephones, fax machines, copiers, printers, computer peripherals, audio and video products and automotive systems
Shrink small outline package — SSOP	16–96	Smallest of the SOP packages designed for portable products which require reduced size and weight	Pagers, disk drives, portable audio and video products and wireless communications products
Small outline J-lead — SOJ . . .	24–44	Package specially designed for memory devices such as DRAM and SRAM	Notebook computers, desktop personal computers, digital still and video cameras, and standard connections for peripherals to computers
Thin shrink small outline package — TSSOP	8–56	Smaller version of TSOP designed for logic and analog devices and memory devices such as FLASH, SRAM, EPROM, EEPROM and DRAM	Disk drives, recordable optical disks, audio and video products, consumer electronics and telecommunications products
Thin small outline package — TSOP	28–54	Package requiring low height and low lead-count designed for memory devices, such as FLASH, SRAM and DRAM	Notebook computers, desktop personal computers, still and video cameras, and standard connections for peripherals to computers
Miniature small outline package — MSOP	8–10	Package designed for very small size devices	Wireless communications product, analog and power management applications in semiconductors
Quad flat package — QFP	44–208	Package with leads on four sides designed for advanced processors, controllers, digital signal processors (DSPs) and application specific integrated circuits (ASICs)	Desktop personal computers, consumer and industrial products, commercial and office equipment and automotive systems
Low-profile quad flat package — LQFP	48–176	Advanced QFP with thickness of 1.4mm for use in low profile and space constrained applications	Notebook computers, mobile phones and hard disk drives
Thin-profile quad flat package — TQFP	48–64	Packages designed for lightweight, portable electronics requiring broad performance characteristics	Notebook computers, desktop personal computers, disk drives, office equipment, audio and video products and telecommunications and wireless communications products
Plastic dual in-line package — PDIP	8–42	General purpose plastic package used in consumer electronic products	Electronic games, telephones, televisions, audio equipment and computer peripherals
Plastic leaded chip carrier — PLCC	20–44	Package with leads on two sides used in consumer electronics and products in which the size of the package is not critical	Copiers, printers, scanners, desktop personal computers, electronic games and monitors

Ball grid array packaging

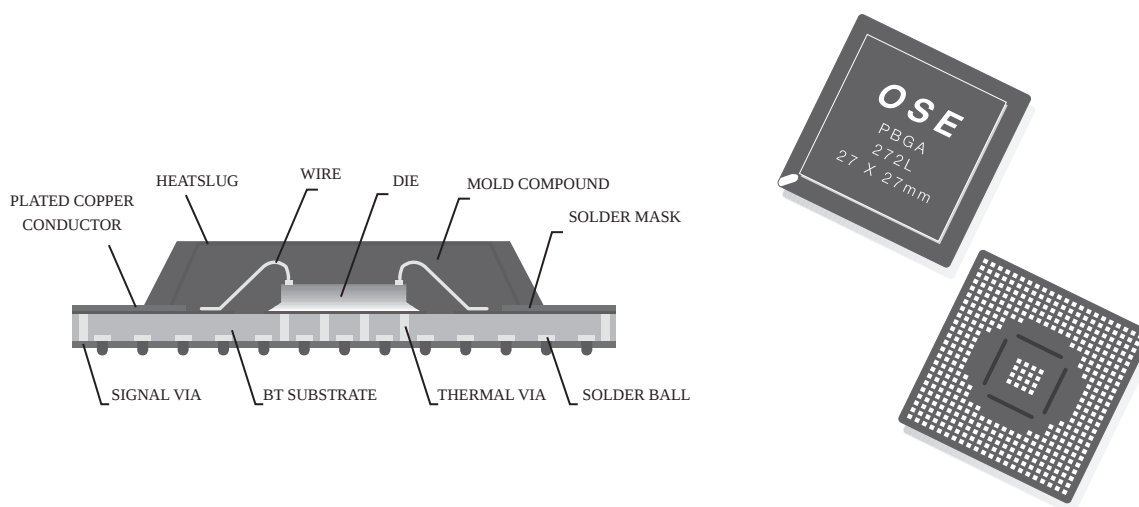
Ball grid array packages represent the fastest growing product type in the semiconductor assembly market. BGA technology is used primarily in high-growth high-end electronics markets, including hand-held consumer products, such as mobile phones, personal digital assistants (“PDAs”), computing platforms and network equipment, such as high speed telecommunications switching stations and routers, and consumer electronics products, such as gaming platforms.

BGA technology was first developed to address the need for increasingly high lead counts required for advanced semiconductors and to provide an increased circuit density per unit area. In a typical BGA package, the semiconductor die is placed on top of a laminate (plastic or tape) substrate rather than a leadframe. The die is connected to the circuitry in the substrate by a series of fine gold wires that are bonded to the top of the substrate near its edges. On the bottom of the substrate is a grid of small bumps or solder balls providing connection to a printed circuit board.

BGA packages generally provide semiconductor manufacturers numerous benefits, including:

- ▶ smaller package size;
- ▶ more leads per unit area and higher circuit density;
- ▶ greater reliability;
- ▶ reduced likelihood of damage during handling;
- ▶ better electrical and thermal performance; and
- ▶ ease of attachment to a printed circuit board.

The following illustrates one of the BGA packages manufactured by the Company:



The BGA packages made by the Company currently contain between 48 and 1,564 ball counts, with a majority of the BGA packages being high-end BGA packages that have ball-counts exceeding 500. In addition, the Company currently offers multi-chip modules/system-in-a-package in the form of plastic BGA packages, as well as stacked-die packages in the form of low-profile and fine pitch BGA packages. The Company is currently designing and implementing extensions of existing BGA packages to include higher ball counts. To further reduce package size and improve performance for increasingly sophisticated applications, the Company is developing next generation BGA packages, including chip-scale and flip chip BGA packages.

The table below sets out the BGA packages currently available for mass production, including the range of ball counts and a general description of and example applications, for each package format.

Package format	Ball counts	Description	Applications
Plastic ball grid array — PBGA	74–618	Ball grid array package designed for applications which require high performance for speed, power and space	Notebook computers, disk drives, video cameras, global positioning satellite (GPS) systems, wireless communications products and standard connections for peripherals to computers
Enhanced ball grid array — EBGA	256–836	Enhanced BGA package that provides superior electrical and thermal characteristics for microprocessors, DSPs and ASICs	Ethernet switches, set-top boxes and networking systems
Thermal enhanced ball grid array — TEBGA	256–576	Higher-performance, thermally-enhanced BGA package designed for DSPs, ASICs and microprocessors	Notebook and palmtop computers, PDAs, video graphical user interfaces (video GUI), central processing units (CPUs) and wireless communications products
Low-profile and fine pitch ball grid array — LFBGA	48–108	BGA package for use in smaller devices and space sensitive designs used in microprocessors and ASICs	Notebook, camcorders, mobile phones and other mobile products
Thin profile and fine pitch ball grid array — TFBGA	48–108	BGA package for use in very small and thin devices and space sensitive designs used in microprocessors and ASICs	Notebooks, camcorders, mobile phones and other mobile products
Film thin-profile fine pitch ball grid array — FTFBGA	56–132	Polyimide substrate film based-package designed to offer high input/output density	Communication components, mobile phones, palmtops, PDAs and other wireless products
Flip chip ball grid array/flip chip chip-scale package — FCBGA/ FCCSP	1564	BGA or chip-scale package designed for devices requiring high electrical and thermal dissipation performance	Microprocessing units (MPUs), CPUs, communication components, mobile phones, palmtops, handheld personal data assistants and other wireless products

Advanced packaging technology

The Company develops a number of advanced packages such as micro leadframe and micro BGA packages, utilizing leading-edge packaging technologies such as flip chip and chip-scale packaging. The Company is also developing wafer-level packaging using bumping technology. In addition, the Company is developing both traditional and advanced packages that use environmentally friendly materials, such as lead-free and halogen-free materials.

To meet the demands for radio frequency applications and the emerging market for products incorporating the Bluetooth wireless protocol, the Company develops a micro leadframe family of packages. The Company develops the micro leadframe package family to offer exceptional thermal and radio frequency properties, using the flip chip interconnect technology. The Company's flip chip technology employs advanced interconnect technology using solder bumps, as well as gold stud bumps, to connect the

wafer die to the substrate for improved thermal and frequency characteristics. The Company is also developing stacked-die in its micro leadframe packages for high-density applications. Currently, the Company cooperates with Magic Technology Inc. to provide advanced IC packaging services by utilizing the gold stud bump technology.

As the Company expect further growth in the demand for memory devices, the Company develops micro BGA packages with low profile and high performance capabilities for memory applications. Such micro BGA packages will be in the form of chip-scale packages, which approach approximately the size of the semiconductor die itself. The Company is developing alternative materials and designing efficient manufacturing processes with its customers and equipment suppliers in order to make the micro BGA packages more cost effective than ever.

The continuing need for efficient packaging solutions has also led to the Company's ongoing development of wafer-level packaging involving low ball count and low density semiconductors using bumping technology. Wafer-level packaging is a manufacturing process that enables the complete assembly operation to be performed when the semiconductor is still in the original wafer form before being sawed to form individual dies, thereby substantially reducing the number of assembly processes and the related costs. The Company is also developing the flip chip manufacturing technology to directly attach wafer-level packaged dies on to motherboards, which will further streamline the assembly process.

Testing

The Company offers test services to its semiconductor assembly customers as part of its turnkey services as well as on a test-only basis. Testing includes both wafer probe and final testing. Semiconductor testing requires significant technical expertise and knowledge of the specific applications and functions of the semiconductors tested. In 2001 and the first nine months of 2002, approximately 87.0% and 90.0%, respectively, of the Company's test services were provided to its semiconductor assembly customers as part of its turnkey services. The Company believes that the percentage of its test-only services will increase as a result of the Company's policy to fully utilize the test capacity.

The Company believes that its test services involve technology and expertise that are among the most advanced in the semiconductor industry. As of September 30, 2002, the Company owned an aggregate of 128 testers installed at the Company's Kaohsiung plant, of which 82 sets are dedicated to logic testing, 20 sets are dedicated to memory testing and 26 sets are used for mixed signal testing. Additionally, the Company has 89 testers on consignment from its customers, which the Company uses to provide test services for the respective customers' products. The Company also maintains a variety of other types of equipment, such as automated handlers and probers, with special handlers for wafer probing, scanners, reformers and PC workstations for use in software development. The Company works closely with its customers in designing semiconductor testing and conversion programs to test specific semiconductors for functionality on multiple equipment platforms.

The Company provides a broad range of test services, including wafer probing, final testing of logic, memory and mixed signal semiconductors and other related services. In 2001 and the first nine months of 2002, the Company tested 12.0% and 10.9% of the output by volume of its semiconductor assembly facilities, respectively. The Company expects the proportion of its future test revenues from the testing of high performance logic and mixed signal semiconductors to continue to increase.

Wafer probing. After wafers are fabricated, each die on a wafer is electrically probed to ensure integrity and functionality of the IC. Dies that fail the test are marked to be discarded. Following wafer probing, the wafers are sent for wafer grinding and dicing. Wafer probe services require similar expertise and testing equipment to that used in final testing, and the Company uses several of its testers for wafer probe services. The Company primarily performs its wafer probe testing in Taiwan for customers whose wafers are then assembled by it.

Final testing. Final testing is the last stage in semiconductor production which involves using sophisticated test equipment and customized software programs to electronically test a number of attributes of packaged semiconductors, including functionality, speed, predicted endurance and power consumption.

► Logic testing

The Company tests a variety of logic semiconductors, including high performance semiconductors used in personal computers, disk drives, printers, data processing equipment and digital enhanced cordless telephones. Other logic semiconductors tested by the Company include microcontrollers and application-specific integrated circuits. Testing of complex and high-performance logic semiconductors have accounted for an increasing portion of the Company's overall net sales from testing services, since testing these semiconductors requires a large number of functions to be tested, thereby attracting higher revenues per unit of testing time.

► Memory testing

While memory testing uses simpler test software programs, memory testing generally generates higher revenues per unit tested because of the longer testing time required. The Company provides testing services for a variety of memory products, such as static random access memory circuits ("SRAM"), dynamic random access memory circuits ("DRAM"), and single-bit erasable programmable memory integrated circuits.

► Mixed-signal testing

The Company tests a wide array of mixed-signal semiconductors, including those used in telecommunications equipment, such as network routers, switches and interface cards, and in personal computer components, such as graphics, CD-ROM and hard-disc controllers. Mixed-signal testing requires specialized equipment and sophisticated test expertise to develop and implement test programs with greater functional capabilities and higher degrees of complexity.

► Radio frequency testing

The Company also offers radio frequency testing which is a specialized testing category requiring test capabilities at frequencies of 1.6 gigahertz, or greater, which is significantly higher than the frequency range for other forms of testing. The Company expects that semiconductor designers increasingly to integrate radio frequency functionality with logic and mixed-signal functionality, a product commonly called "system-on-a-chip." As these products will require both radio frequency testing and mixed-signal testing, the Company believes its expertise in these technologies will enable it to take advantage of this potentially high growth area.

Test related services. The Company's related services include burn-in process support, reliability testing, thermal and electrical stress testing. After final testing, the Company provides wrapping services such as dry pack, tape and reel and drop shipment services, whereby it ships semiconductors directly to end customers. Since drop shipment eliminates the additional step of inspection by customers prior to shipment to the end user, the quality of the Company's test services is a key consideration to the Company's customers.

For the years ended December 31, 1999, 2000 and 2001, test services accounted for 12.4%, 14.9% and 11.7% of the Semiconductor Group's total sales.

Finished Products Group

The Company provides electronics manufacturing services to OEMs, ODMs and brand name electronics companies. The Company services its customers through the manufacturing sites located in Kaohsiung, Taiwan and through its subsidiary, Sparqtron Corp., located in Fremont, California, U.S.A. The Company currently operates 37 surface mount ("SMT") production lines in Kaohsiung and six SMT production lines in Fremont, California. The Company offers a broad range of integrated EMS capabilities to the customers that include product design support, materials procurement, assembly, final system build, distribution and after-sales support.

The Company's business is focused on the fast-growing computer, communications and industrial sectors of the electronics industry. For example, communications products revenues, as a percentage of Finished Products Group's net sales, grew from 10.2% in 1997 to 22.0% in the first nine months of 2002. The Company has relationships with over 30 OEM customers, many of which are leading design companies

that supply products to leading electronics companies such as Compaq, Dell, Hewlett-Packard, IBM, Gateway and Micron Electronics. The Company has capitalized on the industry trend among OEMs and ODMs to outsource manufacturing services to streamline their supply base and formed long-term strategic partnerships with high-quality EMS providers. The Company also has relationships with a number of emerging companies in the high-growth communications and optoelectronics sectors including Ericsson and Chi-Mei.

Products

The Company's manufacturing services cover a wide array of end products. The Company divides the electronics products it assembles and manufactures into four broad categories, including (1) communication products; (2) computer system; (3) computer peripherals; and (4) industrial products, set out below:

Communication products	Computer systems	Computer peripherals	Industrial products
IEEE 802.11b WLAN	High capacity memory modules	TFT-LCD display controlling modules	Industrial equipment control modules
Radio frequency and Bluetooth modules	Server motherboards	PCMCIA and CF card readers	ATM display modules
ADSL Broadband modem			LED lighting systems
GPS vehicle tracking devices			Semiconductor equipment controllers

The following table sets forth a breakdown of the Company's finished products net sales by the above product categories:

Finished products net sales										
Year ended December 31,							Nine months ended September 30,			
1999		2000		2001		2001 ⁽¹⁾		2002 ⁽¹⁾		
(NT\$ thousands, except percentages)										
		%		%		%		%		%
Communication										
products	1,191,338	39.7	1,699,093	32.9	2,907,252	49.9	2,188,171	59.4	2,087,392	49.7
Computer systems . .	951,202	31.7	1,621,232	31.4	1,028,021	17.7	678,650	18.4	624,431	14.8
Computer peripherals	657,428	21.9	1,055,709	20.5	967,483	16.6	629,880	17.1	1,345,603	32.0
Industrial products . .	45,704	1.5	120,666	2.3	145,982	2.5	133,185	3.6	109,255	2.6
Others ⁽²⁾	155,177	5.2	662,311	12.9	772,446	13.3	56,359	1.5	37,184	0.9
Total	3,000,849	100%	5,159,011	100.0%	5,821,184	100.0%	3,686,245	100.0%	4,203,865	100.0%

(1) Presents non-consolidated figures.

(2) Includes sales of raw material and printed circuit boards.

The manufacturing services provided by the Company are offered principally under consignment or turnkey arrangements. Under the consignment arrangement, the Company's customers provide all required material components on a consignment basis and the Company charges for its manufacturing services. Under the turnkey arrangement, the Company procures materials for its customers and it charges the customers for the finished products. As a result, the turnkey net sales include raw material costs. A majority of the total net sales of the Finished Products Group are attributable to sales under the turnkey arrangement. For example, during 2001 and first nine months of 2002, 93.6% and 90.0% of the total finished product net sales was attributable to turnkey arrangements and the remainder to consignment arrangements, respectively.

The mix of the Company's turnkey and consignment EMS as well as the product concentration in a few products types, such as Bluetooth modules and TFT-LCD display controlling modules, have significantly impacted the net sales and gross margins of the Finished Products Group. See "Management's Discussion and Analysis of Financial Condition and Results of Operation — Revenue Mix and Margins".

Services

The Company provides comprehensive technical and logistics solutions for its customers' outsourcing requirements. The engineering, manufacturing and fulfillment capabilities enable the Company to support the customers' needs with respect to new product introduction, materials and logistics management, assembly and system integration and distribution and aftersales support. The Company supports its services offerings with a comprehensive resource planning and management system, superior quality management program as well as sophisticated information technology systems.

New product introduction. The Company organizes new product project teams consisting of members from its design support, materials and manufacturing teams to work with its customers and suppliers during the product development process to ensure new designs are efficiently transitioned into production. The Company provides expertise to serve its EMS customers in their core competencies, including industrial design, mechanical design, process design as well as hardware, software and systems integration. The Company's new product project teams design products to ensure manufacturability and testability and coordinate with the customers for the prototyping and validation of new product designs.

Materials and logistics management. The Company is able to provide its customers an integrated materials and logistics management solution with its advanced SAP/R3 enterprise resource planning platform, linking critical business processes, including materials management, production planning, sales and distribution and quality management. The Company establishes a supplier qualification process to ensure that suppliers of critical materials have stable manufacturing and business processes capable of providing components that meet or exceed its quality requirements. The Company has established relationships with a wide range of materials and component suppliers and distributors.

Assembly and system integration. The Company offers a broad range of assembly and test services and systems integration, including printed circuit board assembly, assembly of subsystems, final system build, circuitry and functionality testing, environmental and stress testing and component reliability testing. The Company utilizes state-of-the-art technology in the assembly process, and work together with its customers and suppliers to develop new assembly techniques in order to improve manufacturing quality, reduce time-to-market and costs. The Company is able to apply a wide array of assembly techniques ranging from pin-through-hole and surface mount to advanced process technologies, such as chip-scale packaging, flip chip technology, tape automated bonding and multi-chip module assembly. The Company also works with a wide range of substrate types from thin flexible printed circuit boards to complex, high-density multiplayer boards. The assembly capabilities of the Company are complemented by advanced test capabilities, including high-speed functional testing, burn-in testing, in-circuit testing as well as a variety of environmental and stress testing to identify early product failures. The expertise of the Company in assembly and system integration and the continued investment in leading-edge process technology enables the Company to meet its customers' changing needs and gives the customers access to a wide variety of advanced manufacturing solutions without having to make substantial capital investments.

Distribution and after-sales support. The Company has an integrated system for managing complex international packaging and distribution, allowing the Company to ship worldwide and, in many cases, directly to the end customers. The Company also provides some of its largest customers after-sales support services, including field failure analyses, product upgrades, repair and refurbishment services.

Sales and Marketing

The Company markets its services to the semiconductor assembly and test and EMS customers through a network of international sales offices and sales representatives in the United States (San Jose, California; City of Industry, California; Tempe, Arizona; and Beverly, Massachusetts), the United Kingdom (London), Japan (Tokyo), Singapore and Taiwan. The Company employed 40 sales and marketing personnel as of September 30, 2002.

The Company's account managers and support sales staff, application engineers and customer service representatives work together as teams in servicing customers. Each of these teams focuses on specific customers and/or geographic regions. As part of this emphasis on customer service, these teams actively participate in the design process, resolve customer assembly issues and promote timely and individualized solutions to customers' needs.

The Company focuses on creating awareness and familiarity with its high-end advanced semiconductor packages and test services. The Company also emphasizes its efficient component sourcing capabilities, relationship with suppliers, speedy time-to-market capabilities, and full spectrum of services and logistics support available to the EMS customers of the Company.

Generally, the Company enters into purchase orders with its customers that set out the quantity and price of the products and services to be provided by the Company. The Company usually signs one-year master contracts with some domestic customers that stipulate product specifications but do not provide for purchase orders, quantities or pricing. These contracts require the customers to provide non-binding rolling three-month forecasts. The customers generally agree to a particular pricing of the services when the Company finalizes the purchase order with the customers. The Company also has entered into similar master contracts with some of its major international customers with fixed pricing terms or terms that are renegotiable at the parties' request.

The semiconductor assembly and test services of the Company are competitively priced against the market. Prices for semiconductor assembly services vary, primarily depending on factors such as material cost and depreciation expense. Prices for testing principally depend on the amount of time taken by the testing equipment to execute the test programs. The Company provides its customers with breakdown of the prices for its semiconductor assembly service and test service in the price quotes and invoices.

The Company prices its EMS competitively against the market. Under the consignment arrangement, the Company receives all or most of the required material components from the customers and charge the customers for the manufacturing services. Under the turnkey arrangement, the Company undertakes materials procurement for the customers before assembly and the Company charges the customers a price for the finished product that takes into account the cost of procurement and related risks, such as pricing and inventory risk. As a result, the turnkey net sales include raw material costs.

The geographic breakdown of the Company's net sales by region as a percentage of the Semiconductor Group's net sales is as follows:

	Year ended December 31,						Nine months ended September 30,			
	1999		2000		2001		2001 ⁽¹⁾		2002 ⁽¹⁾	
	(NT\$ thousands, except percentages)									
	%		%		%		%		%	
North America	2,488,091	36.9	6,030,003	56.5	3,255,295	52.9	1,412,101	50.7	2,045,145	38.61
Taiwan	3,079,818	45.7	2,030,742	19.0	1,928,785	31.4	917,515	32.9	2,065,950	39.00
Europe	1,061,926	15.7	1,787,843	16.8	549,968	8.9	302,762	10.9	343,599	6.49
Others	114,172	1.7	827,055	7.7	420,580	6.8	153,144	5.5	842,460	15.90
Total	<u>6,744,007</u>	<u>100.0%</u>	<u>10,675,643</u>	<u>100%</u>	<u>6,154,628</u>	<u>100%</u>	<u>2,785,522</u>	<u>100%</u>	<u>5,297,154</u>	<u>100%</u>

(1) Presents non-consolidated figures

The geographic breakdown of the Company's net sales by regions as a percentage of the Finished Products Group's net sales is as follows:

	Year ended December 31,						Nine months ended September 30,			
	1999		2000		2001		2001 ⁽¹⁾		2002 ⁽¹⁾	
	(NT\$ thousands, except percentages)									
	%		%		%		%		%	
North America	2,363,600	78.8	3,985,507	77.3	4,716,595	81.0	3,031,935	82.3	2,117,879	50.4
Taiwan	630,745	21.0	1,105,860	21.4	1,010,392	17.4	595,000	16.1	1,506,460	35.8
Europe	6,498	0.2	67,644	1.3	92,933	1.6	59,260	1.6	496,749	11.8
Others	6	0.0	0	0.0	1,264	0.0	50	0.0	82,777	2.0
Total	3,000,849	100%	5,159,011	100%	5,821,184	100%	3,686,245	100%	4,203,865	100%

(1) Presents non-consolidated figures

The Semiconductor Group sells directly to Taiwanese companies. The group's overseas sales are principally conducted through sales representatives, which are paid on a fixed commission basis. Sales through independent representatives accounted for 52.9% and 42.9% of the Semiconductor Group's net sales in 2001 and the first three quarters of 2002, respectively. Sales into the United States are made by the Company's indirect subsidiary, OSE, Inc. OSE, Inc.'s results are accounted for in its financial results on an equity basis.

The Finished Products Group sells directly domestically and abroad. Sales to the Company's affiliates accounted for 21.4% and 25.8% of the Semiconductor Group's net sales and 53.8% and 38.7% of the Finished Products Group's net sales for 2001 and the first three quarters of 2002, respectively.

Customers

The Company has over 100 customers worldwide. The following table sets out the major and emerging customers by net sales for both the Semiconductor Group and the Finished Products Group in 2001 and the first three quarters of 2002:

Semiconductor Group			Finished Products Group		
North America	Europe	Asia	North America	Europe	Asia
ATI	Analog	ICSI	ActionTec	Ericsson	Chi-Mei
TI	Dialog	MXIC	@Road		Fujitsu
Cypress	Ericsson	SiS	Tyan		Sharp
ICW		Winbond			HannStar
Pericom		Fujitsu			

SiS and ActionTec were the two largest customers each individually accounted for 10% or more of the Company's total net sales during 2001. SiS, an affiliate of the Company, accounted for approximately 12.2% and 14.1% of the annual total net sales of the Company during 2001 and in the first nine months of 2002, respectively. SiS was the Semiconductor Group's largest customer, and accounted for about approximately 23.4% and 25.3% of the group's net sales in 2001 and the first nine months of 2002, respectively, while the top five customers of the Semiconductor Group accounted approximately 50.6% and 58.9% of the group's net sales (or 26.4% and 32.8% of the total net sales of the Company) during the respective periods.

The Company sells nearly all of the output from the Finished Products Group to a few key customers in Taiwan and the United States. Sales to the largest customer of the Finished Products Group, ActionTec, an affiliate of the Company, accounted for approximately 50.1% and 28.5% of the Finished Products Group's net sales (or 24.4% and 12.6% of the total net sales of the Company) in 2001 and the first nine months of 2002 respectively. ActionTec is an ODM of broadband, communication and networking devices. Chi-Mei Optoelectronics, the current second largest customer of the Finished Products Group, is an ODM

manufacturer and supplier of TFT-LCD displays in the world, which accounted for 19.5% of the Finished Products Group's net sale (or 8.6% of the total net sales of the Company) in the first nine months of 2002. The top five customers accounted for 85.8% and 84.1% of the Finished Products Group's sales (or 41.1% and 37.2% of the total net sales of the Company) in the same periods.

Research and Development

With approximately 250 research and development personnel, including over 100 engineers, the Company believes its research and development team is one of the largest in the semiconductor assembly and test industry. The mission of the Company is to develop innovative manufacturing processes and production technologies. The Company focuses its efforts on reducing costs for the customers. The research and development team works closely with manufacturers and suppliers of the Company's assembly packaging equipment in designing and modifying the equipment and tooling used in the production processes of the Company.

The Company focuses research and development for its semiconductor assembly business on enhancing the performance of the existing packages and on new package designs. The Company also dedicates substantial resources to the improvement of production technologies for sophisticated packaging offerings including flip chip, stacked-die, chip-scale and wafer level packaging.

The Company employs a "cost improvement approach" with respect to research and development work. It seeks to help the customers improve cost efficiency by utilizing and developing sources for local components and materials which are generally less expensive than those used by the customers but of equivalent or similar quality. The Company's research and development team works closely with the EMS customers to improve manufacturing processes, reduce production costs and increase the durability of the finished products manufactured by the Company.

Expenditure for research and development of the Company as a percentage of the Company's net sales maintains at the same level from 1999 to 2001. The research and development expenditures totaled approximately NT\$308.8 million, NT\$494.0 million and NT\$337.9 million (U.S.\$9.7 million), representing approximately 3.2%, 3.5% and 3.2% of the Company's net sales, for the years ending 1999, 2000 and 2001, respectively. Approximately 92.5% of the total research and development expenditure for 2001 was attributable to the Semiconductor Group and the remainder to the Finished Products Group. For the nine months ended September 30, 2002, the Company's research and development expenditure totaled approximately NT\$208.1 million (U.S.\$6.0 million), which was approximately 2.19% of net sales for the same period. Approximately 91.3% of the total research and development expenditures for the nine months ended September 30, 2002 was attributable to the Semiconductor Group and the remainder to the Finished Products Group.

Raw Materials and Suppliers

With very limited exceptions, the Company purchases raw materials based on non-binding forecasts provided to it by the customers. The Company generally has at least two different qualified suppliers for each major type of raw material. Although the Company is not dependent on any one supplier for any one kind of material, there are a limited number of raw materials suppliers in the semiconductor and EMS industries. The semiconductor assembly and the EMS industries, from time to time, have experienced shortages of substrates, wafers, passive components and other critical materials. See "Risk Factors — Risks Related to the Company's Business — The Company's business may suffer if the cost or supply of materials and components adversely changes".

The principal raw materials used in the semiconductor assembly business of the Company are substrates, molding compound, gold wire and leadframes. The Company does not have any supply contracts with its semiconductor materials suppliers. Currently, the Company principally purchases substrates from five suppliers, molding compound from four suppliers, gold wire from three suppliers and leadframes from four suppliers. As of September 30, 2002, approximately 30% of the substrates used by the Company came from three suppliers in Japan. As the majority of the semiconductor assembly and test customers supply the Company with wafers for use in completing their orders, the Company does not carry wafer inventories. However, the Company may experience production delays if such customers experience delays in acquiring wafers or other materials.

The principal components used in the Company's EMS business are printed circuit boards, connectors, capacitors, resistors and semiconductors, which the Company sources domestically and internationally. Generally, the Company does not have significant supply contracts with any EMS components supplier unless a particular component experiences shortages in supply from time to time. Such shortages may substantially curtail the Company's assembly operations using a particular component. Most of the finished products require one or more components from a single source, since these products are usually assembled to customer specifications and require specific single-source components. Additionally, the Company carries substantial inventory for the customers under the turnkey EMS arrangements. See "Risk Factors — Risks Related to the Company's Business — The Company's business may suffer if the cost or supply of materials and components adversely changes"

The Company from time to time invests in material and components suppliers to secure the steady supply of key material and components. Currently, the Company owns equity interest of Allied Circuit Co., Ltd. and Composter Technology Co., Ltd., which supply substrates and MultiLayer Ceramic Capacitor ("MLCC") to the Company's Semiconductor Group and Finished Products Group, respectively.

The Company periodically purchases production equipment, such as wire bonders and molding systems, ball-placement machines and testing equipment through several suppliers domestically and abroad to meet the assembly, testing and EMS requirements. The Company purchases all of its testing equipment from reputable tester manufacturers such as Advantest Corp., Credence Systems Corporation, GenRad Inc. and Teradyne Inc. The Company plans to increase its inventory of testers from 128 at September 30, 2002 to 133 testers by year end 2003. The Company also plans to increase its inventory of wire bonders from 1,557 at September 30, 2002 to 1,562 by year end 2003. The Company generally seeks to purchase equipment with broad functionality and flexibility for use with different packaging types to enhance capacity utilization. For example, some of the wire bonders and mold systems owned by the Company allow for interchangeability between leaded and BGA packages. The Company acquires its test and production equipment on a purchase order basis which exposes it to substantial risks. See "Risk Factors — Risks Related to the Company's Business — The Company may be unable to obtain assembly or test equipment when the Company requires it". The Company works closely with major suppliers to insure that equipment is delivered on time and meets its stringent performance specifications.

Competition

The markets for semiconductor assembly products and EMS and related services are highly competitive. Rapid technological changes may lead to the entry of additional competitors. Pricing has been very aggressive at all levels of competition and pressure on margins has been persistent and intense.

The Company believes its primary competitors in semiconductor assembly and test services are several established semiconductor assembly companies including Advanced Semiconductor Engineering, Inc. and Siliconware Precision Industries Co., Ltd., based in Taiwan, and Amkor Technology, Inc. in the U.S., and ChipPac in Korea, and STAT in Singapore. The Company believes that the principal competitive factors in the semiconductor assembly and test market are price, technical competence, location, available capacity, product quality, customer service and flexibility, delivery cycles and range of services available. Each of the primary competitors has significant capacity, financial resources, research and development operations, marketing and other capabilities and the Company cannot precisely predict the impact of competition with such companies on its business in the future.

The Company principally competes against a few established domestic Taiwanese EMS providers, including Universal Scientific Industrial Co., Ltd., Fastframe Technology Co., Ltd. and Info-Tek Corporation. To a lesser extent, the Company competes with some larger EMS providers in the U.S. and Asia other than Taiwan. The Company believes the primary competitive factors in the EMS market are quality, price, the ability to manufacture in volume and deliver products on a timely basis, logistic management capability and speed of product development.

The Company also effectively competes indirectly with the internal manufacturing capabilities of some of its customers. Although outsourcing has been an increasing trend, customers of the Semiconductor Group and Finished Products Group constantly evaluate the Company's capabilities against their own in-house capabilities. For strategic reasons, customers of the Company often do not outsource all of their manufacturing.

Intellectual Property

Operational success of the Company will depend, in part, on the ability to develop, acquire and protect its intellectual property, principally related to proprietary manufacturing processes and techniques. As of September 30, 2002, the Company owned 37 patents relating to advanced semiconductor packages in the United States, ROC, France, Germany, Japan, Korea, and the PRC and had numerous pending patent applications in the ROC, the United States, France, Germany, Japan, Malaysia, Korea, the Philippines, Thailand and the PRC. In addition, OSE USA, Inc. owned 10 U.S. patents as of September 30, 2002. The Company expects to continue to file patent applications when appropriate to protect its proprietary technologies. The Company also may need to enforce its patents or other intellectual property rights or to defend it against claimed infringement of the rights of others in litigation which could incur substantial expenses. The Company seeks to execute confidentiality and non-disclosure agreements with its customers and consultants in the ordinary course of its business and to limit access to and distribution of its proprietary information.

Currently, the Company is not a party to any material litigation regarding intellectual property. However, the semiconductor industry is characterized by frequent claims regarding patent and other intellectual property rights.

Principal Subsidiaries

The information set forth below reflects the Company's direct and indirect equity interests in these subsidiaries as of September 30, 2002.

<u>Company</u>	<u>Main business</u>	<u>Place of incorporation</u>	<u>Total paid-in capital</u>	<u>The Company's direct and indirect equity interest⁽¹⁾</u>
Orient Semiconductor Electronics Philippines, Inc.	IC packaging	The Philippines	U.S.\$81,789,948	92.35%
OSE Properties Inc.	Properties holding	The Philippines	PHP11,000,000	39.99%
OSE USA, Inc.	North American IC research and development and high-end IC packaging center	California, U.S.A.	U.S.\$65,611,600	77.4%
Sparqtron Corp.	Electronic manufacture services and marketing	California, U.S.A.	U.S.\$7,003,531	54.45%
OSE International Ltd. . . .	Investment holding company	British Virgin Islands	U.S.\$23,000,000	100.00%
ATP Electronics Inc.	Research, development and design of memory modules	California, U.S.A.	U.S.\$7,402,112.93	27.62%
SCS Hightech Inc.	Research and development of wafer level testing technologies	ROC	NT\$1,409,000,000	18.17%

(1) There has been no material change in the Company's direct and indirect equity interests in each of its principal subsidiaries since September 30, 2002.

Orient Semiconductor Electronics Philippines, Inc. ("OSE Philippines") was established in the Philippines in 1996. Its registered office is at Light Industry and Science Park II, Brgys, Lamesa and real Calamba Laguna, Republic of. Philippines. OSE Philippines is a manufacturing base for the Semiconductor Group of the Company, which is equipped of 228 wire bonders in a 554,000 square feet facility.

As of and for the year ended December 31, 2001, OSE Philippines had audited net assets, operating losses and net losses of U.S.\$97,668,206, U.S.\$(7,716,352) and U.S.\$(10,974,814), respectively.

OSE Properties, Inc. (“OSE Properties”) was established in the Philippines in 1996. Its registered office is at LIGHT Industry & Science Park of the Philippines II Calamba, Laguna. OSE Properties is a special purpose vehicle for owning real properties in the Philippines and leasing such properties to OSE Philippines.

OSE USA, Inc. (“OSE USA”), formerly named Integrated Packaging Assembly Corporation (“IPAC”), was established in the State of California, U.S.A. in 1992. Its registered office is at 2221 Old Oak Island Road, San Jose, CA 95131, U.S.A. OSE USA is a manufacturing base with research and development capabilities for the Semiconductor Group of the Company, which is equipped of 110 wire bonders in a 83,000 square feet facility. OSE USA holds a 100% equity interest of OSE Inc., which is the Company’s primary sales subsidiary in North America. OSE USA was a NASDAQ listed company since February 28, 1996, however, it has been delisted from NASDAQ because it’s common share price did not meet NASDAQ’s U.S.\$1.00 per share bid price requirement. The shares of OSE USA is currently traded at over-the-counter and OSE USA is still subject to Securities Exchange Act of 1934.

As of and for the year ended December 31, 2001, OSE USA had audited net assets, operating losses and net losses of U.S.\$28,672,000, U.S.\$(7,446,000) and U.S.\$(8,099,000), respectively.

Sparqtron Corp. (“Sparqtron”) was established in the State of California, U.S.A., in 1998. Its registered office is at Fremont, California, U.S.A.. Sparqtron is the only overseas manufacturing base of the Finished Product Group of the Company, which is equipped of six automated surface mounting machines in a 35,000 square feet facility. All finished products manufactured by Sparqtron are shipped to the EMS customers in North America.

As of and for the year ended December 31, 2001, Sparqtron had audited net assets, operating revenues and net profits of U.S.\$8,507,500, U.S.\$941,839 and U.S.\$785,775, respectively.

OSE International Ltd. (“OSE International”) was established in the British Virgin Islands in 1999. Its registered office is at P.O. Box 957 Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. As an investment holding subsidiary of the Company, OSE International invests on behalf of the Company in OSE Philippines, ATP, and Intelligent Epitaxy Technology Inc.

As of and for the year ended December 31, 2001, OSE International had audited net assets, operating losses and net losses of U.S.\$20,540,943, U.S.\$(4,093,298) and U.S.\$(4,093,298), respectively.

ATP Electronics, Inc. (“ATP”) was established in California, U.S.A. in 1992. Its registered office is at 750 North Mary Avenue, Sunnyvale, CA 94086 U.S.A. ATP engages in research, development and design of high-density memory modules.

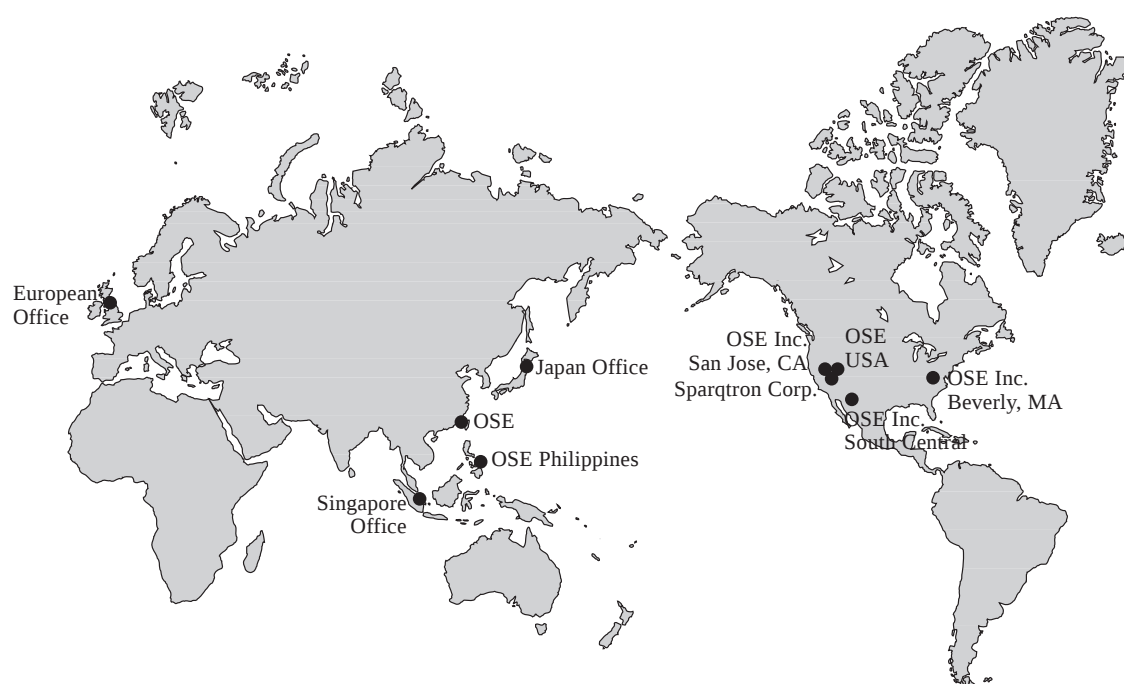
As of and for the year ended December 31, 2001, ATP had audited net assets, operating revenues and net profits of U.S.\$5,391,328, U.S.\$(4,197,601) and U.S.\$(4,738,702), respectively.

SCS Hightech Inc. (“SCS”) was established in the ROC. Its registered office is at 1F, No.40, Industry E. 4th Rd., Science-Based Industrial Park, Hsin Chu, Taiwan, ROC. SCS engages in research and development and solution provision for wafer level testing.

As of and for the year ended December 31, 2001, SCS had audited net assets, operating losses and net losses of NT\$1,730,669,000, NT\$(170,430,000) and NT\$(84,812,000), respectively.

Facilities

The following map indicates the worldwide locations of the Company's production facilities and sales and marketing forces.



The Company operates four production facilities in Kaohsiung, Taiwan, Calamba Laguna, the Philippines, and Fremont and San Jose, California. The following table sets out the location and primary use of the production facilities of the Company as of September 30, 2002:

Facility	Principal products	Owned or leased
Kaohsiung, Taiwan⁽¹⁾	IC packaging and testing; electronic manufacturing service	Owned facilities on leased lands
Calamba Laguna, Philippines	IC packaging and testing	Owned facilities on leased lands
Fremont, California	Electronic manufacturing service	Leased
San Jose, California	IC packaging	Leased

(1) The Company operates seven facilities in the Nantze Economic Processing Zone in Kaohsiung City, Taiwan.

Kaohsiung, Taiwan

The Company's headquarters, administrative offices and assembly facilities are located in the Nantze Economic Processing Zone ("N.E.P.Z.") in Kaohsiung City, Taiwan. In the N.E.P.Z., the Company currently owns and operates seven facilities with a total floor space of approximately 1,547,000 square feet. In addition, the Company is building a new test facility with total floor space of 256,200 square feet. The construction work is temporarily suspended and the Company will take into consideration the market condition when determining the time to resume the construction. The lands on which such facilities are located are leased from the ROC government pursuant to leases that will expire during the period from January 12, 2003 to January 31, 2012. Currently the annual rental payment for such lease is NT\$13.73 million.

Calamba Laguna, The Philippines

The Company's Philippine subsidiary, located in Calamba Laguna, has a total floor space of approximately 554,000 square feet, of which approximately 215,300 square feet are currently being utilized. This facility is used by the Company's Semiconductor Group. The land is leased from OSE Properties under a 50-year lease starting from year 1996 and can be extended for additional 25 years at the Company's option.

Fremont, California

The Company's subsidiary Sparqtron maintains a finished product assembling facility with a leased floor space of approximately 67,000 square feet in Fremont, California. The lease is for 7 years starting from year 2000.

San Jose, California

OSE USA leases semiconductor assembly and tin plating facilities with a total leased floor space of approximately 89,000 square feet, located in San Jose, California. The main building is under a 10-year lease that expires on January 19, 2008, and the plating facility is under a 5-year lease which will be expired on October 31, 2002 and will be renewed accordingly. OSE USA also maintains sales offices in Boston, Massachusetts and Phoenix, Arizona.

Quality Control

The Company believes that its advanced process and assembly technology and reputation for high quality and reliable products and services have been important factors in attracting and retaining leading international semiconductor companies as customers. The Company has established total quality management systems which are designed to ensure high production yields and quality at its facilities. The Company also places high priority on the education and training of its employees in new and effective concepts of quality control and improvement. As of year end 2001, the Company had over 300 quality control personnel, including engineers and technicians, who monitor design and production processes in order to ensure its quality standards. These employees include line inspectors who work with members of the production staff to conduct examination, testing and fine-tuning of products during the production process. The Company's quality control processes include a burn-in period for completed units after assembly, production reliability audits, reliability test and failure analysis for identification of production problems and customer service.

The quality management systems of the Company have been awarded certifications from the SGS International Certification Services AG as meeting the requirements of the International Organization for Standardization ("ISO") 9002 and QS-9000 in 2000 in respect of the Company's quality management systems, ISO9002 in 1999 in respect of the Company's plastic integrated circuits assembly and test services. The Company's management system is recertified as meeting the ISO9002:2000 standards in 2002. The Finished Products Group also received certification from SGS for meeting the ISO9002 standard in respect of the quality management system in 1993 and the ISO14001 standard in respect of the environment management system in 1998.

As assembly and testing customers often look to an ISO and QS certification as a threshold indication of a company's quality control standards, ISO certification provides independent verification of the quality control system in the Company's manufacturing processes, which the Company believes, is an advantage to the marketing and sales of its assembly and testing services. The Company undergoes periodic audits to maintain its ISO certification.

Environmental Matters

The semiconductor assembly process generates the bulk of its gaseous chemical wastes at the stage at which the copper leads protruding from the plastic or ceramic casings, or moldings, of the semiconductor are plated with tin or tin/lead to improve their electrical conductivity. Liquid waste is produced at the stage at which silicon wafers are diced into chips with the aid of diamond saws and cooled with running water. In addition, excess materials on leads and moldings are removed from semiconductors in the "trimming" and "de-junking" processes, respectively.

Since the Company maintains facilities located in Taiwan and the Philippines and its other subsidiaries' facilities are located in the United States, the Company is subject to the environmental laws and regulations in each of these three jurisdictions. The environmental management systems of the Company have been awarded certification from the SGS International Certification Services AG as meeting ISO14001 in 1998 in respect of its environmental management system for the Company's plastic integrated circuits assembly and test services. The Finished Products Group also received certification from SGS for meeting the ISO14001 standard in respect of the environment management system in 1998. The Company has dedicated environmental personnel to ensure that it maintains strict compliance of environmental standards. The Company has installed various types of anti-pollution equipment for the treatment of liquid waste and gaseous chemical waste generated at the semiconductor assembly facilities in Kaohsiung, including the installation of equipment for the recycling of treated water and detection equipment. The Company has also contracted for the services of independent waste disposal companies.

The Company believes that it has adopted adequate anti-pollution measures for the effective maintenance of environmental protection standards consistent with the practice of the semiconductor industry in Taiwan, the Philippines and the United States, and that it is in compliance in all material respects with the applicable environmental laws and regulations.

Insurance

The Company maintains all risk insurance, including insurance against business interruption and property damage, for its facilities (excluding land) and equipment up to their respective policy limits, except for exclusions as defined in the policy. All such policies are renewed annually. At September 30, 2002, facilities and inventories, totaling approximately NT\$15.60 billion and NT\$3.7 billion, respectively, were insured against risks of all types. Inventories, materials or equipment imported or goods exported are also covered by marine cargo insurance. The Company also maintains general liability insurance for losses to others arising from its business operations. The Company has not had material insurance claims in the past three fiscal years.

While the Company believes that its insurance coverage is consistent with semiconductor industry practice, significant damage to any of the Company's production facilities, whether as a result of fire or other cause could seriously harm its business.

Legal Proceedings

Neither the Company nor any of its subsidiaries is involved in any litigation or other proceedings the outcome of which the Company believes might, individually or taken as a whole, materially affect the financial results or operations of the Company or any of its subsidiaries.

Related Party Transactions

OSE, its subsidiaries and certain of its affiliates, in the ordinary course of business or from time to time, enter into transactions with each other. The Company believes that all such transactions were based on general commercial practice. See Note 7 to the "Non-consolidated Financial Statements as at and for the nine months ended September 30, 2001 and 2002", and Note 9 to the "Consolidated Financial Statements as at and for the years ended December 31, 1999, 2000 and 2001".

SELECTED FINANCIAL INFORMATION

The following table presents selected financial information for the Company. The selected consolidated financial information for the years ended December 31, 1997, 1998, 1999, 2000 and 2001 presented in this table are derived from the Company's audited consolidated financial statements and notes thereto that are included elsewhere in this Offering Circular. The selected non-consolidated financial information for the nine months ended September 30, 2001 and 2002 have been derived from the Company's reviewed non-consolidated financial statements and notes thereto that are included elsewhere in this Offering Circular. The selected income statement data for the years ended December 31, 1997 and 1998 and the summary balance sheet data as of December 31, 1997 and 1998, set forth below are derived from the Company's audited financial statement not included in this Offering Circular. The Company's financial statements were prepared using accounting principles, procedures and reporting practices generally accepted in the ROC and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions, including the U.S. and U.K., other than those in the ROC. ROC GAAP differs in many material respects from U.S. GAAP. For a discussion of these differences, see "Summary of Significant Differences Between ROC GAAP and U.S. GAAP" included elsewhere in this Offering Circular. The summary financial information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's financial statements and the notes to those statements included elsewhere in this Offering Circular.

Audited, consolidated ⁽¹⁾ year ended December 31,						Reviewed, non-consolidated nine months ended September 30,			
1997	1998	1999	2000	2001	2001	2001	2002	2002	
NT\$	NT\$	NT\$	NT\$	NT\$	U.S.\$ ⁽¹⁾	NT\$	NT\$	U.S.\$ ⁽²⁾	
(in thousands)									

Statement of Income Data: ROC GAAP

Net sales	8,914,130	8,312,517	9,744,856	15,834,654	11,975,812	342,166	7,773,314	9,501,017	271,768
Cost of goods sold.	7,475,410	7,592,652	8,746,053	14,219,424	13,475,030	385,001	8,826,430	10,383,641	297,015
Gross profit	1,438,720	719,865	998,803	1,615,230	(1,499,218)	(42,835)	(1,053,116)	(882,624)	(25,247)
Total operating expenses	610,663	732,006	1,224,580	1,625,046	1,476,472	42,185	851,337	775,309	22,177
Operating income	828,057	(12,141)	(225,777)	(9,816)	(2,975,690)	(85,020)	(1,904,453)	(1,657,933)	(47,424)
Net non-operating income	49,284	410,238	593,301	(697,274)	(267,674)	(7,648)	(117,976)	(757,577)	(21,670)
Income tax expenses	75,456	273,025	678,992	809,348	(11,083)	(316)	150,999	64,457	1,844
Extraordinary gain	—	68,286	—	—	—	—	—	—	—
Minority Interest	17	6	26	1,575	64,410	1,840	—	—	—
Net income (loss)	952,814	739,414	1,046,542	103,833	(3,190,037)	(91,144)	(1,871,430)	(2,351,053)	(67,250)
EBITDA⁽³⁾	1,764,902	1,807,154	2,085,689	2,027,103	891,347	25,467	599,830	353,805	10,120

- (1) Translated into United States Dollars using the exchange rate published by International Commercial Bank of China at December 31, 2001 of NT\$35.00 = U.S.\$1.00.
- (2) Translated into United States Dollars using the exchange rate published by International Commercial Bank of China at September 30, 2002 of NT\$34.96 = U.S.\$1.00.
- (3) EBITDA refers to earnings before interest, income tax, depreciation and amortization. EBITDA should not be construed as an alternative to operating income or any other measure of performance or as an indicator of the Company's operating performance, liquidity or cash flows generated by operating, investing and financing activities. The items of net income excluded from EBITDA are significant components in understanding and assessing the Company's financial performance, and the Company's computation of EBITDA may not be comparable with other similarly titled measures of other companies. The Company has included the information concerning EBITDA because the Company believes it is a useful supplement to cash flow data as a measure of the Company's performance.

Audited, consolidated as of December 31,						Reviewed, non-consolidated as of September 30,		
1997	1998	1999	2000	2001	2001	2001	2002	2002
NT\$	NT\$	NT\$	NT\$	NT\$	U.S.\$ ⁽¹⁾	NT\$	NT\$	U.S.\$ ⁽²⁾
(in thousands, except per share data)								

**Balance Sheet Data:
ROC GAAP**

Cash and cash equivalents . . .	216,271	706,954	3,758,073	1,118,508	714,406	20,411	939,548	154,754	4,427
Working capital . .	793,862	685,188	3,338,996	(2,308,958)	(4,126,072)	(117,888)	(2,392,342)	(5,769,258)	(165,024)
Property, plant and equipment .	6,486,420	9,280,007	12,789,299	22,285,464	21,447,350	612,781	19,077,248	16,829,831	481,402
Total assets	11,486,444	15,188,853	24,432,222	33,954,505	30,948,013	884,229	30,093,210	27,545,068	787,902
Total liabilities . .	3,664,736	6,466,359	11,307,824	19,775,493	18,104,380	517,268	15,998,450	17,113,784	489,525
Stockholders' equity	7,821,708	8,722,494	13,124,398	14,179,012	12,843,633	366,961	14,094,760	10,431,284	298,377

Per Share Data

Earnings per share									
— income before minority interest ⁽³⁾ . . .	1.47	1.05	1.08	0.09	(2.98)	(0.09)	(1.73)	(2.24)	(0.06)
Earnings per share — net income ⁽⁴⁾ . . .	1.47	1.05	1.08	0.09	(2.98)	(0.09)	(1.73)	(2.24)	(0.06)

(1) Translated into United States Dollars using the exchange rate published by International Commercial Bank of China at December 31, 2001 of NT\$35.0 = U.S.\$1.00.

(2) Translated into United States Dollars using the exchange rate published by International Commercial Bank of China at September 30, 2002 of NT\$34.96 = U.S.\$1.00.

(3) Earnings per Common Share are calculated by dividing net income by the weighted average number of shares outstanding during each year after adjusting retroactively for the effect of stock dividends and employees' bonuses.

(4) Earnings per Common Share are calculated by dividing net income by the weighted average number of shares outstanding during each year after adjusting retroactively for the effect of stock dividends.

THE LETTER OF CREDIT

Chinatrust Commercial Bank, Ltd. (the “**LOC Issuing Bank**”) has committed to issue an irrevocable standby letter of credit (the “**Letter of Credit**”) to the Trustee under the Guarantee Agreement dated January 20, 2003, for the benefit of the Bondholders. The Company has committed to provide certain assets equal to the Stated Amount (as defined herein) to the LOC Issuing Bank as collateral (the “**Collateral**”). The Letter of Credit authorizes the Trustee to draw on the LOC Issuing Bank, on demand, an amount not exceeding the stated amount of the Letter of Credit in accordance with the terms and conditions of the Letter of Credit. The Letter of Credit will be issued on the Closing Date in favor of the Trustee for the benefit of the Bondholders. The Letter of Credit is intended to provide a source of funds for payment of the principal of the Bonds upon the Company’s failure to pay such amounts on the due date or upon the Bonds being declared due and payable on the occurrence of an Event of Default pursuant to the Terms and Conditions of the Bonds. Accordingly, the Trustee, as beneficiary of the Letter of Credit, will not be acting as an agent of the Company but will act on behalf of bondholders.

The stated amount of the Letter of Credit (the “**Stated Amount**”) means the maximum aggregate amount payable at maturity of the Bonds, which is U.S.\$70,000,000, subject to reduction as provided herein. The amount available for drawing under the Letter of Credit shall be reduced (a) by the principal amount of the Bonds that were redeemed, (b) by the principal amount of the Bonds that were converted into equity shares of the Company, par value NT\$10 each, or (c) by the principal amount of the Bonds that were purchased and cancelled, in each case pursuant to the Indenture. The Collateral will be reduced and released to the Company by the LOC Issuing Bank from time to time simultaneously with the foregoing events.

The Letter of Credit will expire at the close of business on the earliest of (i) the date 30 days following maturity of the Bonds, (ii) the final drawing under the Letter of Credit is honored and paid by the LOC Issuing Bank, (iii) the date on which the Stated Amount is reduced to zero, or (iv) the date on which the Letter of Credit is surrendered by the Trustee to the LOC Issuing Bank for cancellation (the “**Expiry Date**”).

The amount under the Letter of Credit is drawable by the Trustee on behalf of the Bondholders, upon the presentation of, *inter alia*, a certificate from the Trustee to the effect that (i) an acceleration of the Bonds pursuant to an Event of Default described in the Terms and Conditions of the Bonds, or (ii) the Company has failed to pay the principal amount on the due date in respect of the Bonds being redeemed pursuant to the Terms and Conditions of the Bonds. The Trustee shall by the close of the business of each due date for payment of or in respect of the Bonds or any of them, after receiving Principal Paying Agent’s notice for the Company’s failure to make payment, draw on the Letter of Credit in accordance with the Agency Agreement as described in the Terms and Conditions of the Bonds.

The Letter of Credit is transferable any number of times, but only in the amount of the full Stated Amount, as such amount may be reduced from time to time, and not in part, and transfer may only be made to the person or entity whom Trustee or any transferee appointed as a successor trustee under the Indenture. Transfer of the available drawing under the Letter of Credit to such transferee shall be effected only by the presentation to the LOC Issuing Bank of the Letter of Credit accompanied by the required signed documents.

Each drawing on the Letter of Credit will be payable in immediately available funds to the Trustee on the second Business Day by no later than 10:00 a.m., New York time, following presentation in accordance with the terms and conditions of the Letter of Credit. “**Business Day**” for this purpose shall mean any day other than a Saturday, Sunday, public holiday or a day on which banking institutions in Taipei, New York or London are authorized or required to close. However, the Trustee shall not be required to make payment of moneys received in respect of payment or drawing under the Letter of Credit (“**Amount Collected**”) until the Business Day following any day on which the Amount Collected is received under the Letter of Credit.

Each Bondholder by acceptance of the Indenture shall be deemed to have agreed to fully indemnify the Trustee against any and all expenses (“**Expenses**”) properly incurred by the Trustee and its agents on drawing on the Letter of Credit. Each Bondholder further, by his/her/its acceptance of the Indenture, shall be deemed to agree that the Trustee shall be entitled to the deduction of such amount of Expenses from Amounts Collected, and that the Trustee shall only pay the balance of the Amounts Collected less the Expenses to the Bondholders.

The Letter of Credit shall be governed by and construed in accordance with the Uniform Customs and Practice for Documentary Credits (1993 revisions), International Chamber of Commerce Publication 500 (the “**UCP**”), and, to the extent not inconsistent herewith, New York law.

Notwithstanding anything to the contrary in article 41 of the UCP, the Letter of Credit is intended to remain in full force and effect until it expires in accordance with its terms. Any failure by Trustee or a successor trustee to draw the Letter of Credit with respect to partial redemption of the Bonds shall not cause the Letter of Credit to be unavailable for any future drawing, provided, that any such future drawing may not be made after the Expiry Date.

In relation to any legal action or proceedings arising out of or in connection with the Letter of Credit (“**proceedings**”), the LOC Issuing Bank irrevocably submits to the jurisdiction of the courts of New York and agrees that proceedings may be brought in any such court and waive any objection to proceedings in any such court on the grounds of venue or on the grounds that the proceedings have been brought in an inconvenient forum.

DESCRIPTION OF THE LOC ISSUING BANK

Overview

The predecessor of the Chinatrust Commercial Bank, Ltd. (the “Bank”) was China Securities Investment Corporation, a securities dealer and underwriter founded in 1966. In 1971, China Securities Investment Corporation was reorganized into China Trust Company, Ltd. and expanded its activities to include trust banking, corporate lending and investment banking. In 1992, China Trust Company became the first trust company to meet the ROC government’s criteria for conversion into a commercial bank, and received a commercial banking license. At the same time, China Trust Company changed its name to Chinatrust Commercial Bank. On May 17, 2002, Chinatrust Commercial Bank became Chinatrust Financial Holding Company’s flagship subsidiary, and its shares were delisted from the Taiwan Stock Exchange. The Bank is authorized to provide the following services:

- (1) Engage in business as prescribed under the Banking Law of ROC.
- (2) Engage in international finance business.
- (3) Establish overseas branches to engage in banking business approved by the local government.
- (4) Engage in credit card business.
- (5) Sale of gold nuggets and bars, gold coins and silver coins on behalf of clients.
- (6) Engage in derivative transactions approved by the ROC Ministry of Finance.
- (7) Engage in export and import foreign exchange, outward and inward remittances, foreign currency deposits, loans, guarantee for secured repayment and import/export related attestation activities.
- (8) Engage in other business approved by the ROC Ministry of Finance.

The head office manages its corporate operation and establishes domestic and overseas operating units. On December 31, 2001, the Bank has 56 domestic branches, 5 overseas branches and 5 foreign representative offices.

The Bank provides a wide range of corporate and retail banking services in Taiwan, ROC and internationally, including corporate and consumer lending, credit card services, deposit-taking and checking account services, foreign exchange services and securities custody services. It operates an extensive network of branches, mini-branches and automatic teller machines, or ATMs, throughout Taiwan, ROC, and also provides banking services through the Internet and telephone. As of June 30, 2002, the Bank had approximately 4.3 million distinct retail customers. Although the Bank has been expanding its international operations for many years, it expects to continue to derive substantially all of its revenues and income before tax from domestic banking activities in the foreseeable future.

To enhance its competitiveness through more efficient allocation of capital and resources of the entire financial group at the holding company level, the Bank exchanged all of its commons shares with the new common shares and preferred shares issued by Chinatrust Financial Holding Company (the “**Holding Company**”) upon the formation of the Holding Company on May 17, 2002. The bank thereby became the sole and direct wholly-owned subsidiary of the Holding Company. The Holding Company believes that the new structure has several advantages, including that it:

- *Expands business scope*, by enabling the Holding Company to offer a wider range of products and services and thus broaden its revenue base;
- *Facilitates information-sharing among directly-owned subsidiaries*, thus enhancing the Holding Company’s ability to cross-sell financial products and services through use of Holding Company’s advanced customer relationship management and information systems;

- ***Facilitates strategic expansion***, by giving the Holding Company increased flexibility to structure mergers, acquisitions and strategic business alliances and thereby to increase its scale;
- ***Improves capital efficiency***, by allowing the Holding Company to raise core capital at the financial holding company level and to allocate capital where it can be used most efficiently within the group; and
- ***Improves cost efficiency***, by allowing the Holding Company's directly-owned subsidiaries to share back office operations, thus achieving economies of scale.

Directors and Supervisors

The Bank currently has nine directors and two supervisors. As a wholly-owned subsidiary of the Holding Company, all directors and supervisors of the Bank are the representatives of the Holding Company.

The following table sets forth information with respect to all of the directors and supervisors as of September 30, 2002.

Name	Position	Business Address
Jeffrey L. S. Koo	Chairman of the Bank and the Holding Company	18F, 3, Sung Shou Road, Taipei, Taiwan R.O.C.
Cheng Kang Wang	Managing Director	18F, 3, Sung Shou Road, Taipei, Taiwan R.O.C.
Jeffrey J. L. Koo, Jr.	Managing Director, President of the Bank and Holding Company	18F, 3, Sung Shou Road, Taipei, Taiwan R.O.C.
Wen-Long Yen	Director	18F, 3, Sung Shou Road, Taipei, Taiwan R.O.C.
Long-Chi Jong	Director, Chief Securities Investment Officer of the Holding Company and the Consultant of the Bank	18F, 3, Sung Shou Road, Taipei, Taiwan R.O.C.
Ming-Shan Shaw	Director	18F, 3, Sung Shou Road, Taipei, Taiwan R.O.C.
Kuo-Tsai Lin	Director	18F, 3, Sung Shou Road, Taipei, Taiwan R.O.C.
James J. Sheu	Director, Chief Credit Officer of the Holding Company and the Deputy President of the Bank	18F, 3, Sung Shou Road, Taipei, Taiwan R.O.C.
Charles L. F. Lo	Director, President of Retail Group of the Holding Company and the Deputy President and General Manager of Consumer Banking Group of the Bank	18F, 3, Sung Shou Road, Taipei, Taiwan R.O.C.
Tsai-Hua Lin	Supervisor	18F, 3, Sung Shou Road, Taipei, Taiwan R.O.C.
T. C. Tsai	Supervisor	18F, 3, Sung Shou Road, Taipei, Taiwan R.O.C.

Other Information

The Bank publishes audited consolidated and non-consolidated financial statements annually and semi-annually. The Bank publishes non-audited and non-consolidated financial statements quarterly.

As of this date, there has been no significant change in the Bank's financial, trading position or results of operations since June 30, 2002, and there has been no material adverse change in the Bank's financial position or prospects since June 30, 2002.

The Bank is not involved in or aware of any litigation or arbitration proceedings which may have, or have had during the past 12 months, a significant effect on the Bank's financial position.

The Bank is headquartered at No. 3, Sung Shou Rd., Taipei, Taiwan, R.O.C.

Selected Consolidated Financial Information and Other Data

The following table sets out summary financial information of Chinatrust Commercial Bank, Ltd. extracted from its audited consolidated annual financial statements.

Chinatrust Commercial Bank, Ltd. and Subsidiaries				
Consolidated Balance Sheets				
December 31, 1999, 2000 and 2001				
(New Taiwan Dollars in Thousands, Except for Share Data)				
	1999	2000	2001	
	Amount	Amount	Amount	Amount
	\$	\$	\$	US\$ ⁽¹⁾
Assets				
Cash	20,864,408	21,721,904	38,755,412	1,107,297.5
Deposits at interest with banks	10,848,071	13,595,599	14,319,310	409,123.1
Deposits with the Central Bank	22,835,548	23,221,461	24,465,673	699,019.2
Marketable securities — less allowance for market decline	75,666,451	79,189,782	124,811,053	3,566,030.1
Trading securities	—	1,365,138	4,161,960	118,913.1
Accounts receivables — less allowance for credit losses	57,737,411	72,523,502	91,142,921	2,604,083.5
Prepayments and short-term advances	2,368,910	2,370,011	1,579,181	45,119.5
Loans — less allowance for credit losses	419,275,612	486,895,173	554,469,640	15,841,989.7
Funds, long-term investments	3,873,552	3,586,783	3,621,636	103,475.3
Premises and Property				
Land	10,727,374	14,137,054	14,348,179	409,948.0
Buildings	9,287,541	11,607,192	12,354,613	352,988.9
Transportation equipment	86,273	84,018	82,893	2,368.4
Miscellaneous equipment	3,997,021	4,776,963	6,010,319	171,723.4
Revaluation appreciation	101,572	105,392	108,010	3,086.0
Premises and property at cost and revaluation appreciation	24,199,781	30,710,619	32,904,014	940,114.7
Less: Accumulated depreciation	(3,585,603)	(4,358,110)	(5,456,600)	(155,902.9)
Construction in progress	50,421	46,753	88,286	2,522.5
Prepayment for property	1,889,242	30,305	—	—
Prepayment for equipment	148,809	156,009	7,001	200.0
	<u>22,702,650</u>	<u>26,585,576</u>	<u>27,542,701</u>	<u>786,934.3</u>
Other assets	5,178,651	7,206,693	11,014,329	314,695.1
TOTAL ASSETS	<u><u>641,351,264</u></u>	<u><u>738,261,622</u></u>	<u><u>895,883,816</u></u>	<u><u>25,596,680.4</u></u>

Chinatrust Commercial Bank, Ltd. and Subsidiaries

Consolidated Balance Sheets — (Continued)

December 31, 1999, 2000 and 2001

(New Taiwan Dollars in Thousands, Except for Share Data)

	1999	2000	2001	
	Amount	Amount	Amount	Amount
	\$	\$	\$	US\$⁽¹⁾
Liabilities and Shareholders' Equity				
Short-term borrowings	3,692,733	5,647,668	12,008,622	343,103.5
Deposits of other banks	77,514,259	74,940,857	87,719,155	2,506,261.6
Accounts payables	19,081,663	21,483,738	24,530,551	700,872.9
Income tax payable	175,938	586,578	452,009	12,914.5
Advance collection	225,744	246,869	594,524	16,986.4
Current portion of long-term debt	—	—	533,600	15,245.7
Deposits and remittances	467,586,079	554,132,358	671,540,577	19,186,873.6
Loans from the Central Bank and other banks . .	14,224,459	8,158,607	10,716,367	306,181.9
Long-term debt	2,133,042	1,793,872	10,704,719	305,849.1
Other liabilities	2,339,811	1,766,893	3,093,615	88,389.0
Total Liabilities	586,973,728	668,757,440	821,893,739	23,482,678.2
Minority Interests	1,952,305	1,256,937	64,898	1,854.2
Shareholders' Equity				
Common stock — par value \$10 per share, 4,605,426,788 and 3,950,202,118 shares authorized and issued in 2001 and 2000, respectively	34,002,488	39,502,021	46,054,268	1,315,836.2
Preferred stock — par value \$10 per share, 250,000,000 shares authorized and issued in both 2001 and 2000. Interest rate: 6.12% . . .	—	2,500,000	2,500,000	71,428.6
Capital surplus				
Premium on stock issuance:				
Common stock	4,949,728	2,234,114	523,855	14,967.3
Preferred stock	—	7,500,000	7,500,000	214,285.7
Gain on disposal of premises and property . .	99,134	100,415	103,809	2,966.0
Land revaluation appreciation	15,040	13,786	12,533	358.1
Asset appreciation	17,919	17,366	16,288	465.4
Retained earnings				
Legal reserve	9,558,880	11,014,136	13,179,712	376,563.2
Special surplus	—	373,633	1,489,550	42,558.6
Undistributed earnings	5,140,708	7,567,242	7,868,101	224,802.9
Unrealized loss on long-term equity investments due to market decline	(649,705)	(1,250,138)	(1,620,966)	(46,313.3)
Cumulative translation adjustment	(708,961)	(875,789)	(552,493)	(15,785.5)
Treasury stock	—	(449,541)	(3,149,478)	(89,985.1)
Total Shareholders' Equity	52,425,231	68,247,245	73,925,179	2,112,148.0
Commitments and Contingencies				
TOTAL LIABILITIES AND SHAREHOLDERS'				
EQUITY	641,351,264	738,261,622	895,883,816	25,596,680.4

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Chinatrust Commercial Bank, Ltd. and Subsidiaries
Consolidated Statements of Income
Years ended December 31, 1999, 2000 and 2001
(New Taiwan Dollars in Thousands, Except for Share Data)

	1999	2000	2001	
	Amount	Amount	Amount	Amount
	\$	\$	\$	US\$⁽¹⁾
Operating Revenues:				
Interest revenue	45,111,242	60,842,422	67,545,360	1,929,867.4
Commission and fees	6,842,265	7,991,883	9,254,308	264,408.8
Gain on marketable securities, net	3,577,798	3,687,231	6,536,080	186,745.1
Gain on long-term investments, net	140,739	115,812	108,323	3,094.9
Gain on foreign exchange	304,840	—	—	—
Rental revenue	176,488	173,611	165,993	4,742.7
Gain on financial derivatives, net	—	1,695,619	1,454,929	41,569.4
Other operating revenues	2,046,363	229,677	1,541,483	44,042.4
Total Operating Revenues	<u>58,199,735</u>	<u>74,736,255</u>	<u>86,606,476</u>	<u>2,474,470.7</u>
Operating Costs:				
Interest expense	28,776,422	39,790,130	40,698,367	1,162,810.5
Commission and fees	409,141	459,020	432,196	12,348.5
Exchange loss, net	—	1,143,252	188,815	5,394.7
Provision for allowances and reserves	8,410,673	6,914,816	15,146,783	432,765.2
Derivative financial instrument loss, net	16,609	—	—	—
Other operating costs	121,612	350,893	320,147	9,147.1
Total Operating Costs	<u>37,734,457</u>	<u>48,658,111</u>	<u>56,786,308</u>	<u>1,622,465.9</u>
Gross Margin	20,465,278	26,078,144	29,820,168	852,004.8
Operating Expenses	14,032,034	17,081,595	19,761,210	564,606.0
Operating Income	<u>6,433,244</u>	<u>8,996,549</u>	<u>10,058,958</u>	<u>287,398.8</u>
Non-Operating Revenues:				
Gain on disposition of premises and property	10,421	1,562	5,689	162.5
Miscellaneous revenues	184,337	513,871	526,715	15,049.0
Total Non-Operating Revenues	<u>194,758</u>	<u>515,433</u>	<u>532,404</u>	<u>15,211.5</u>
Non-Operating Expenses				
Loss on disposition of premises and property	13,002	792	50,353	1,438.7
Miscellaneous expenses	100,681	94,126	261,471	7,470.6
Total Non-Operating Expenses	<u>113,683</u>	<u>94,918</u>	<u>311,824</u>	<u>8,909.3</u>
Income Before Taxes	6,514,319	9,417,064	10,279,538	293,701.1
Income Tax Expense	(1,484,329)	(1,961,174)	(2,240,935)	(64,026.7)
Combined Net Income	5,029,990	7,455,890	8,038,603	229,674.4
Less: Minority interest income	(168,764)	(204,150)	(128,655)	(3,675.9)
Income before merger and acquisition	—	(31,874)	(247,321)	(7,066.3)
Consolidated Net Income	<u>4,861,226</u>	<u>7,219,866</u>	<u>7,662,627</u>	<u>218,932.2</u>
Primary earnings per share ⁽²⁾ — Common Stock based on weighted average number of common shares outstanding during the period				
— 4,373,767,000 shares in 2001				
— 3,947,059,000 shares in 2000	<u>1.43</u>	<u>1.77</u>	<u>1.61</u>	<u>0.05</u>
based on retroactively adjusted weighted average number of common shares outstanding in 2000				
— 4,106,753,000 shares	<u>1.23</u>	<u>1.70</u>		

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(2) Primary earnings per share is calculated by dividing net income after tax by the weighted-average shares outstanding in each period, net of preferred stock dividends. In the event of capitalization of retained earnings, capital surplus, or employee bonus, the number of shares outstanding is retroactively adjusted upon approval of the Ministry of Economic Affairs (MOEA), regardless of the outstanding period of such incremental shares.

Chinatrust Commercial Bank, Ltd. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 1999, 2000 and 2001
(New Taiwan Dollars in Thousands)

	Common stock	Preferred stock	Capital surplus	Retained earnings	Special surplus	Undistributed earnings	Unrealized loss on market decline of long-term equity investments	Cumulative translation adjustment	Treasury stock	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Balance — January 1, 1999	29,263,461	—	7,122,000	8,340,156	—	4,384,667	(623,439)	(651,449)	—	47,835,396
Appropriation of 1998 earnings —										
Legal reserve	—	—	—	1,218,724	—	(1,218,724)	—	—	—	—
Compensation to directors and supervisors	—	—	—	—	—	(113,748)	—	—	—	(113,748)
Employee bonuses	56,874	—	—	—	—	(113,748)	—	—	—	(56,874)
Stock dividends	2,633,711	—	—	—	—	(2,633,711)	—	—	—	—
Net income for 1999	—	—	—	—	—	4,861,226	—	—	—	4,861,226
Capitalization of capital surplus	—	—	(2,048,442)	—	—	—	—	—	—	—
After-tax gain on disposal of property and equipment transferred to capital surplus	2,048,442	—	—	—	—	—	—	—	—	—
Provision for unrealized loss on market decline of long-term equity investments	—	—	10,373	—	—	(10,373)	—	—	—	—
Translation adjustment	—	—	—	—	—	—	—	—	—	—
Difference between long-term equity investment cost and net equity value (resulting from stock subscription not proportionate to percentage stockholding) offset against capital surplus and undistributed earnings	—	—	—	—	—	—	(26,266)	(57,512)	—	(26,266)
Paraguay branch assets revaluation increment	—	—	(3,243)	—	—	(14,881)	—	—	—	(18,124)
Balance — December 31, 1999	34,002,488	—	5,081,821	9,558,880	—	5,140,708	(649,705)	(708,961)	—	52,425,231
Balance — January 1, 2000	34,002,488	—	5,081,821	9,558,880	—	5,140,708	(649,705)	(708,961)	—	52,425,231
Appropriation of 1999 earnings —										
Legal reserve	—	—	—	1,455,256	—	(1,455,256)	—	—	—	—
Special reserve	—	—	—	—	373,633	(373,633)	—	—	—	—
Compensation to directors and supervisors	—	—	—	—	—	(118,270)	—	—	—	(118,270)
Employee bonuses	59,135	—	—	—	—	(118,270)	—	—	—	(59,135)
Stock dividends	2,720,199	—	—	—	—	(2,720,199)	—	—	—	—
Net income for 2000	—	—	—	—	—	7,219,866	—	—	—	7,219,866
Capitalization of capital surplus	—	—	(2,720,199)	—	—	—	—	—	—	—
Capital increase in cash	—	2,500,000	7,500,000	—	—	—	—	—	—	10,000,000
After-tax gain on disposal of property and equipment transferred to capital surplus	—	—	1,280	—	—	(1,280)	—	—	—	—
Provision for unrealized loss on market decline of long-term equity investments	—	—	—	—	—	—	(600,433)	(166,828)	—	(600,433)
Translation adjustment	—	—	—	—	—	—	—	—	—	—
Difference between long-term equity investment cost and net equity value (resulting from stock subscription not proportionate to percentage stockholding) offset against undistributed earnings	—	—	—	—	—	(6,424)	—	—	—	(6,424)
Paraguay branch assets revaluation increment	—	—	2,779	—	—	—	—	—	—	2,779
Purchase treasury stock	—	—	—	—	—	—	—	—	(449,541)	(449,541)
Balance — December 31, 2000	39,502,021	2,500,000	9,865,681	11,014,136	373,633	7,567,242	(1,250,138)	(875,789)	(449,541)	68,247,245

Chinatrust Commercial Bank, Ltd. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity — (Continued)
(New Taiwan Dollars in Thousands)

	Common stock		Preferred stock		Capital surplus		Legal reserve		Retained earnings		Special surplus		Undistributed earnings		Unrealized loss on market decline of long-term equity investments		Cumulative translation adjustment		Treasury stock		Total	
	\$	US\$	\$	US\$	\$	US\$	\$	US\$	\$	US\$	\$	US\$	\$	US\$	\$	US\$	\$	US\$	\$	US\$	\$	US\$
Balance — January 1, 2001	39,502,021	1,128,629.2	2,500,000	71,428.6	9,865,681	281,876.6	11,014,136	314,689.6	373,633	10,675.2	7,567,242	216,206.9	(1,250,138)	(35,718.2)	(875,789)	(25,022.5)	(449,541)	(12,844.0)	68,247,245	1,949,921.3		
Appropriation of 2000 earnings —																						
Legal reserve	—	—	—	—	—	—	2,165,576	61,873.6	—	—	—	(2,165,576)	(61,873.6)	—	—	—	—	—	—	—	—	—
Special surplus	—	—	—	—	—	—	—	—	1,115,917	31,883.3	(1,115,917)	(31,883.3)	—	—	—	—	—	—	—	—	—	—
Remuneration to directors and supervisors	—	—	—	—	—	—	—	—	—	—	(163,075)	(4,659.3)	—	—	—	—	—	—	—	(163,075)	(4,659.3)	—
Employee bonus	—	—	—	—	—	—	—	—	—	—	(163,075)	(4,659.3)	—	—	—	—	—	—	—	(163,075)	(4,659.3)	—
Common stock cash dividends	—	—	—	—	—	—	—	—	—	—	(3,521,649)	(100,618.5)	—	—	—	—	—	—	—	(3,521,649)	(100,618.5)	—
Preferred stock dividends	—	—	—	—	—	—	—	—	—	—	(229,082)	(6,545.2)	—	—	—	—	—	—	—	(229,082)	(6,545.2)	—
Net income for 2001	—	—	—	—	—	—	—	—	—	—	—	7,662,627	218,932.2	—	—	—	—	—	—	7,662,627	218,932.2	—
Capitalization of capital surplus	1,760,825	50,309.3	—	—	(1,760,825)	(50,309.3)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
After-tax gain on disposal of premises and property transferred to capital surplus	—	—	—	—	3,394	97.0	—	—	—	—	(3,394)	(97.0)	—	—	—	—	—	—	—	(370,828)	(10,595.1)	—
Unrealized loss on long-term equity investments	—	—	—	—	—	—	—	—	—	—	—	—	(370,828)	(10,595.1)	—	—	—	—	—	—	—	—
Cumulative translation adjustment	—	—	—	—	—	—	—	—	—	—	—	—	—	—	323,296	9,237.0	—	—	—	323,296	9,237.0	—
Paraguay branch assets revaluation appreciation	—	—	—	—	2,254	64.4	—	—	—	—	—	—	—	—	—	—	—	—	—	2,254	64.4	—
Repurchase of treasury stock	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(77,141.1)	(2,699,937)	—	—	—
Capital increase and issuance premium from merger with China Trust Holding N.V.	4,791,422	136,897.8	—	—	45,981	1,313.7	—	—	—	—	—	—	—	—	—	—	—	—	—	4,837,403	138,211.5	—
Balance — December 31, 2001	46,054,268	1,315,836.3	2,500,000	71,428.6	8,156,485	233,042.4	13,179,712	376,563.2	1,489,550	42,558.5	7,868,101	224,802.9	(1,620,966)	(46,313.3)	(552,493)	(15,785.5)	(3,149,478)	(89,985.1)	73,925,179	2,112,148.0		

Chinatrust Commercial Bank, Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 1999, 2000 and 2001
(New Taiwan Dollars in Thousands)

	1999	2000	2001	
	\$	\$	\$	US\$(⁽¹⁾)
Cash flows from operating activities:				
Net comprehensive income	4,861,226	7,219,866	7,662,627	218,932.2
Adjustments to reconcile net income to net cash provided by operating activities:				
Minority interest income	168,764	204,150	128,655	3,675.9
Income before merger and acquisition	—	31,874	247,321	7,066.3
Depreciation and amortization	826,042	1,026,764	1,448,295	41,379.9
Gain on investment recognized under the equity method over cash dividends received	(5,182)	(28,911)	5,592	159.8
Loss (gain) on disposition of long-term equity investments	(59,004)	155,619	(2,396)	(68.5)
Gain on liquidation of long-term equity investments	—	—	(2,918)	(83.4)
Loss on disposition of premises and property and collaterals	67,488	1,678	46,065	1,316.1
Loss on scrapping of premises and property	—	46,722	169,344	4,838.4
Provision for allowance for credit losses	8,633,903	6,318,784	15,295,927	437,026.5
Provision for (reversal of) allowance for market decline in marketable securities	(1,968,176)	848,892	(971,358)	(27,753.1)
Provision for guarantee endorsement	104,949	84,881	737,562	21,073.2
Provision for market decline in trading securities	98,732	41,986	161,543	4,615.5
Provision for market decline in collaterals received	—	110,000	114,158	3,261.7
Provision for default loss	—	793	5,020	143.4
Exchange gain	73,313	(442,446)	(114,166)	(3,261.9)
Others	775,612	259,198	(9,142)	(261.2)
Changes in operating assets and liabilities:				
Receivables	(1,321,186)	(3,726,907)	897,372	25,639.2
Marketable securities	3,326,897	3,985,806	(16,440,037)	(469,715.3)
Trading securities	—	(2,038,345)	(2,632,299)	(75,208.5)
Prepayments and short-term advances	(49,865)	(10,962)	818,505	23,385.9
Payables	103,244	1,939,075	(524,359)	(14,981.7)
Income tax payable	(431,422)	415,216	(134,033)	(3,829.5)
Advance collection	(86,242)	21,125	347,655	9,933.0
Bonds sold under repurchase agreements	—	358,705	(405,628)	(11,589.4)
Trading financial derivatives, net	(8,143)	223,358	48,917	1,397.6
Non-trading financial derivatives, net	(14,567)	8,229	5,269	150.5
Net cash provided by operating activities	<u>15,096,383</u>	<u>17,055,150</u>	<u>6,903,491</u>	<u>197,242.6</u>

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Chinatrust Commercial Bank, Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 1999, 2000 and 2001
(New Taiwan Dollars in Thousands)

	1999	2000	2001	
	\$	\$	\$	US\$
Cash flows from investing activities:				
Increase in foreign currency purchased, discounts and loans	(44,544,137)	(70,863,933)	(41,211,137)	(1,177,461.1)
Increase in funds and long-term equity investments	269,084	(8,236,106)	(524,177)	(14,976.5)
Increase in receivables	(7,000,390)	(17,034,566)	(22,304,265)	(637,264.7)
Proceeds from disposition of long-term equity investments	289,398	416,325	115,410	3,297.4
Proceeds from disposition of premises and property and collaterals	42,844	78,297	813,604	23,245.8
Purchase of premises and property	(1,560,005)	(4,451,528)	(1,730,678)	(49,447.9)
Decrease (increase) in deposits with the Central Bank (excluding cash equivalents)	3,365,085	(2,879,905)	3,546,419	101,326.3
Decrease (increase) in deposits with others banks (excluding cash equivalents)	(3,575,140)	4,647,702	(5,664,194)	(161,834.1)
Increase in other assets	(10,510,772)	(1,640,981)	(4,023,865)	(114,967.6)
Net cash used in investing activities	(63,224,033)	(99,964,695)	(70,982,883)	(2,028,082.4)
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings	(3,332,835)	1,393,695	2,220,633	63,446.7
Increase (decrease) in loans from the Central Bank and other banks	11,325,906	(4,383,557)	3,806,426	108,755.0
Increase (decrease) in deposits from other banks	(11,072,908)	(2,740,942)	11,503,754	328,678.7
Increase in payables	(2,687,875)	419,615	1,795,791	51,308.3
Increase in deposits and remittances	50,093,582	87,718,038	71,378,137	2,039,375.3
Increase (decrease) in long-term debt	(804,383)	(967,070)	9,444,447	269,841.3
Increase (decrease) in other liabilities	360,942	(69,915)	495,279	14,150.8
Capital increase in cash	242,511	13,933,649	—	—
Remuneration to directors and supervisors	(171,897)	(179,356)	(326,150)	(9,318.6)
Repurchase of treasury stock	—	(449,541)	(2,699,937)	(77,141.1)
Preferred stock dividends	—	—	(230,800)	(6,594.3)
Common stock cash dividends	—	—	(3,546,520)	(101,329.1)
Minority interest	—	769,100	(1,313,411)	(37,526.0)
Net cash provided by financing activities	43,953,043	95,443,716	92,527,649	2,643,647.1
Exchange rate effects	(94,646)	297,422	221,048	6,315.7
Net increase in cash and cash equivalents	(4,269,253)	12,831,593	28,669,305	819,123.0
Cash and cash equivalents, beginning of the year	41,959,753	37,814,497	52,221,984	1,492,056.7
Cash and cash equivalents, end of the year	37,690,500	50,646,090	80,891,289	2,311,179.7
Cash and cash equivalents				
Cash	20,864,408	21,721,904	38,755,412	1,107,297.5
Deposits with other banks	4,905,215	12,301,609	7,371,897	210,625.6
Deposits with the Central Bank	8,388,167	5,937,576	10,727,525	306,500.7
Bank acceptances	94,969	—	24,647	704.2
Commercial paper	3,437,741	10,685,001	24,011,808	686,051.7
	37,690,500	50,646,090	80,891,289	2,311,179.7
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest	28,848,355	38,734,619	41,417,218	1,183,349.1
Guaranteed interest on trust funds	289,435	280,596	232,519	6,643.4
Income taxes	2,028,982	1,322,270	1,876,704	53,620.1
Non-cash financing and investing activities:				
Current portion of long-term debt	627,900	—	533,600	15,245.7
Employees bonus	—	59,135	—	—
Increase in assets from merger with China Trust Holding N.V.	—	—	4,837,403	138,211.5
Increase in liabilities and shareholder's equity from merger with China Trust Holding N.V.	—	—	4,837,403	138,211.5

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Selected Non-Consolidated Financial Information and Other Data

The following table sets out summary financial information of Chinatrust Commercial Bank, Ltd. extracted from its audited non-consolidated annual financial statements.

Chinatrust Commercial Bank, Ltd. Non-Consolidated Balance Sheets December 31, 1999, 2000 and 2001 (New Taiwan Dollars in Thousands, Except for Share Data)				
	1999 Amount	2000 Amount	2001 Amount	US\$ Amount US\$(⁽¹⁾)
	\$	\$	\$	
ASSETS				
Cash	11,588,176	9,349,719	6,965,152	199,004.3
Due from banks	9,345,440	12,763,775	9,541,949	272,627.1
Deposits with the Central Bank	22,713,446	22,865,654	24,129,431	689,412.3
Marketable securities	78,732,780	82,808,306	130,966,660	3,741,904.6
Less: Allowance for market decline	(402,653)	(1,062,589)	(386,839)	(11,052.5)
	<u>78,330,127</u>	<u>81,745,717</u>	<u>130,579,821</u>	<u>3,730,852.1</u>
Receivables	59,227,839	72,157,271	87,390,500	2,496,871.4
Less: Allowance for credit losses	(3,009,898)	(2,296,004)	(2,740,414)	(78,297.5)
	<u>56,217,941</u>	<u>69,861,267</u>	<u>84,650,086</u>	<u>2,418,573.9</u>
Loans	417,817,693	483,860,851	509,767,742	14,564,792.6
Less: Allowance for credit losses	(4,607,095)	(5,268,568)	(7,334,316)	(209,551.9)
	<u>413,210,598</u>	<u>478,592,283</u>	<u>502,433,426</u>	<u>14,355,240.7</u>
Long-term investments	8,373,222	12,459,706	20,947,054	598,487.3
Premises and property				
Land and buildings, net	20,543,739	23,724,033	23,633,073	675,230.7
Equipments and other properties, net	1,985,315	2,309,680	2,755,230	78,720.9
	<u>22,529,054</u>	<u>26,033,713</u>	<u>26,388,303</u>	<u>753,951.5</u>
Other assets	6,101,136	8,195,169	11,290,449	322,584.3
TOTAL ASSETS	<u>628,409,140</u>	<u>721,867,003</u>	<u>816,925,671</u>	<u>23,340,733.5</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks	19,591,868	20,122,175	37,033,806	1,058,108.7
Payables	18,873,765	21,520,812	20,169,741	576,278.3
Deposits	517,129,166	595,347,001	653,129,282	18,660,836.6
Other borrowings	17,877,548	14,163,001	27,618,137	789,089.6
Other liabilities	2,511,562	2,466,769	5,049,526	144,272.2
Total liabilities	<u>575,983,909</u>	<u>653,619,758</u>	<u>743,000,492</u>	<u>21,228,585.4</u>
Shareholders' Equity				
Common stock — par value \$10 per share, 3,400,248,830, 3,950,202,118 and 4,605,426,788 shares authorized and issued as of December 31, 1999, 2000 and 2001, respectively	34,002,488	39,502,021	46,054,268	1,315,836.2
Preferred stock — par value \$10 per share, 250,000,000 shares authorized and issued as of December 31, 2000 and 2001	—	2,500,000	2,500,000	71,428.6
Capital surplus				
Additional paid-in capital — common stock	4,949,728	2,234,114	523,855	14,967.3
Additional paid-in capital — preferred stock	—	7,500,000	7,500,000	214,285.7
Gain on disposition of properties	99,134	100,415	103,809	2,966.0
Land appreciation from revaluation	15,040	13,786	12,533	358.1
Asset appreciation	17,919	17,366	16,288	465.4
Retained earnings				
Legal reserve	9,558,880	11,014,136	13,179,712	376,563.2
Special reserve	—	373,633	1,489,550	42,558.6
Undistributed earnings	5,140,708	7,567,242	7,868,101	224,802.9
Unrealized long-term equity investment loss	(649,705)	(1,250,138)	(1,620,966)	(46,313.3)
Cumulative translation adjustments	(708,961)	(875,789)	(552,493)	(15,785.5)
Treasury stock	—	(449,541)	(3,149,478)	(89,985.1)
Total shareholders' equity	<u>52,425,231</u>	<u>68,247,245</u>	<u>73,925,179</u>	<u>2,112,148.1</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>628,409,140</u>	<u>721,867,003</u>	<u>816,925,671</u>	<u>23,340,733.5</u>

(1) Translated into United States Dollars using the noon buying rate published by the Federal Reserve Bank in New York at December 31, 2001 of NT\$35.0 = U.S.\$1.00. All amounts translated into United States Dollars are provided solely for the convenience of the reader.

Chinatrust Commercial Bank, Ltd.
Non-Consolidated Statements of Income
Years Ended December 31, 1999, 2000 and 2001

(New Taiwan Dollars in Thousands, Except for Share Data)

	1999	2000	2001	
	Amount	Amount	Amount	US\$ Amount
	\$	\$	\$	US\$(1)
Interest Income	44,492,061	48,891,285	52,007,745	1,485,935.6
Interest Expense	(26,592,386)	(27,471,265)	(26,878,087)	(767,945.3)
Net Interest Income	17,899,675	21,420,020	25,129,658	717,990.3
Non-Interest Income:				
Commissions and fees	5,719,453	6,499,775	7,543,870	215,539.1
Gain on long-term investments, net	533,410	261,113	2,056,574	58,759.3
Gain on sale of marketable securities, net	2,268,661	125,025	3,501,105	100,031.6
Gain on sale of financial derivatives and others assets	889,185	2,250,378	2,312,916	66,083.3
Total Non-Interest Income	9,410,709	9,136,291	15,414,465	440,413.3
Operating revenue before provision for credit losses	27,310,384	30,556,311	40,544,123	1,158,403.6
Provision for credit losses	(8,064,353)	(5,627,755)	(14,166,900)	(404,768.6)
Operating revenue after provision for credit losses	19,246,031	24,928,556	26,377,223	753,635.0
Non-Interest Expenses:				
Operating expenses	(11,111,414)	(13,931,042)	(15,081,338)	(430,895.4)
Taxes	(1,395,169)	(1,071,961)	(1,189,317)	(33,980.5)
Commissions and fees and others	(611,829)	(904,615)	(976,982)	(27,913.8)
	(13,118,412)	(15,907,618)	(17,247,637)	(492,789.7)
Income Before Taxes	6,127,619	9,020,938	9,129,586	260,845.3
Income Tax Expense	(1,266,393)	(1,801,072)	(1,466,959)	(41,913.1)
Net Income	4,861,226	7,219,866	7,662,627	218,932.2
Primary earnings per share(2); expressed in New Taiwan Dollars				
Based on weighted average number of outstanding				
— 3,400,249,000 shares for 1999				
— 3,947,059,000 shares for 2000				
— 4,373,767,000 shares for 2001	1.43	1.77	1.61	0.05
Based on retroactively adjusted weighted average number of outstanding shares				
— 4,109,885,000 shares for 1999				
— 4,106,753,000 shares for 2000	1.18	1.70		

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(2) Primary earnings per share is calculated by dividing net income after tax by the weighted-average shares outstanding in each period, net of preferred stock dividends. In the event of capitalization of retained earnings, capital surplus, or employee bonus, the number of shares outstanding is retroactively adjusted upon approval of the Ministry of Economic Affairs (MOEA), regardless of the outstanding period of such incremental shares.

Chinatrust Commercial Bank, Ltd. (Unconsolidated)
Non-consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 1999, 2000 and 2001
(New Taiwan Dollars in Thousands)

	Common stock	Preferred stock	Capital surplus	Retained earnings			Unrealized loss on long-term equity investments due to market decline	Cumulative translation adjustment	Treasury stock	Total
	\$	\$	\$	Legal reserve	Special surplus	Undistributed earnings	\$	\$	\$	\$
Balance — January 1, 1999	29,263,461	—	7,122,000	8,340,156	—	4,384,667	(623,439)	(651,449)	—	47,835,396
Appropriation of 1998 earnings —	—	—	—	—	—	—	—	—	—	—
Legal reserve	—	—	—	1,218,724	—	(1,218,724)	—	—	—	—
Compensation to directors and supervisors	—	—	—	—	—	(13,748)	—	—	—	(13,748)
Employee bonuses	56,874	—	—	—	—	(13,748)	—	—	—	(56,874)
Stock dividends	2,633,711	—	—	—	—	2,633,711	—	—	—	—
Net income for 1999	—	—	—	—	—	4,861,226	—	—	—	4,861,226
Capitalization of capital surplus	—	—	(2,048,442)	—	—	—	—	—	—	—
After-tax gain on disposal of property and equipment transferred to capital surplus	2,048,442	—	—	—	—	—	—	—	—	—
Provision for unrealized loss on market decline of long-term equity investments	—	—	10,373	—	—	(10,373)	—	—	—	—
Translation adjustment	—	—	—	—	—	—	(26,266)	—	—	(26,266)
The difference between long-term equity investment cost and net equity value (resulting from stock subscription not proportionate to percentage stockholding) offset against capital surplus and undistributed earnings	—	—	(3,243)	—	—	(14,881)	—	—	—	(18,124)
Paraguay branch assets revaluation increment	—	—	1,133	—	—	—	—	—	—	1,133
Balance — December 31, 1999	<u>34,002,488</u>	<u>—</u>	<u>5,081,821</u>	<u>9,558,880</u>	<u>—</u>	<u>5,140,708</u>	<u>(649,705)</u>	<u>(708,961)</u>	<u>—</u>	<u>52,425,231</u>
Balance — January 1, 2000	34,002,488	—	5,081,821	9,558,880	—	5,140,708	(649,705)	(708,961)	—	52,425,231
Appropriation of 1999 earnings —	—	—	—	—	—	—	—	—	—	—
Legal reserve	—	—	—	1,455,256	—	(1,455,256)	—	—	—	—
Special surplus	—	—	—	—	373,633	(373,633)	—	—	—	—
Remuneration to directors and supervisors	—	—	—	—	—	(118,270)	—	—	—	(118,270)
Employee bonus	59,135	—	—	—	—	(118,270)	—	—	—	(59,135)
Stock dividends	2,720,199	—	—	—	—	(2,720,199)	—	—	—	—
Net income for 2000	—	—	(2,720,199)	—	—	7,219,866	—	—	—	7,219,866
Capitalization of capital surplus	—	—	7,500,000	—	—	—	—	—	—	—
After-tax gain on disposal of premises and property transferred to capital surplus	—	—	1,280	—	—	(1,280)	—	—	—	—
Provision for unrealized loss on long-term equity investments	—	—	—	—	—	—	(600,433)	—	—	(600,433)
Translation adjustment	—	—	—	—	—	—	—	(166,828)	—	(166,828)
Difference between cost and net equity value of long-term investments due to stock subscription not on a pro rata basis charged against shareholders' equity	—	—	—	—	—	—	—	—	—	—
Paraguay branch assets revaluation appreciation	—	—	2,779	—	—	(6,424)	—	—	—	(6,424)
Acquisition of treasury stock	—	—	—	—	—	—	—	—	(449,541)	(449,541)
Balance — December 31, 2000	<u>39,502,021</u>	<u>2,500,000</u>	<u>9,865,681</u>	<u>11,014,136</u>	<u>373,633</u>	<u>7,567,242</u>	<u>(1,290,138)</u>	<u>(875,789)</u>	<u>(449,541)</u>	<u>68,247,245</u>

Chinatrust Commercial Bank, Ltd. (Unconsolidated)
Non-consolidated Statements of Changes in Shareholders' Equity — (Continued)
Years Ended December 31, 1999, 2000 and 2001
(New Taiwan Dollars in Thousands)

	Common stock		Preferred stock		Capital surplus		Legal reserve		Retained earnings		Special surplus		Undistributed earnings		Unrealized loss on long-term equity investments due to market decline		Cumulative translation adjustment		Treasury stock		Total	
	\$	US\$	\$	US\$	\$	US\$	\$	US\$	\$	US\$	\$	US\$	\$	US\$	\$	US\$	\$	US\$	\$	US\$	\$	US\$
Balance — January 1, 2001	39,502,021	1,128,629.2	2,500,000	71,428.6	9,865,681	281,876.6	11,014,136	314,689.6	373,633	10,675.2	7,567,242	216,206.9	(1,250,138)	(35,718.2)	(875,789)	(25,022.5)	(449,541)	(12,844.0)	68,247,245	1,949,921.3		
Appropriation of 2000 earnings —																						
Legal reserve	—	—	—	—	—	—	2,165,576	61,873.6	—	—	—	(2,165,576)	(61,873.6)	—	—	—	—	—	—	—	—	—
Special surplus	—	—	—	—	—	—	—	—	1,115,917	31,883.3	(1,115,917)	(31,883.3)	—	—	—	—	—	—	—	—	—	—
Remuneration to directors and supervisors	—	—	—	—	—	—	—	—	—	—	(163,075)	(4,659.3)	—	—	—	—	—	—	(163,075)	(4,659.3)	—	—
Employee bonus	—	—	—	—	—	—	—	—	—	—	(163,075)	(4,659.3)	—	—	—	—	—	—	(163,075)	(4,659.3)	—	—
Dividends declared — Common stock	—	—	—	—	—	—	—	—	—	—	(3,521,649)	(100,618.5)	—	—	—	—	—	—	(3,521,649)	(100,618.5)	—	—
Dividends declared — Preferred stock	—	—	—	—	—	—	—	—	—	—	(229,082)	(6,545.2)	—	—	—	—	—	—	(229,082)	(6,545.2)	—	—
Net income for 2001	—	—	—	—	—	—	—	—	—	—	7,662,627	218,932.2	—	—	—	—	—	—	7,662,627	218,932.2	—	—
Capitalization of capital surplus	1,760,825	50,309.3	—	—	(1,760,825)	(50,309.3)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
After-tax gain on disposal of premises and property transferred to capital surplus	—	—	—	—	3,394	97.0	—	—	—	—	(3,394)	(97.0)	—	—	—	—	—	—	—	—	—	—
Unrealized loss on long-term equity investments	—	—	—	—	—	—	—	—	—	—	—	—	(370,828)	(10,595.1)	—	—	—	—	(370,828)	(10,595.1)	—	—
Translation adjustment	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	9,237.0	—	—	323,296	9,237.0	—	—
Paraguay branch assets revaluation appreciation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,254	64.4	—	—
Acquisition of treasury stock	—	—	—	—	2,254	64.4	—	—	—	—	—	—	—	—	—	—	—	—	(2,699,937)	(77,141.1)	—	—
Capital increase and issuance premium from merger with China Trust Holding N.V.	4,791,422	136,897.8	—	—	45,981	1,313.7	—	—	—	—	—	—	—	—	—	—	—	—	—	4,837,403	138,211.5	—
Balance — December 31, 2001	46,054,288	1,315,836.2	2,500,000	71,428.6	8,156,485	233,042.4	13,179,712	376,563.2	1,489,580	42,586.6	7,868,101	224,902.9	(1,620,966)	(46,313.3)	(532,403)	(15,785.5)	(3,149,478)	(89,983.1)	73,925,179	2,112,148.0		

Chinatrust Commercial Bank, Ltd.
Non-consolidated Statements of Cash Flows
For The Years Ended December 31, 1999, 2000 and 2001
(New Taiwan Dollars in Thousands)

	1999	2000	2001	
	\$	\$	\$	US\$⁽¹⁾
Cash flows from operating activities:				
Net income.	4,861,226	7,219,866	7,662,627	218,932.2
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization.	800,306	961,519	1,331,618	38,046.2
Gain on investments recognized under the equity method over cash dividends received	(439,039)	(232,016)	(1,974,118)	(56,403.4)
Loss on scrapping of premise and property	64,830	—	169,344	4,838.4
Loss (gain) on disposition of properties and collateral undertaken	2,576	46,777	44,987	1,285.3
Loss (gain) on disposition of long-term investments.	(59,004)	155,619	(5,314)	(151.8)
Provision for credit losses	8,529,846	6,303,339	14,829,418	423,697.7
Provision for (reversal of) allowance for market decline in marketable securities	(1,971,842)	657,820	(861,423)	(24,612.1)
Provision for guarantee reserve	(86,730)	36,572	284,136	8,118.2
Provision for marketable securities	71,967	41,986	86,047	2,458.5
Provision for market decline in collateral received.	0	110,000	114,158	3,261.7
Foreign exchange loss (gain).	73,313	(442,446)	(114,166)	(3,261.9)
Others	(69,069)	259,197	(9,142)	(261.2)
Changes in operating assets and liabilities:				
Receivables	(839,602)	(3,332,407)	1,444,782	41,279.5
Marketable securities	3,575,606	6,502,563	(16,839,610)	(481,131.7)
Payables.	113,007	1,876,033	(1,170,078)	(33,430.8)
Trading financial derivatives held, net	(8,143)	223,358	(72,871)	(2,082.0)
Non-trading financial derivatives held, net	(14,567)	8,229	5,269	150.5
Net cash provided by operating activities	<u>14,604,681</u>	<u>20,396,009</u>	<u>4,925,664</u>	<u>140,733</u>
Cash flows from investing activities:				
Decrease (increase) in receivables	(7,116,155)	(13,097,392)	(20,272,933)	(579,226.7)
Increase in loans	(49,911,847)	(68,898,551)	(34,631,229)	(989,463.7)
Increase in long-term equity investments	(440,081)	(5,337,571)	(1,813,815)	(51,823.3)
Proceed from disposition of long-term equity investments.	289,398	416,325	108,708	3,105.9
Proceed from disposition of premises and property and collateral undertaken	42,844	120,592	801,322	22,894.9
Purchase of premises and property.	(1,483,634)	(4,406,922)	(1,664,165)	(47,547.6)
Decrease (increase) in deposits with the Central Bank (excluding cash equivalents).	3,318,613	(2,602,799)	3,526,172	100,747.8
Decrease (increase) in call loans to and due from banks (excluding cash equivalents).	(3,723,640)	4,649,034	(5,746,712)	(164,191.8)
Increase in other assets	(2,921,397)	(2,781,189)	(4,182,703)	(119,505.8)
Net cash used in investing activities	<u>(61,945,899)</u>	<u>(91,938,473)</u>	<u>(63,875,355)</u>	<u>(1,825,010.1)</u>
Cash flows from financing activities:				
Common stock dividends paid.	—	—	(3,521,649)	(100,618.5)
Preferred stock dividends paid	—	—	(229,082)	(6,545.2)
Increase (decrease) in payables	(3,264,358)	771,080	(180,993)	(5,171.2)
Increase (decrease) in deposits	46,175,646	78,217,835	57,782,281	1,650,922.3
Increase (decrease) in borrowings and other financing	8,790,928	(3,714,547)	13,455,136	384,432.5
Decrease in call loans from and due to banks	(9,611,034)	530,307	16,911,631	483,189.5
Increase (decrease) in other liabilities	768,398	(123,351)	2,212,574	63,216.4
Remuneration to directors and supervisors	(170,675)	(177,471)	(326,150)	(9,318.6)
Capital increase in cash	—	10,000,000	—	—
Repurchase of treasury stock.	—	(449,541)	(2,699,937)	(77,141.1)
Net cash (used in) provided by financing activities	<u>42,688,905</u>	<u>85,054,312</u>	<u>83,403,811</u>	<u>2,382,966</u>
Foreign exchange effects	<u>(73,313)</u>	<u>442,446</u>	<u>114,166</u>	<u>3,261.9</u>
Net increase in cash and cash equivalents.	(4,725,626)	13,954,294	24,568,286	701,951
Cash and cash equivalents, the beginning of the period	<u>37,588,786</u>	<u>32,863,160</u>	<u>46,817,454</u>	<u>1,337,641.5</u>
Cash and cash equivalents, the end of the period.	<u><u>32,863,160</u></u>	<u><u>46,817,454</u></u>	<u><u>71,385,740</u></u>	<u><u>2,039,592.6</u></u>

Chinatrust Commercial Bank, Ltd.
Non-consolidated Statements of Cash Flows — (Continued)
For The Years Ended December 31, 1999, 2000 and 2001
(New Taiwan Dollars in Thousands)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	
	\$	\$	\$	US\$(⁽¹⁾)
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	28,214,033	38,083,884	39,053,342	1,115,809.8
Guaranteed interest on trust funds	289,435	280,596	232,519	6,643.4
Income taxes	1,790,129	1,168,945	1,639,297	46,837.1
Non-cash financing activities:				
Current portion of long-term debt	627,900	—	533,600	15,245.7
Cash dividends — Common stock	—	—	—	—
Preferred stock dividends	—	—	—	—
Employee bonus	—	59,135	—	—
Remuneration of directors and supervisors	—	—	—	—
Cash and cash equivalents				
Cash	11,588,176	9,349,719	6,965,152	199,004.3
Due from banks	3,401,084	11,468,453	2,499,915	71,426.1
Deposits with the central bank	8,388,167	5,937,576	10,727,525	306,500.7
Banker's acceptances purchased	67,263	—	—	—
Certificates of time deposits purchased	8,874,869	11,430,406	31,596,471	902,756.3
Commercial paper	543,601	8,631,300	19,596,677	559,905.1
	<u>32,863,160</u>	<u>46,817,454</u>	<u>71,385,740</u>	<u>2,039,592.6</u>

- (1) Translated into United States Dollars using the noon buying rate published by the Federal Reserve Bank in New York at December 31, 2001 of NT\$35.0 = U.S.\$1.00. All amounts translated into United States Dollars are provided solely for the convenience of the reader.

Selected Non-Consolidated Nine Months Financial Information of Chinatrust Commercial Bank, Ltd.

The following table sets out summary financial information of Chinatrust Commercial Bank, Ltd. extracted from its unaudited non-consolidated nine months financial statements.

Chinatrust Commercial Bank, Ltd. Balance Sheets September 30, 2001 and 2002 (Expressed in Thousands of New Taiwan Dollars and U.S. Dollars)			
	September 30, 2001	September 30, 2002	
	NTD	NTD	USD ⁽¹⁾
ASSETS			
Cash	\$ 9,374,949	\$ 7,098,092	\$ 203,279
Call loan to and due from banks	15,126,175	15,352,012	439,659
Deposits with the Central Bank	27,287,386	25,264,364	723,534
Marketable securities	114,914,914	112,187,955	3,212,898
Less: Allowance for market decline	(1,251,901)	(25,000)	(716)
	113,663,013	112,162,955	3,212,182
Receivables	79,967,838	84,490,032	2,419,670
Less: Allowance for credit losses	(2,847,014)	(2,222,438)	(63,647)
	77,120,824	82,267,594	2,356,023
Loans	504,523,980	541,278,029	15,501,404
Less: Allowance for credit losses	(6,497,702)	(7,906,341)	(226,426)
	498,026,278	533,371,688	15,274,978
Long-term equity and real estate investments	19,993,700	18,973,652	543,377
Premises and property			
Land and buildings, net	23,685,835	23,582,325	675,363
Equipments and other properties, net	2,556,230	3,121,390	89,392
	26,242,065	26,703,715	764,755
Other assets	8,792,048	10,302,875	295,059
TOTAL ASSETS	\$795,626,438	\$831,496,947	\$23,812,846
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities			
Call loans from and due to banks	\$ 25,858,095	\$ 49,440,075	\$ 1,415,891
Payables	22,166,052	20,630,316	590,822
Deposits at interest	645,440,542	651,663,616	18,662,684
Borrowings and other financing	24,414,980	29,749,005	851,968
Other liabilities	4,544,911	2,757,696	78,976
Total liabilities	722,424,580	754,240,708	21,600,341
Stockholders' equity			
Common stock — par value \$10 per share, authorized and issued 4,605,426,788 shares as of September 30, 2002; authorized and issued 4,605,426,788 and 4,429,344,335 shares as of September 30, 2001	44,293,443	46,054,268	1,318,926
Preferred stock — par value \$10 per share, 250,000,000 shares authorized and issued as of Sep. 30, 2002 and 2001			
Interest rate: 6.12%	2,500,000	2,500,000	71,596
Capital to be transferred — common stock	1,760,825	—	—
Capital surplus			
Paid-in capital in excess of par — common stock	523,855	523,855	15,002
Paid-in capital in excess of par — preferred stock	7,500,000	7,500,000	214,789
Other additional paid — in capital	130,596	35,757	1,024
Retained earnings			
Legal reserve	13,179,712	15,508,624	444,144
Special reserve	1,489,550	1,816,240	52,015
Unappropriated earnings	5,768,987	10,023,053	287,046
Unrealized long-term equity investments market decline	(1,697,054)	(1,459,747)	(41,805)
Cumulative translation adjustments	(626,247)	(471,725)	(13,509)
Treasury stock	(1,621,809)	(4,774,086)	(136,723)
Total Stockholders' Equity	73,201,858	77,256,239	2,212,505
Commitments and Contingencies			
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$795,626,438	\$831,496,947	\$23,812,846

(1) Translated into United States Dollars using the noon buying rate published by Federal Reserve Bank in New York at September 30, 2002 of NT\$34.918=U.S.\$1.00. All amounts translated into United States Dollars are provided solely for the convenience of the reader.

Chinatrust Commercial Bank, Ltd.
Statements of Income
For the Nine Months Ended September 30, 2001 and 2002
(Expressed in Thousands of New Taiwan Dollars and
U.S. Dollars Except EPS)

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2002	
	NTD	NTD	USD⁽¹⁾
Operating Revenues			
Interest income	\$39,649,358	\$34,136,464	\$977,618
Commissions and handing fees	5,448,462	6,429,412	184,129
Gain on marketable securities, net	1,564,716	1,445,046	41,384
Gain on long-term equity investments, net	1,197,667	1,710,914	48,998
Exchange gain, net	—	450,051	12,889
Gain on financial derivatives, net	1,578,195	287,186	8,225
Rental income	102,707	120,438	3,449
Other operating revenues	30,639	1,198	34
Total Operating Revenues	<u>49,571,744</u>	<u>44,580,709</u>	<u>1,276,726</u>
Operating Costs			
Interest expense	21,327,250	11,519,513	329,902
Commissions and handing fees paid	595,180	681,898	19,529
Exchange loss, net	81,090	—	—
Provisions for allowances and reserves	9,010,061	6,623,128	189,676
Total Operating Costs	<u>31,013,581</u>	<u>18,824,539</u>	<u>539,107</u>
Gross Margin	18,558,163	25,756,170	737,619
Operating Expenses	11,400,450	12,958,433	371,110
Taxes	896,037	838,790	24,022
Operating Income	<u>6,261,676</u>	<u>11,958,947</u>	<u>342,487</u>
Non-Operating Revenues			
Gain on disposal of premises and property	2,165	702	20
Miscellaneous income	304,585	251,340	7,198
Total Non-Operating Revenues	<u>306,750</u>	<u>252,042</u>	<u>7,218</u>
Non-Operating Expenses			
Loss on disposal of premises and property	1,345	317	9
Miscellaneous expenses	120,840	91,882	2,632
Total Non-Operating Expenses	<u>122,185</u>	<u>92,199</u>	<u>2,641</u>
Income before Income Tax	6,446,241	12,118,790	347,064
Income Tax Expense	(882,508)	(2,668,328)	(76,417)
Net Income	<u>\$ 5,563,733</u>	<u>\$ 9,450,462</u>	<u>\$270,647</u>
	Before	Before	After
	income tax	income tax	income tax
Primary EPS	<u>\$1.43</u>	<u>\$2.64</u>	<u>\$2.04</u>
Primary EPS, retroactively-adjusted	<u>\$1.38</u>		

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Chinatrust Commercial Bank, Ltd.
Statement of Cash Flows
For the Nine Months Ended September 30,
2001 and 2002
(Expressed in Thousands of New Taiwan Dollars and
U.S. Dollars)

	For the Nine Months Ended September, 30		
	NTD	NTD	USD⁽¹⁾
Cash flows from operating activities:			
Net income	\$ 5,563,733	\$ 9,450,462	\$ 270,647
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	937,231	1,160,111	33,224
Gain on investment recognized under the equity method over cash dividends received	(1,170,975)	(1,716,947)	(49,171)
Gain on disposal of long-term equity investments	(5,314)	36,212	1,037
Loss on long-term equity investments reorganization	—	3,668	105
Loss (gain) on disposition of properties and collateral undertaken	27,817	114,262	3,272
Loss on scrapping of premises and property	25,804	13,287	381
Provision for credit losses	9,641,227	8,430,635	241,441
Reversal of allowance for market decline in marketable securities	78,802	(358,720)	(10,273)
Provision for guarantee reserve	181,765	(63,128)	(1,808)
Provision for allowance for market decline in marketable securities	86,047	—	0
Provision for market decline in collaterals undertaken	—	85,399	2,446
Foreign exchange (gain) loss	47,322	269,437	7,716
Others	(64,663)	9,931	285
Changes in operating assets and liabilities:			
Receivables	840,714	2,487,991	71,252
Marketable securities	(9,115,222)	26,452,486	757,560
Payables	1,395,051	(2,561,785)	(73,366)
Income tax payable	(350,124)	1,000,506	28,653
Trading-related financial derivatives held, net	(164,701)	303,354	8,688
Non-trading financial derivatives held, net	4,479	(67,728)	(1,940)
Net cash provided by operating activities	<u>7,958,993</u>	<u>45,049,433</u>	<u>1,290,149</u>
Cash flows from investing activities:			
Increase in loans	(19,921,606)	(36,727,490)	(1,051,821)
Increase in receivables	(16,300,533)	(2,747,338)	(78,680)
Increase in long-term equity investments	(1,757,703)	(4,020)	(115)
Proceeds from disposal of long-term equity investments	108,708	4,236,505	121,327
Proceeds from disposal of premises and property and collateral undertaken	510,394	859,289	24,609
Purchase of premises and property	(1,080,687)	(1,194,186)	(34,200)
Increase in deposits with the Central Bank (excluding cash equivalents)	(1,944,871)	(350,117)	(10,027)
Decrease (increase) in call loans to and due from banks (excluding cash equivalents)	(6,451,839)	(932,679)	(26,710)
Decrease in other assets	(2,024,568)	(872,625)	(24,991)
Net cash used in investing activities	<u>(48,862,705)</u>	<u>(37,732,661)</u>	<u>(1,080,608)</u>
Cash flows from financing activities:			
Increase in borrowings and other financing	5,735,920	2,130,868	61,025
Increase (decrease) in call loans from and due to banks	10,251,979	12,406,269	355,297
Increase (decrease) in payables	(646,556)	2,021,854	57,903
Increase in deposits	50,093,541	(1,465,666)	(41,975)
Increase (decrease) in other liabilities	2,057,199	(2,048,433)	(58,664)
Remuneration of directors and supervisor	(163,075)	(188,172)	(5,389)
Employee bonuses	(163,075)	(188,172)	(5,389)
Cash dividends-Common Stock	(3,521,649)	(3,996,652)	(114,458)
Preferred stock dividends	(229,082)	(612,000)	(17,527)
Repurchase of treasury stock	(1,172,268)	(1,624,608)	(46,526)
Net cash provided (use in) by financing activities	<u>62,242,934</u>	<u>6,435,288</u>	<u>184,297</u>
Foreign exchange effects	<u>(47,322)</u>	<u>(269,437)</u>	<u>(7,716)</u>
Net increase in cash and cash equivalents	<u>21,291,900</u>	<u>13,482,623</u>	<u>386,122</u>
Cash and cash equivalents, the beginning of the period	<u>46,817,454</u>	<u>71,385,740</u>	<u>2,044,382</u>
Cash and cash equivalents, the end of the period	<u>\$68,109,354</u>	<u>\$84,868,363</u>	<u>\$2,430,504</u>

Chinatrust Commercial Bank, Ltd.
Statement of Cash Flows — (Continued)
For the Nine Months Ended September 30,
2001 and 2002
(Expressed in Thousands of New Taiwan Dollars and
U.S. Dollars)

	For the Nine Months Ended September, 30		
	NTD	NTD	USD⁽¹⁾
Cash and cash equivalents			
Cash	\$ 9,374,949	\$ 7,098,092	\$ 203,279
Call loan to and due from banks	7,379,014	7,377,299	211,275
Deposits with the Central Bank	8,414,438	11,512,341	329,696
Negotiable certificates of time deposits purchased	17,048,728	36,728,677	1,051,855
Commercial paper	25,892,225	22,151,954	634,399
	<u>\$68,109,354</u>	<u>\$84,868,363</u>	<u>\$2,430,504</u>
Supplemental disclosures of cash flows information:			
Cash paid during the year for:			
Interest	<u>\$19,972,576</u>	<u>\$14,139,920</u>	<u>\$ 404,946</u>
Guaranteed interest on trust funds	<u>\$1,888</u>	<u>\$ 865</u>	<u>\$ 25</u>
Income tax	<u>\$ 1,654,992</u>	<u>\$ 732,696</u>	<u>\$ 20,983</u>
Increase in assets from merger with China Trust Holding N.V.	<u>\$ 4,837,403</u>	<u>\$ —</u>	<u>\$ —</u>
Increase in liabilities and stockholder's equity from merger with China Trust Holding N.V.	<u>\$ 4,837,403</u>	<u>\$ —</u>	<u>\$ —</u>

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Capitalization of Chinatrust Commercial Bank, Ltd.

Set out below are the unaudited non-consolidated borrowings and shareholders' equity of Chinatrust Commercial Bank, Ltd. as of September 30, 2002:

	September 30, 2002		September 30, 2001	
	NT\$'000	U.S.\$'000	NT\$'000	U.S.\$'000 ⁽¹⁾
Stockholders' equity				
Common stock	46,054,268	1,318,926	44,293,443	1,282,047
Preferred stock	2,500,000	71,596	2,500,000	72,361
Capital to be transferred — common stock	—	—	1,760,825	50,966
Capital surplus				
Paid-in capital in excess of par				
— common stock	523,855	15,002	523,855	15,163
Paid-in capital in excess of par				
— preferred stock	7,500,000	214,789	7,500,000	217,083
Other additional paid-in capital	35,757	1,024	130,596	3,780
Retained earnings				
Legal reserve	15,508,624	444,144	13,179,712	381,479
Special reserve	1,816,240	52,014	1,489,550	43,114
Unappropriated earnings	10,023,053	287,045	5,768,987	166,980
Unrealized long-term equity investments market decline	(1,459,747)	(41,805)	(1,697,054)	(49,120)
Cumulative translation adjustments	(471,725)	(13,510)	(626,247)	(18,126)
Treasury stock	(4,774,086)	(136,723)	(1,621,809)	(46,942)
Total Stockholders' Equity	<u>77,256,239</u>	<u>2,212,502</u>	<u>73,201,858</u>	<u>2,118,785</u>

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Except as set forth above, there has been no material change in non-consolidated liabilities and equity of the Bank since September 30, 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

This discussion and analysis should be read in conjunction with the Consolidated Financial Statements of the Company and its consolidated subsidiaries and the Non-Consolidated Financial Statements of the Company included elsewhere in this Offering Circular. Such financial statements are English translations of the auditors' report and financial statements in Chinese prepared for and used in the ROC. The financial statements are not intended to present the financial position and results of operations and cash flows of the Company and its consolidated subsidiaries and the Company, as the case may be, in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than those in the ROC. The standards, procedures and practices utilized to audit such financial statements are those generally accepted and applied in the ROC. See "Summary of Significant Differences between ROC GAAP and U.S. GAAP". The Company has not quantified the effect of the differences that would arise in the event its financial condition and results of operations were restated or reconciled to U.S. GAAP; however, some of these differences could be material. See "Risk Factors — Risks Relating to the ROC — Financial reporting and accounting standards in the ROC differ from other countries; bonus share issuance". This Offering Circular contains both consolidated financial statements of the Company and its consolidated subsidiaries and non-consolidated financial statements of the Company as of and for the years ended December 31, 1999, 2000 and 2001 and non-consolidated financial statements ended September 30, 2001 and 2002. It is not possible to make direct comparisons between information contained in the Consolidated Financial Statements and the Non-Consolidated Financial Statements. The Company is not required to, and does not, prepare interim financial statements on a consolidated basis.

This discussion and analysis contains forward-looking statements. These statements are subject to certain risks and uncertainties, including those discussed below and in Risk Factors, that could cause actual results to differ materially from the expectations expressed in such forward-looking statements. Readers are cautioned not to place undue reliance on any forward-looking statements.

Overview

The Company is a leading manufacturing services provider offering a complete range of semiconductor assembly and test services, as well as integrated electronics manufacturing services ("EMS") to original equipment manufacturers. The Company derives revenues from providing semiconductor assembly and test services to customers whose products include personal computers and computer networking equipment, communications, graphic and audio-video applications, industrial products and consumer electronics. The Company also derives revenues from providing EMS in a wide range of industries, including communications, computer systems, computer peripherals and consumer electronics.

During the past years, the Company has expanded its manufacturing capacities, especially in the semiconductor test and assembly business. As a result of this increase in capacity and the current strength of the semiconductor industry, the Company's net sales increased from NT\$7,773.3 million for the first nine months of 2001 to NT\$9,501.0 million (U.S.\$271.77 million) for the first nine months of 2002. As a percentage of net sales, the Company's semiconductor assembly and test services increased from 52.2% in 1997 to 55.8% for the nine-month period ended September 30, 2002 of its aggregate net sales.

Some of the Company's manufacturing facilities, its principal research and development facilities and its headquarters are located in Taiwan. The Company also owns and operates IC packaging manufacturing facilities in Calamba Laguna, the Philippines, through its wholly-owned subsidiary, Orient Semiconductor Electronics Philippines Inc. ("**OSE Philippines**"), and in San Jose, California, U.S.A. through its wholly-owned subsidiary, OSE USA, Inc. ("**OSE USA**"). The Company operates an EMS facility in Fremont, California, U.S.A., through its 54.45% owned subsidiary, Sparqtron Corp. ("**Sparqtron**"). The Company's Philippines operation provides it access to a lower cost manufacturing environment, as well as proximity to the Company's international customers who also have operations there, and the California operations enable the Company to be closer to many of its North American customers and to have greater access to advanced technologies.

In addition, the Company also has long-term investments in several other companies. See Note 14 to the Consolidated Financial Statements as at and for the years ended December 31, 1999, 2000 and 2001.

Historically, margins in the Company's Semiconductor Group have been significantly higher than for the Finished Products Group. The Company believes industry outsourcing trends, more sophisticated and flexible manufacturing processes and increasing demand for the manufacturing services provided by the Company, and the potential synergies between the semiconductor assembly and testing services and the EMS operations provide a strong base for future growth.

Basis of Presentation

This Offering Circular contains both consolidated financial statements of the Company and its consolidated subsidiaries and non-consolidated financial statements of the Company only as of and for the years ended December 31, 1999, 2000 and 2001 and nine months ended September 30, 2001 and 2002.

The consolidated financial statements present the financial statements of the Company and its consolidated subsidiaries as of and for the years ended December 31, 1999, 2000 and 2001 on a consolidated basis, after eliminating all significant inter-company accounts and transactions. The Company did not consolidate the financial results of certain 50% or greater owned subsidiaries. Under ROC GAAP, the Company was not required to consolidate entities, the total assets and sales of which do not individually exceed 10%, or collectively exceed 30%, of its respective aggregate total assets and sales. The Company did not consolidate SCS Hightech Inc. in 1999, and Sparqtron and OSE USA, during the period of 1999 and 2001, for this reason. Under U.S. GAAP, each of these entities would have been consolidated, rather than being accounted for under the equity method in respective periods. In 2001 and for the first six-month period ended June 30, 2002, with the exception of Sparqtron in 2001, each of these non-consolidated companies incurred losses from operations.

OSE Philippines commenced commercial production in September 1999, initially only providing semiconductor assembly services. In 2001 and the nine-month period ended September 30, 2002, the Company generated net sales of NT\$607.3 million (U.S.\$17.4 million) and NT\$565.2 million (U.S.\$16.2 million) from the Philippine operation, which is currently operating both at an operating and net loss.

Revenue Mix and Margins

The Company's overall margins vary with the mix of business between the semiconductor and test services and EMS, the mix of products among each business, as well as capacity utilization. As most of the Company's capacity expansion in the past three years has been for semiconductor assembly and test services concentrated on BGA wire bonders and logic and mixed signal testing equipment which use more advanced technologies, the Company expects BGA packages, test services and other emerging high-value products and services to continue to increase as a percentage of its semiconductor assembly and test net sales. Although products incorporating advanced technologies initially can demand high relative prices, they do not necessarily generate the highest gross margins. Initial operating costs, including high initial depreciation of advanced equipment, can reduce margins. In addition, cost reduction engineering to reduce raw material costs and increase manufacturing efficiencies can take time to implement, and with experience, higher capacity outputs can be produced with the same equipment. Even though average unit prices generally decline significantly as industry capacity in new technologies increases, lower manufacturing costs can lead to improved margins, especially during the mid-range of product life cycle.

The product mix of the Company's EMS business also affects its revenues and margins. A high proportion of the products the Company assembles have been ADSL broadband modem, wireless communication devices, and TFT-LCD display controlling modules with sales representing approximately 58.1% and 34.3% of the Finished Products Group's net sales in 2001 and first nine months of 2002, respectively. These products have been subject to intense competition and price pressures, as well as industry cyclicity. In turn, the EMS pricing and related gross margins of the Company, at times, have been affected by these adverse conditions.

The mix of the Company's turnkey and consignment services further affects its EMS gross margins. Turnkey EMS sales include both raw materials, labor and manufacturing overhead costs, as opposed to just labor and manufacturing overhead costs for the Company's consignment services. As a result of the inclusion of raw materials costs in the pricing, turnkey manufacturing services generally produce lower gross margins. Further, products within the Company's turnkey EMS requiring single-source components may further impact the margins, as single-source components generally are less prone to downward price

pressures and more prone to shortages. However, as the volume of products produced through the Company's turnkey services increases, the Company is able to source more efficiently and capture additional margins from these services through economies of scale.

Capacity utilization can also affect the Company's margins. The per unit cost of assembly and test services and EMS generally decreases as fixed charges, including equipment depreciation expense, are allocated over more units sold. The capacity utilization rates of the Company have varied from period to period with cyclical demand fluctuations and losses of significant customers. In addition, there may be a lag between when capacity goes into commercial production and when it can be used at high capacity levels, even in periods of high demand. The Company's ability to maintain or enhance its margins will depend in part on the Company's ability to achieve high capacity utilization rates, which is not entirely within its control.

Industry Cyclicality

The semiconductor and EMS industries are highly cyclical. The semiconductor industry experienced sustained growth during the first half of the 1990s as global demand for semiconductors expanded at an accelerated pace due to increasing semiconductor applications and increased demand for semiconductors with greater functionality, faster speeds and smaller size. In 1996, 1998 and 2001, the industry experienced great downturns characterized by reduced product demand, production over-capacity, increased competition and lower pricing. In the beginning of 2002, the semiconductor industry began to experience slow demand growth, which has allowed the Company to increase its production levels and sales and improve gross and operating margins. The Company has experienced a notable upturn in demand for both the semiconductor assembly and test services. Demand of the Company's EMS has been stable since the beginning of 2002, which is in line with the general market condition. The Company anticipates that the semiconductor industry, as well as the end-market products for the EMS, will continue to experience cyclical swings both in demand and pricing.

Description of Revenue and Cost Items

Net sales

Semiconductor net sales consist of per unit price that take into account the complexity of the packaging type required, packaging process required, the prevailing market conditions, the order size, the strength and history of the Company's customer relationship and its capacity utilization as well as test and drop shipment services. Test services are generally priced based on the amount of time the testing equipment requires to execute the customer's specific semiconductor test program. The Company believes its prices are comparable to the pricing of its competitors for similar services. The Company provides test services for products for which it also provides packaging services and also on a test-only basis to achieve optimal system utilization rate.

The Company provides EMS under consignment and turnkey arrangements. EMS net sales consist of per unit prices taking into account the complexity of the manufacturing process, the order size, the strength and history of the Company's customer relationship and its capacity utilization, and material costs in the case of turnkey arrangement. Under the consignment arrangement, the Company charges its customers solely for the manufacturing services since its customers supply all or most required components. Under the turnkey arrangement, the Company charges its customers a unit price that accounts for the cost of procurement and related risks, such as pricing and inventory risk as the Company procures materials before assembly. Consignment net sales have represented a relatively low percentage of net sales in recent years. However, the percentage of consignment net sales has been increased gradually over the past two years. The Company generally quotes prices for a product six to eight weeks in advance of the first delivery date, and those prices are generally fixed for the following calendar quarter.

The Company recognizes net operating revenues in the period when services are rendered, which is generally when the packaged and tested semiconductors or EMS products are shipped. Domestic customers are generally billed at the end of the month when delivery is made, with terms of credit between 30 and 90 days from the time of billing. The Company's U.S. customers are generally billed at the time of shipment, usually with terms of credit of between 30 and 60 days. The Company has not experienced any significant collection problems, other than one incident with a customer in 1999 after it experienced a change in management control. See "— Comparisons of Results of Operations — 2000 compared with 1999".

Cost of goods sold

Costs of good sold for the Semiconductor Group and Finished Products Group consists principally of:

- ▶ raw material costs;
- ▶ overhead, including depreciation and maintenance of production equipment, indirect labor costs, indirect material costs, royalty payments, supplies and utilities; and
- ▶ direct labor costs.

Industry trends generally affect the Company's raw material costs as well as the price of its services. In semiconductor assembly, a decrease in sales caused by a decline in prices resulting from an industry slowdown may be offset, to some extent, by a resulting decline in raw material costs. The Company's raw material costs as a percentage of total costs of goods sold for the semiconductor assembly services have steadily increased primarily due to the increasing proportion of BGA sales, which include more expensive substrates. For 1999, 2000 and 2001 raw materials were approximately 36.5%, 37.3% and 49.6%, respectively, of the semiconductor test and assembly net sales of the Company. The Company expects that raw material costs will constitute an increasing portion of its costs of goods sold in the near term as it anticipates that BGA sales will increase relative to the Company's total semiconductor assembly sales.

Under the Company's turnkey EMS arrangements, it is responsible for procuring components and other raw materials. Raw material costs account for a majority of the costs of goods sold from the Company's EMS business. The Company has also experienced rising raw material costs as a percentage of its finished products costs of goods sold primarily due to the increased prices of some single-source components, as well as the higher wastage rates reflecting the Company's increased prototype production. For 1999, 2000 and 2001, raw materials constituted 83.3%, 73.3% and 76.8% of the finished product net sales. This requires the Company to commit significant working capital to its EMS operations and to manage the purchasing, receiving, inspection and stocking of materials. Although the Company bears the risk of fluctuations in the cost of materials, excess scrap and inventory obsolescence, the Company periodically seeks to negotiate cost of materials adjustments with the EMS customers to mitigate these risks. As the Company's EMS activities typically involve single-source components, it expects that the raw material costs may remain high and prone to price spikes.

Due to capacity expansion, depreciation expense has increased significantly. For 1999, 2000 and 2001, depreciation was NT\$1,324.1 million, NT\$2,008.7 million, and NT\$3,180.1 million (U.S.\$90.9 million), respectively, and was approximately 13.6%, 12.7% and 26.6%, respectively of the Company's net sales. Increasing depreciation expense increases the Company's costs of goods sold and decreases its gross profit and gross margin. The Company expects depreciation costs to increase in absolute terms in the future as it continues to expand its capacity.

Gross profits and gross margins

During 2001 and the first nine months of 2002, the Company recorded gross loss in semiconductor assembly and test and gross profit in EMS. The gross loss from its semiconductor assembly and test was mainly due to decreasing average selling price and declining utilization rates. While EMS also encountered decreasing average selling price, it generated gross profit due to relatively higher utilization rates and more effective cost control measures taken by the Company.

As the Company's overall capacity has grown during recent years, both through the addition of new facilities and the expansion of existing plants, the Company's fixed operating expenses have increased. As a result, if industry cyclicality results in a decline in sales, gross profit and gross margins will be more significantly impacted. As gross margins generally improve with higher volumes, longer uninterrupted product runs and higher capacity utilization, in times of cyclical upturn, the results of the Company's operations generally improve. As the Company gains experience in manufacturing a product, it usually achieves increased efficiencies, which result in lower labor costs and manufacturing overhead for that product.

Operating expenses

The Company's operating expenses consist of:

Selling and administrative expenses. Selling and administrative expenses include payroll-related expenses for administrative staff, facilities-related expenses, marketing expenses, information technology expenses and bad debts written off on accounts receivable. The Company's marketing expenses include fixed commissions on sales made by third party agents in Japan and Europe. The Company terminated the agency arrangement with its European sales agent in April 2002. The Company does not pay any commissions on sales made in Taiwan or by its direct sales staff.

Information technology expenses principally include fees and expenses related to the installation of hardware and network infrastructure, as well as the implementation of various information technology systems such as enterprise resource planning and manufacturing execution systems. The Company's SAP/R3 enterprise resource planning and manufacturing execution systems launched in the second quarter of 1999 caused its information technology expenses to increase significantly and remained high during this period.

Research and development expenses. The Company incurs research and development expenses primarily in the development of:

- ▶ new and advanced packages, including the characterization, design and simulation, of assembly materials, to meet the customized needs of the customers;
- ▶ tooling and configurations for test equipment, software and processes to enhance efficiency and reliability and to increase the throughput or volumes of semiconductors tested; and
- ▶ improved manufacturing processes, reduced production costs and enhanced durability of its finished products.

The Company expects its research and development expenses to increase in the near term in absolute terms as it continues to face the increasing trend toward increased customization in the production processes and services and the need for fine pitch and high-performance semiconductor devices.

Non-operating income and expenses

The Company's non-operating income and expenses have consisted primarily of gains on disposal of investments, losses recorded by entities that it accounts for under the equity method, gains and losses from physical inventories and foreign exchange and interest income and expenses.

In addition to making investments to enhance its capacity, technology and services, the Company has also made a significant number of strategic investments in other entities, primarily its customers or suppliers. Most of these investments have assisted the Company in securing raw material sources and enabled it to venture into new product areas.

Substantially all of the Company's investments are long term. The Company from time to time disposes of certain of its investments for financial, strategic or other purposes. Gains on disposal of investments accounted for NT\$169.3 million, NT\$844.8 million (U.S.\$24.1 million) and NT\$346.1 million (U.S.\$9.9 million) in 2000, 2001 and the first nine months of 2002. During 2001, entities accounted for under the equity method, including Sparqtron, OSE Properties, OSE USA and SCS. Sparqtron accounted for investment gain of NT\$16.2 million (U.S.\$0.5 million). OSE Properties, OSE USA and SCS accounted for investment losses of NT\$(7.7 million) (U.S.\$(0.2 million)), NT\$(246.0 million) (U.S.\$(7.0 million)) and NT\$(20.4 million) (U.S.\$(0.6 million)), respectively.

The majority of the Company's accounts receivables are denominated in U.S. Dollars with the remainder denominated in NT dollars. The costs of goods sold are denominated in U.S. Dollars, Japanese yen, NT dollars and Philippine pesos. Consequently, a portion of the Company's cost of goods sold and profit margin is exposed to fluctuations in the exchange rates among the NT dollar, the U.S. Dollar, the

Philippine peso and the Japanese yen. The Company expects to continue to be affected by foreign exchange fluctuations in the future. In 2000, 2001 and for the first six months of 2002, the Company experienced material gains and material losses on foreign exchange.

The Company's interest income historically has varied depending on cash balance levels, which have resulted primarily from operation and borrowings in preparation for capital expenditures. The Company has had significant net interest expense, reflecting its convertible bonds issued in 1998 and its increasing borrowing to support the expansion in recent periods.

Comparisons of Results of Operation

The following table sets forth certain financial data as a percentage of net sales for the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	1999	2000	2001	2001	2002
	%	(consolidated) %	%	(non-consolidated) %	%
Net sales:					
Semiconductor group	69.2	67.4	51.4	52.6	55.8
Finished products group	30.8	32.6	48.6	47.4	44.2
Total net sales	100.0	100.0	100.0	100.0	100.0
Cost of goods sold:					
Semiconductor group	58.5	58.3	65.8	67.4	67.9
Finished products group	31.3	31.5	46.7	46.2	41.4
Total cost of goods sold	89.8	89.8	112.5	113.5	109.3
Gross profit:					
Semiconductor group	10.7	9.2	(14.4)	(14.8)	(12.1)
Finished products group	(0.5)	1.0	1.9	1.3	2.9
Total gross profit	10.2	10.2	(12.5)	(13.5)	(9.3)
Operating expenses	12.6	10.2	12.3	11.0	8.2
Operating income	(2.4)	0.0	(24.8)	(24.5)	(17.4)
Net non-operating income	6.1	(4.4)	(2.2)	(1.5)	(8.0)
Pretax income from continuing operations	3.7	(4.4)	(27.0)	(26.0)	(25.4)
Income tax credit	7.0	5.1	(0.1)	1.9	0.7
Extraordinary gain	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.5	0.0	0.0
Net income	10.7	0.7	(26.6)	(24.1)	(24.7)

Net Sales for November and December of 2002

OSE's unaudited non-consolidated net sales for December 2002 were NT\$1,002.7 million, compared to non-consolidated net sales of 909.7 million for December 2001, representing an increase of 10.2%. OSE's total unaudited non-consolidated net sales for the two months of November and December 2002 were NT\$2,089.3 million, representing an increase of 10.4% compared to the prior year corresponding period.

Nine-months ended September 30, 2002 compared with nine-months ended September 30, 2001

Net sales. Net sales grew by 22.2% to NT\$9,501.0 million (U.S.\$271.8 million) for the nine-month period ended September 30, 2002 from NT\$7,773.3 million for the same period in 2001, reflecting increased sales for both the Semiconductor and Finished Products Groups. The Semiconductor Group's net sales increased by 29.6% to NT\$5,297.1 million (U.S.\$151.5 million) for the nine-months period ended September 30, 2002 from NT\$4,087.1 million for the same period in 2001, reflecting the increased sales volume, resulted primarily from increases of new customers and orders from existing customers, including assembly and test of PC chipsets and consumer electronics ICs.

The Finished Products Group's net sales were NT\$4,203.9 million (U.S.\$120.2 million) for the nine-months period ended September 30, 2002, representing a 14.0% increase from NT\$3,686.2 million for the same period in 2001. This increase was primarily due to overall increases in production volume and increases in production of TFT-LCD display controlling modules and wireless communication devices, most of which were produced on a turnkey basis in 2002.

Cost of goods sold. Cost of goods sold rose by 17.2% to NT\$10,383.4 million (U.S.\$25.2 million) for the nine-month period ended September 30, 2002 from NT\$8,862.9 million for the same period in 2001. The increase in cost of goods sold reflects (i) increased direct raw material cost resulted from the increases of BGA packaged products and finished products manufactured on a turnkey basis, and (ii) overhead including royalty payments in connection with BGA, depreciation, insurance and utilities expenses, which was partially offset by the decreased direct labor cost due to reduced headcount.

Net gross profit (loss). Net gross profit (loss) was a loss of NT\$882.6 million (U.S.\$25.2 million) for the nine-month period ended September 30, 2002, a 19.0% improvement from the same period in 2001. Net gross profit (loss) from the Semiconductor Group was a loss of NT\$1,153.5 million (U.S.\$33.0 million) for the nine-month period ended September 30, 2002, improved 0.2% from the same period in 2001. The improvements was mainly due to the adoption of cost-saving measures by the Company. The net gross profit from the Finished Products Group increased to NT\$270.9 million (U.S.\$7.7 million) for the nine-month period ended September 30, 2002 from NT\$98.2 million for the same period during 2001 due to increases in sales volume.

Operating expenses. Operating expenses decreased by 8.9% to NT\$775.3 million (U.S.\$22.2 million) for the nine-month period ended September 30, 2002 from NT\$851.3 million for the same period in 2001, primarily reflecting decreased selling and administrative expenses. As a percentage of net sales, operating expenses decreased from 11.0% for the nine-month period ended September 30, 2001 to 8.2% during the same period ended September 30, 2002.

Selling and administrative expenses decreased by 5.12% from NT\$597.8 million for the nine-month period ended September 30, 2001 to NT\$567.2 million (U.S.\$16.2 million) for the same period in 2002. This decrease was primarily attributable to the decrease of research and development expenses. Research and development expenses decreased by 17.91% from NT\$253.5 million for the nine-month period ended September 30, 2001 to NT\$208.1 million (U.S.\$18.1 million) for the same period in 2002. The decrease principally reflects the decreases of research and development headcount, royalty payments for micro BGA, and procurement of tooling equipment. As a percentage of net sales, research and development expenses decreased from 3.26% for the nine-month period ended September 30, 2001 to 2.19% for the same period ended September 30, 2002.

Non-operating income and expenses. Net non-operating income decreased 54.1% from NT\$1,162.2 million for the nine-month period ended September 30, 2001 to NT\$532.9 million (U.S.\$15.2 million) for the comparable period in 2002. This decrease was primarily due to the decrease of the gains on disposal of long-term investments and foreign exchange gains. Net non-operating expenses increased 0.8% from NT\$1,280.1 million for the nine-month period ended September 30, 2001 to NT\$1,290.4 million (U.S.\$36.9 million) for the comparable period in 2002.

Income tax credit (expense). The Company's income tax credits for the nine-month period ended September 30, 2002 decreased from NT\$(151.0 million) for the comparable period of 2001 to NT\$64.5 million (U.S.\$1.8 million) resulting primarily from increase of tax credit derived from the increase of long-term investment loss and investment credit, as well as deduction from operating loss.

As a result of the forgoing, the Company's net loss increased by 25.6% from NT\$(1,871.4 million) for the nine-month period ended September 30, 2001 to NT\$(2,351.1 million) for the same period ended September 30, 2002, representing (24.1)% and (24.7)% of its net sales over the two periods, respectively.

2001 compared with 2000

Net sales. Total net sales declined from NT\$15,834.7 million in 2000 to NT\$11,975.8 million (U.S.\$342.2 million) in 2001, a decrease of 24.4%, resulting from the general downturn in the semiconductor and electronic manufacturing service industry commencing in the second quarter of 2001. Both the volume and the average unit prices of sales for 2001 were affected. However, sales returns and allowances decreased by 34.5% from NT\$106.1 million in 2000 to NT\$69.5 million (U.S.\$2.0 million) in 2001. In 2001, net sales generated from the Semiconductor Group accounted for 67.4% of total net sales, and net sales generated from the Finished Products Group accounted for 32.6% of total net sales. Revenues generated from the Semiconductor Group decreased by 42.3% from NT\$10,675.7 million in 2000 to NT\$6,154.6 million (U.S.\$175.9 million) in 2001, reflecting decreased sales volume and sales price, principally resulting from general market downturn.

The Company's revenues derived from the Finished Products Group increased by 12.8% from NT\$5,159.0 million in 2000 to NT\$5,821.2 million (U.S.\$166.3 million) in 2001. The increase was attributable to increased sales volume, resulting from increased customer base and introduction of new products.

Cost of goods sold. Cost of goods sold slightly decreased by 5.2% from NT\$14,219.4 million in 2000 to NT\$13,475.0 million (U.S.\$385.0 million) in 2001. Cost of goods sold for the Semiconductor Group decreased by 14.6% from NT\$9,225.2 million for 2000 to NT\$7,879.2 million (U.S.\$225.1 million) for 2001, generally in line with the decrease of the Semiconductor Group's net sales.. Cost of goods sold for the Finished Products Group increase to NT\$5,595.8 million (U.S.\$159.9 million) for 2001, or 12.0%, from NT\$4,994.2 million for 2000. This increase was generally in line with the increase of the Finished Products Group's net sales.

Gross profit (loss) and gross margin. Gross profit (loss) decreased by 192.8% from NT\$1,615.2 million for 2000 to NT\$(1,499.2) million (U.S.\$(42.8 million)) for 2001, primarily because the decrease in revenue outpaced the decrease in cost of goods sold mainly due to higher depreciation expenses derived from high capital expenditure incurred in 2000 and first half of 2001 and higher raw material costs derived from increased sales of BGA products. As a percentage of net sales, the Company's gross profit margin decreased from 10.2 % in 2000 to (12.5)% in 2001. Gross margins were adversely affected by price declines experienced during the industry downturn and increased unit production cost resulted from lower utilization rate.

Operating expenses. Operating expenses were NT\$1,476.5 million (U.S.\$42.2 million) in 2001, a decrease of 9.1% from NT\$1,625.0 million in 2000. As a percentage of net sales, operating expenses increased from 10.3% in 2000 to 12.3% in 2001. This decrease was primarily due to a decrease in selling commission as a result of lower sales and decrease in research and development expenses caused by decreased usage of materials for research and development. These decreases were partially offset by increased provision for bad debts and banking charges.

Non-operating income and expenses. Net non-operating income increased 96.0% from NT\$646.0 million in 2000 to NT\$1,266.0 million (U.S.\$36.2 million) in 2001. This increase was due to a NT\$844.8 million gain in disposal of the Company's investment, which was partially offset by a decrease in interest income, dividend income and gain on disposal of fixed assets in 2001. Net non-operating expenses increased 14.2% from NT\$1,343.3 million for 2000 to NT\$1,533.7 million (U.S.\$43.8 million) in 2001, primarily due to increased interest expenses in connection with syndicated loans drawn down by the Company at the beginning of 2001, investment loss in connection with Meicer Semiconductor Inc. and provision for write-off of obsolete substrates and other materials.

Income tax credit (expense). The Company's income tax credits for 2001 decreased by 101.4% from NT\$809.3 million for 2000 to NT\$(11.0 million) (U.S.\$(0.3 million)) resulting primarily from unavailability of tax credit due to operating loss in 2001.

1999 compared with 2000

Net sales. Net sales increased by 62.5% from NT\$9,744.9 million in 1999 to NT\$15,834.7 million in 2000, due to increases in sales volume and average selling price resulted from improved product mix. The Semiconductor Group's net sales increased by 58.3% from NT\$6,744.0 million in 1999 to NT\$10,675.6 million in 2000. The net sales of Finished Products Group increased 71.9% from NT\$3,000.9 million in 1999 to NT\$5,159.1 million in 2000.

Cost of goods sold. Cost of goods sold rose by 62.6% from NT\$8,746.1 million for 1999 to NT\$14,219.4 million for 2000, which was generally in line with the increase of net sales during the same period. The Semiconductor Group's cost of goods sold increased by 61.8% from NT\$5,702.4 million for 1999 to NT\$9,225.2 million for 2000. Cost of goods sold for the Finished Products Group increased 64.1% from NT\$3,043.7 million for 1999 to NT\$4,994.2 million for 2000. Cost of goods sold as a percentage of net sales remained in the same level of 89.8% in 1999 and 2000.

Gross profit and gross margin. Gross profit increased by 61.7% from NT\$998.8 million for 1999 to NT\$1,615.2 million for 2000. As a percentage of net sales, the gross profit margin maintained at the level of 10.2% in 1999 and 2000.

Operating expenses. Operating expenses increased by 32.7% from NT\$1,224.6 million in 1999 to NT\$1,625.0 million in 2000. This increase primarily reflects higher selling and administrative expenses, which reflects higher selling commission, banking charges in connection with the initialization of syndicated loans and SAP software amortization, and material and labor costs for research and development activities.

Non-operating income and expenses. Net non-operating income decreased by 53.8% from NT\$1,398.3 million in 1999 to NT\$646.0 million in 2000. This decrease was due to changes in gains from disposal of investment in 2000, which was NT\$958.6 million less than the same in 1999, and was partially offset by increased gain on foreign exchange. Net non-operating expenses increased 66.9% from NT\$805.0 million for 1999 to NT\$1,343.3 million in 2000, primarily due to increases in interest expenses and investment loss.

Income tax credit. The Company's income tax credit increased by 19.2% from NT\$679.0 million in 1999 to NT\$809.3 million in 2000. This was due primarily to higher investment credit resulted from the Company's investment in certain research and development and employee training expenses and automation equipment and technology.

Selected Quarterly Results

The table below sets forth unaudited non-consolidated financial data for the eight calendar quarters ended September 30, 2002. The quarterly unaudited non-consolidated financial information has been prepared on a consistent basis with the other non-consolidated financial information included in this Offering Circular. The operating results of the Company have varied and may continue to vary from quarter to quarter and are therefore not necessarily indicative of the results for the full fiscal year or for any future period. The future revenues and results of operations may vary significantly due to a combination of factors, including the factor described in "Risk Factors — Risks Related to the Company's Business — The Company's operating results fluctuate from quarter to quarter, which makes predicting the future performance difficult".

The Company believes it has included in the amounts stated below all necessary adjustments, consisting of normal recurring adjustments, to fairly present the Company's quarterly data. The investors are advised to read the Company's selected quarterly data in conjunction with its financial statements included elsewhere in this Offering Circular.

	Quarter ended							
	Dec 31, 2000	Mar 31, 2001	Jun 30, 2001	Sept 30, 2001	Dec 31, 2001	Mar 31, 2002	Jun 30, 2002	Sept 30, 2002
	(in NT\$ thousands)(unaudited)							
Net sales:								
Semiconductor group	2,087,312	1,353,958	1,431,564	1,301,547	1,482,745	1,271,797	1,872,061	2,153,294
Finished products group . .	1,324,654	1,036,899	1,195,024	1,454,322	1,425,691	1,146,293	1,550,648	1,506,924
Total net sales	3,411,966	2,390,857	2,626,588	2,755,869	2,908,436	2,418,090	3,422,709	3,660,218
Cost of goods sold:								
Semiconductor group	1,942,982	1,612,666	1,868,796	1,756,837	1,908,414	1,747,084	2,186,357	2,517,127
Finished products group . .	1,316,662	999,643	1,172,784	1,415,704	1,312,678	1,088,912	1,426,085	1,418,076
Total cost of goods sold	3,259,644	2,612,309	3,041,580	3,172,541	3,221,092	2,835,996	3,612,442	3,935,203
Gross profit:								
Semiconductor group	144,330	(258,706)	(437,234)	(455,290)	(425,669)	(475,287)	(314,296)	(363,833)
Finished products group . .	7,992	37,256	22,240	38,618	113,013	57,381	124,563	88,848
Total gross profit	152,322	(221,452)	(414,992)	(416,672)	(312,656)	(417,906)	(189,733)	(274,985)
Operating expenses	392,814	297,199	265,989	288,149	314,260	252,595	253,251	269,463
Operating income (loss) . . .	(240,492)	(518,651)	(680,981)	(704,821)	(626,916)	(670,501)	(442,984)	(544,448)

	Quarter ended							
	Dec 31, 2000	Mar 31, 2001	Jun 30, 2001	Sept 30, 2001	Dec 31, 2001	Mar 31, 2002	Jun 30, 2002	Sept 30, 2002
	(as a percentage of net sales)							
Net sales:								
Semiconductor group	61.2	56.6	54.5	47.2	51.0	52.6	54.7	58.8
Finished products group . .	38.8	43.4	45.5	52.8	49.0	47.4	45.3	41.2
Total net sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cost of goods sold:								
Semiconductor group	56.9	67.5	71.1	63.7	65.6	72.3	63.9	68.8
Finished products group . .	38.6	41.8	44.7	51.4	45.1	45.0	41.7	38.7
Total cost of goods sold	95.5	109.3	115.8	115.1	110.7	117.3	105.5	107.5
Gross profit:								
Semiconductor group	4.2	(10.8)	(16.6)	(16.5)	(14.6)	(19.7)	(9.2)	(9.9)
Finished products group . .	0.3	1.5	0.8	1.4	3.9	2.4	3.7	2.4
Total gross profit	4.5	(9.3)	(15.8)	(15.1)	(10.7)	(17.3)	(5.5)	(7.5)
Operating expenses	11.5	12.4	10.1	10.5	10.8	10.4	7.4	7.4
Operating income (loss) . . .	(7.0)	(21.7)	(25.9)	(25.6)	(21.5)	(27.7)	(12.9)	(14.9)

The net sales are generally lower in the first quarter of each year as compared to the fourth quarter of the preceding year, primarily due to the combined effect of holidays in North America and Taiwan. Fourth quarter revenues usually benefit from increases in holiday driven sales in the United States and Canada. The first quarter of each year usually is affected by the Chinese New Year period in Taiwan and by the shorter month in February. First quarter sales traditionally are reduced in relative terms compared to the rest of the year in the semiconductor and electronics industries.

Inventories and Receivables

Inventories and receivables are the principal components of the Company's current assets and require a significant amount of working capital support, particularly as the Company's sales continue to increase. Accordingly, control of inventories and receivables is a key aspect of the Company's business operations.

The following tables summarize the Company's inventories and receivables positions for the periods indicated below:

	Year ended December 31,		
	1999	2000	2001
	(in NT\$'000)	(in NT\$'000)	(in NT\$'000)
Receivables, net			
Notes receivable-trade	62,237	57,071	12,126
Notes receivable-related parties	46,680	36,707	84,862
Accounts receivable-trade	2,143,195	2,164,809	1,498,037
Accounts receivable-related parties	536,730	558,670	232,349
Less: Allowance for doubtful accounts	(85,310)	(78,279)	(132,373)
Allowance for sales return			
Receivables, net	2,703,532	2,738,978	1,695,001
Average receivables turnover (days)	84	63	68
Inventories			
Raw materials	837,815	1,271,445	759,783
Supplies	160,009	260,420	175,486
Work in progress	170,479	215,685	148,514
Finished goods	108,396	230,361	153,737
Subtotal	1,276,699	1,977,911	1,237,520
Less: Allowance for inventory obsolescence and decline in market value	(74,811)	(107,492)	(131,737)
Inventories, net	1,201,888	1,870,419	1,105,783
Average inventory turnover (days)	38	39	40

Liquidity and Capital Resources

The Company needs cash primarily for equipment purchases, factory expansion and working capital. The Company has also used cash to make investments in its non-consolidated subsidiaries and other strategic investments. As its business can be cyclical, in periods such as 2001 and first three quarters of 2002, the Company has not been able to generate sufficient cash from operations to meet its needs. Especially as it has made significant investments in capital expenditures to fund the expansion, the Company has relied in large part on proceeds from the issuance of equity and equity-linked securities as well as bank borrowings to meet the cash needs.

As of September 30, 2002, the Company's primary source of liquidity was NT\$154.8 million (U.S.\$4.4 million) of cash and cash equivalents and NT\$3,438.6 million (U.S.\$98.3 million) of short-term loans. The Company also had NT\$511.2 million (U.S.\$14.6 million) available under existing short-term lines of credit and available from 15 domestic and foreign financial institutions, of which NT\$3,438.6 million (U.S.\$98.4 million) were borrowed. The interest rate for borrowings under these facilities ranged from 0.63% to 7.5% per annum between July 1, 2001 and September 30, 2002.

The Company had net cash provided by operating activities of NT\$1,560.2 million (U.S.\$44.6 million) for the nine-months period ended September 30, 2002, which was primarily attributable to net income from the same period and the effect of non-cash depreciation expense. The Company's net cash used in investment activities in the first three quarters of 2002 was NT\$(724.2 million) (U.S.\$(20.7 million)). The net cash used in investment activities primarily reflects the purchase of fixed assets of NT\$559.7 million (U.S.\$16.0 million) and the increase in restricted assets which have been used as collateral for the Company's short-term loans. The Company's net cash provided by financing activities in the nine-month period ended September 30, 2002 was NT\$(1,224.6 million) (U.S.\$(35.6 million)). The Company generated cash from financing activities in the first three quarters of 2002 both through long-term borrowings and an increase in short-term loans.

Capital expenditures (including expenditures on fixed assets and equipment) for 1999, 2000, 2001 and the first three quarters of 2002 totaled NT\$4,944.0 million, NT\$11,616.8 million, NT\$2,499.2 million (U.S.\$71.4 million) and NT\$560.0 million (U.S.\$16.0 million), respectively. Such expenditures were incurred primarily to expand the semiconductor assembly and test capacities. As of December 31, 2002, the

Company's unaudited capital expenditures are NT\$705.7 million (U.S.\$20.3 million). The Company has budgeted approximately NT\$1,100.0 million for capital expenditures for the year 2003. Approximately NT\$900.0 million in 2002 has been budgeted for construction of the Company's new testing facilities located in Kaohsiung, Taiwan. The construction work is currently suspended and the Company will take into consideration the market condition when determining the time to resume the construction.

	Year ended December 31,			
	2000	2001	2002	2003 ⁽¹⁾
	(NT\$ in millions)			
Capital expenditure for facilities	2,515.4	1,051.0	181.5	400.0
Capital expenditure for equipment	8,450.1	960.2	524.2	700.0
Semiconductor Group	7,421.2	920.7	366.9	500.0
Finished Products Group	1,028.8	39.5	157.3	200.0
Total	10,965.5	2,011.2	705.7	1,100.0

(1) Planned

At September 30, 2002, the Company had outstanding commitments to pay a total of NT\$116.7 million (U.S.\$3.3 million) under equipment purchase and NT\$109.5 million under construction contracts. Other commitments and contingencies at September 30, 2002 include:

- ▶ NT\$3,151 million (U.S.\$90.1 million) of unfinished consigned inventories;
- ▶ NT\$70.0 million (U.S.\$2.0 million) under unused trade letters of credit;
- ▶ NT\$20.0 million (U.S.\$0.6 million) as guarantee given by banks for payment of input tax imposed for sales from tax free zone to non-tax free zones;
- ▶ NT\$100,000 (U.S.\$2,860) for import of raw materials;
- ▶ NT\$17,465.3 million (U.S.\$422.3 million) of guarantee notes to financial institutions for long- and short-term borrowings;
- ▶ NT\$821.0 million (U.S.\$23.5 million) as post-dated checks issued for payment of leased assets; and
- ▶ NT\$10.0 million (U.S.\$0.3 million) promissory note made to the government authorities as foreign labor bond.

As of September 30, 2002, the Company's long-term outstanding bank loans, less current portion, were NT\$41.8 billion (U.S.\$1.2 million). All such loans are secured substantially by the Company's fixed assets and bear floating interest rates, which range between 4.075%–7.65% per annum. These loans are scheduled to be fully repaid by December 2010. See notes 19 and 20 to Notes to Non-consolidated Financial Statements as of September 30, 2001 and 2002.

The following table shows the detail of the Company's long-term loans as of December 31, 2002:

<u>Lead Bank</u>	<u>Original Principal Amount (NT\$'000)</u>	<u>Outstanding Principal Amount</u>	<u>Final Maturity (NT\$'000)</u>	<u>Repayment Schedule (NT\$'000)</u>	<u>Next Repayment Date</u>
ABN AMRO Bank . . .	2,000,000	1,571,000	May 30, 2005	repay 286,000 semi-annually	February 28, 2003
Industrial Bank of Taiwan	3,500,000	2,750,000	May 30, 2005	repay 500,000 semi-annually	February 28, 2003
Industrial Bank of Taiwan	300,000	150,000	November 17, 2004	repay 37,500 semi-annually	May 16, 2003
Chinatrust Commercial Bank	1,550,000	1,395,000	August 26, 2004	repay equally on the 3rd, 9th, 15th, 21st and 24th month after the first draw	February 28, 2003
Chiao Tung Bank	400,000	168,000	July 9, 2004	repay 24,000 quarterly	April 8, 2003
First Commercial Bank	<u>1,444,800</u>	<u>1,184,160</u>	December 28, 2010	repay 15,470 monthly	January 27, 2003
Total	<u>9,194,800</u>	<u>7,218,160</u>			

The loan facilities and other borrowings entered into by the Company often contain financial ratio undertakings and restrictive covenants, as is usual in borrowing agreements of this nature. For the periods ended on December 31, 2001, June 30, 2002 and December 31, 2002, respectively, the Company breached several financial ratio undertakings and restrictive covenants contained in certain of these agreements, including current ratio, owners' equity ratio and interest coverage ratio. The Company has successfully obtained waivers with respect to such breaches. In compensation for that, the Company agrees to pay 0.12%, 0.06% and 0.03% of the total principal amount, totaling NT\$6.6 million, NT\$3.3 million and NT\$1.8 million, respectively for the periods ended December 31, 2001, June 30, 2002 and December 31, 2002 to all relevant syndicated banks.

The principal financial ratio undertakings and restrictive covenants currently applicable to the Company are as follows. The Company has undertaken to maintain the following principal financial ratios at all time (the relevant ratios are calculated based on the Company's non-consolidated semi-annual audited financial statements and the consolidated annual audited financial statements):

1. current ratio (current asset to current liabilities): no less than 100%;
2. owners' equity ratio (tangible net equity amount to (total assets plus contingent liabilities)): no less than 45%;
3. interest coverage ratio ((profit before tax plus interest expenses, depreciation and amortization expenses) to interest expenses): not less than 300%; and
4. long-term investment to equity ratio (total long-term investment to net worth): not more than 50%.

See Notes 19 and 20 to the financial statements for the periods from January 1, 2002 to September 30, 2002 and January 1, 2001 to September 30, 2001.

The Company's chairperson Mei Shou Yang (Mary S. Duh) and in some cases, the founder and director Dr. Eugene C.Y. Duh, have provided personal guarantees to secure most of the Company's long term debt and some of the short term debt. While the Company believes it is able to obtain bank financing without the personal guarantees, the Company may be subject to higher transaction costs and interest rates if the Company were to obtain these and future financing without the personal guarantees from the Duhs.

The Company believes that its existing cash, cash equivalents and short-term investments, together with cash flow generated from operations, available borrowing capacity and this offering, will provide sufficient funds to meet its operating and capital requirements over the next 12 months. If, however, cash flow from operations is inadequate to fund the forecast growth, the Company may issue additional debt or

equity securities or seek to obtain other additional credit facilities. There can be no assurance that additional financing, if needed, will be available to the Company or, if available, that such financing can be obtained on terms acceptable to it.

The net proceeds from this offering will be approximately US\$67,000,000. The Company will use the net proceeds to repay its debts.

Market Sensitivity

Foreign Exchange Risk

A substantial portion of the Company's net sales are denominated in NT dollars, while the Company purchases a substantial amount of machinery and equipment in U.S. Dollars. Accordingly, the Company is exposed to movements in the exchange rates between U.S. Dollars on the one hand, and NT Dollars on the other hand. The Company recorded net exchange losses of NT\$49.8 million and NT\$64.3 million in 1999 and 2000, respectively, and net exchange gains of NT\$96.7 million (U.S.\$2.8 million) in 2001.

The effect of future changes in currency exchange rates on the Company's results of operations cannot be accurately predicted. The Company continuously reviews its positions in relation to the various relevant currencies, and may from time to time enter into foreign currency forward contracts where available when it considers it appropriate to do so in order to hedge exposure.

To the extent possible, the Company attempts to match the currencies of its costs and expenses to the currencies of its revenues.

Interest Risk

The following table shows long- and short-term bank loans outstanding at December 31, 1999, 2000 and 2001:

Short-term loans:

	<u>Principal amount</u> (NT\$ in millions)	<u>Interest Rate⁽¹⁾</u>
1999	1,790.4	1.10–8.75%
2000	4,765.4	0.61–9.50%
2001	4,090.5	0.62–9.50%

Long-term loans:

	<u>Principal amount</u> (NT\$ in millions)	<u>Interest Rate⁽²⁾</u>
1999	1,230.5	5.50–8.25%
2000	4,731.5	5.50–7.60%
2001	4,157.5	4.20–8.50%

(1) Floating interest rate

(2) Floating interest rate except for the discount rate for long-term notes payable.

Inflation

The Company does not believe that inflation in Taiwan has had a material impact on the Company's results of operations. Inflation in Taiwan was approximately 0.18%, 1.26% and 0.01% in 1999, 2000 and 2001, respectively.

Taxation

The Company is currently subject to a 25% statutory corporate income tax rate in Taiwan.

The Company has been receiving an exemption from ROC income taxes with respect to income attributable to capital increases in 1998 for the purchase of IC package and testing equipment for a period of five years commencing from January 1, 1996. This exemption expired on December 31, 2002. The ROC government has announced that it is considering reviewing various tax exemptions applicable to several industries, including the semiconductor industry. There can be no assurance that the Company will continue to benefit from the tax exemptions for which the Company currently qualifies.

The Company also benefits from other tax incentives generally available to ROC companies, including tax credits up to 35% for certain research and development and employee training expenses and up to 13% and 10% of credits for investment in automation equipment and technology, respectively. These tax credits must be utilized within five years from the date on which they were earned. In addition, the aggregate tax reduction from these tax credits for any year cannot exceed 50% of that year's income tax liability. Such programs resulted in tax credits of approximately NT\$486 million, NT\$971 million, NT\$124 million (U.S.\$3.5 million) and NT\$65 million (U.S.\$1.9 million) in 1999, 2000, 2001 and the first nine months of 2002, respectively.

Under the ROC Income Tax Law of 1997, retained earnings from operations after January 1, 1998 that are not distributed to shareholders by way of dividend for the relevant operating period are subject to a 10 % corporate income tax surcharge. If all or a portion of such retained earnings are subsequently distributed to shareholders, ROC resident shareholders may credit their ratable portion of the corporate income tax surcharge paid against their income tax liabilities in relation to such dividend income. Non-resident shareholders may offset the ratable amount of the corporate income tax surcharge against withholding tax in respect of the dividend income.

Recent Development

The Company has obtained the approval of the ROC SFC to conduct a capital increase and the Company expects to issue 150,000,000 Shares by the end of January 2003. After such 150,000,000 Shares being issued, the paid-in capital of the Company will be increased to NT\$13,913,825,880, representing 1,241,382,588 Shares and 150,000,000 preferred shares.

MANAGEMENT AND EMPLOYEES

Directors

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

The Company currently has seven directors. The term of office for the directors is three years from the date of appointment. Directors may serve any number of consecutive terms and may be removed from office at any time for a valid reason by a resolution adopted at a general meeting of shareholders. 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.

Supervisors

The Company currently has two supervisors, each serving a three-year term. Each supervisor is elected by the shareholders of the Company usually at the time when the directors are elected. Supervisors being elected cannot concurrently serve as a director, management officer or other staff member. The ROC Company Law requires at least two supervisors be in office at all times for the Company as a public company and that the term of a supervisor cannot be more than three years. The next election for all of the directors and supervisors is expected to be held in June 19, 2004.

The duties and responsibilities of a supervisor include investigations of the Company's business condition, inspection of the Company's corporate records, verification and review of financial statements presented by the board of directors of the Company at shareholders' meetings, convening of shareholders' meetings when the board of directors does not or cannot convene a shareholders' meeting and/or such meeting as may be necessary for the benefit of the shareholders of the Company, representing the Company in negotiations with the Company's directors and notification, when appropriate, to the board of directors to cease acting in contravention of any applicable law or regulation or the Company's articles of incorporation or resolution adopted at a shareholders' meeting.

In accordance with ROC law, each of the Company's directors is required to conduct business faithfully and act with the care of good administrator. However, the duty of care as required of an ROC company's director may not be the same as the fiduciary duty of a director of a U.S. corporate. All directors and supervisors serve in their individual capacities or as representatives of a corporate or governmental shareholder. Except Hui-Mei, Tsai, the current directors and supervisors serve in their individual capacities.

The following table sets forth information with respect to all of the directors, supervisors and executive officers, as of September 30, 2002.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Years with the Company</u>	<u>Business Address</u>
Mei-Shou Yang (Mary S. Duh) ⁽¹⁾	62	Chairman	10	9 Chung San Street, N.E.P.Z., Kaohsiung, Taiwan 811, R.O.C.
Eugene C. Y. Duh ⁽¹⁾	64	Director	7	9 Chung San Street, N.E.P.Z., Kaohsiung, Taiwan 811, R.O.C.
Edward S. Duh ⁽¹⁾	37	Director and General Manager	9	9 Chung San Street, N.E.P.Z., Kaohsiung, Taiwan 811, R.O.C.
Pin-Pin Chang Chao	59	Director	10	9 Chung San Street, N.E.P.Z., Kaohsiung, Taiwan 811, R.O.C.
Kwang-Fen Wang Chen	62	Director	9	9 Chung San Street, N.E.P.Z., Kaohsiung, Taiwan 811, R.O.C.
Teng-Kung Liu	61	Director	7	9 Chung San Street, N.E.P.Z., Kaohsiung, Taiwan 811, R.O.C.
Calvin Lee	50	Director	20	9 Chung San Street, N.E.P.Z., Kaohsiung, Taiwan 811, R.O.C.
Hui-Mei Tsai ⁽²⁾	41	Supervisor	5	9 Chung San Street, N.E.P.Z., Kaohsiung, Taiwan 811, R.O.C.
Hsiao-Fen Ku	55	Supervisor	4	9 Chung San Street, N.E.P.Z., Kaohsiung, Taiwan 811, R.O.C.
Wen-Lo Shieh	41	Vice President	14	9 Chung San Street, N.E.P.Z., Kaohsiung, Taiwan 811, R.O.C.
Michael Lee	37	Vice President	5	9 Chung San Street, N.E.P.Z., Kaohsiung, Taiwan 811, R.O.C.

(1) Mei-Shou Yang (Mary S. Duh) is the wife of Eugene C.Y. Duh and the mother of Edward S. Duh.

(2) Representative of Liang Shiun Enterprises Limited Company.

Mei-Shou Yang (Mary S. Duh) is the Chairman of OSE and received her bachelors degree in accounting from National Chung Hsin University. Mrs. Duh is also a director of Silicon Integrated Systems Corp., an affiliate of OSE. Silicon Integrated Systems is based in Hsin-Chu, Taiwan.

Eugene C. Y. Duh, Director, received a doctors degree in electrical engineering from Stanford University in the United States. Dr. Duh is one of the founders of OSE and is also a co-founder of United Microelectronics Corporation and founder of Silicon Integrated Systems. After his graduation from Stanford University, Dr. Duh joined the IBM Watson Research Center in 1967, where he worked until 1968, when he returned to Taiwan. Thereafter, Dr. Duh taught at several colleges, including the National Taiwan University before he formed the Company. In 1975, Dr. Duh received an award as one of the ten most outstanding youths in Taiwan. Dr. Duh is also the chairman of Silicon Integrated Systems and director of Fast Technologies, Inc..

Edward S. Duh is the General Manager of OSE and Director. He is also the Chairman of OSE Philippines. Mr. Duh received a master degree in industrial management from Carnegie-Mellon University.

Pin-Pin Chang Chao, Director, received her bachelors degree in commerce from Ming Chuan College for Women. Mrs. Chang is also the Chairman of Consolidated Marketing Group.

Kwang-Fen Wang Chen, Director, received her bachelors degree in foreign languages from University of Sacred Heart in Japan. Ms. Chen also acts as director of Zipasia.com Taiwan Ltd..

Teng-Kung Liu, Director, received his bachelors degree in foreign languages from National Taiwan University.

Calvin Lee is a Director of OSE. Mr. Lee received a degree in mechanical engineering from Lung Hwa Junior College of Technology and Commerce. Mr. Lee also is a director of IPAC, an non-consolidated subsidiary of OSE and ActionTec, an investee company of OSE.

Hui-Mei Tsai, Supervisor, received her bachelors degree from National Cheng Kung University/ College and is a special assistant to President of Liang Shiun Enterprises Limited Company.

Hsiao-Fen Ku, Supervisor, received her bachelors degree from Chiao Tung University. Ms. Ku is also a director of Silicon Integrated Systems Corp.

Wen-Lo Shieh is Vice President of Semiconductor Group. Mr. Shieh received his masters degree in business administration from National Sun Yat-Sen University. Mr. Shieh also acts as director of OSE Philippines and Ardentec Corporation.

Michael Lee, Vice President, received his masters degree in business administration from National Chung Hsin University. Mr. Lee is also a director of OSE International and Intelligent Epitaxy Technology, Inc.

Compensation of Directors, Supervisors and Executive Officers

In fiscal year 2001, the Company paid its directors and supervisors and executive officers approximately NT\$10.5 million in aggregate cash compensation. Excluding its executive officers, the Company paid its directors and supervisors in fiscal year 2001 approximately NT\$2.8 million in aggregate cash compensation.

Interests of Management in Certain Transactions

No loans have been granted by the Company to, and are outstanding from, any director or supervisor nor have any guarantees been provided by the Company for their benefit in respect of obligations which remain outstanding. No director or supervisor has any service contract with the Company nor are any such contracts contemplated or proposed. No director or supervisor has any interest in any transaction which is or was of an unusual nature, contains unusual terms or which is or was significant to the Company's business or which was effected by the Company in the current or immediately preceding financial year or during any earlier financial year and which remains outstanding or unperformed.

Employees

Overview

OSE had the following number of employees as of the period indicated:

	<u>As of December 31,</u>		<u>As of September 30,</u>
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Administrative	230	248	242
Research and development	293	259	184
Manufacturing	5,747	4,690	4,496
Sales & marketing	35	46	30
Others	184	155	128
Total	<u>6,489</u>	<u>5,398</u>	<u>5,080</u>

As of September 30, 2002, all of the Company's employees worked on a full-time basis, of which 4% were engaged in research and product development, 5% in sales, marketing, general and administration and 52% in manufacturing. The average age of the employees is 29 years old. The employees are represented by a union, whose relationship with the Company's management is harmonious. Neither OSE nor any of its subsidiaries has experienced any significant labor disputes in the past three years.

As of September 30, 2002, approximately 40% of the Company's research and development personnel held a bachelor's degree or higher educational qualification and approximately 30% of the Company's senior to mid-ranking management and administration personnel held a bachelor's degree or higher educational qualification. The Company places considerable importance on the recruitment, training and retention of a team of qualified and experienced engineers to oversee and manage the Company's Taiwan and overseas manufacturing operations.

Employee remuneration

The salaries of the Company's employees in the ROC are adjusted based on industry standards, inflation and individual performance. The Company pays year-end bonus to the employees equivalent to an average of one month's salary. In addition, the Articles of Incorporation of OSE provide that OSE's employees are entitled to employee bonuses out of the retained earnings which may be paid in cash or stock. See "Description of The Shares". The number of the Shares issuable being calculated by reference to the par value of NT\$10 per Share, notwithstanding that the market value of the Shares as of the date of declaration and distribution of the stock bonuses were significantly higher than NT\$10 per Share. In addition, ROC law requires that OSE's employees be given pre-emptive rights to subscribe for between 10% to 15% of any rights issues or share offerings of OSE. Currently, the Company does not have any share option schemes.

Employee retirement plan

The Company has established an employee retirement plan ("**Retirement Plan**"). This Retirement Plan provides for lump-sum payments to retiring employees in Taiwan based on the length of service, age and certain other factors. OSE deposits funds equal to 4% of employees' total salaries with the Central Trust of China in accordance with the requirements of the Labor Standards Law of the ROC. Actual payment of retirement benefits was financed by the pension fund, and any insufficiency will be paid by OSE.

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

Employee Insurance

The Company carries on its own account group insurance for its employees. The third-party group insurance covers the employee's emergency medical needs and accidental insurance as well. An employee can obtain additional coverage in a discounted rates for himself/herself and family members.

PRINCIPAL SHAREHOLDERS

In so far as is known to the company, as of September 30, 2002, there is no person other than a director who, directly or indirectly, is interested in 10% or more of the Company's Share capital.

The following table sets forth certain information, as of September 30, 2002, with respect to the Preferred Stocks of the Company owned of record by its top five Preferred Stockholders.

<u>Name of Preferred Stockholders</u>	<u>Number of Preferred Stocks</u>	<u>Percentage of Preferred Stocks</u>
Silicon Integrated Systems Corp.	90,000,000	60%
Kuang Hwa Development Venture Capital	30,000,000	20%
Dr. Eugene C.Y. Duh	19,545,596	13.03%
Consolidated Marketing Corp.	7,000,000	4.67%
Ching Shing Investment Corp.	1,000,000	0.67%

CHANGES IN ISSUED SHARE CAPITAL

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

<u>Date of Issue</u>	<u>Type of Issue</u>	<u>Number of Issued Shares (in thousand shares)</u>	<u>Number of Shares Outstanding After Issue</u>
January 1997	Capitalization of the company as of Jan 1, 1997	261,325	261,325
April 1997	Conversion of the 1996 Bonds	9,624	270,949
June 1997	Capitalization of retained earnings of NT\$593,377,636, capital surplus of NT\$436,227,394 and employee bonus of NT\$19,895,100	104,950	375,899
July 1997	Conversion of the 1996 Bonds	32,088	407,987
January 1998	Conversion of the 1996 Bonds	10,125	418,112
April 1998	Conversion of the 1996 Bonds	6,837	424,949
June 1998	Capitalization of retained earnings of NT\$943,387,490, capital surplus of NT\$650,172,460 and employee bonus of NT\$25,617,720	161,918	586,867
July 1999	Conversion of the 1996 Bonds	1,010	587,877
July 1999	Capitalization of retained earnings of NT\$586,867,090, capital surplus of NT\$586,867,090 and employee bonus of NT\$52,815,190	122,655	710,532
October 1999	Cash injection NT\$1,000,000,000	100,000	810,532
January 2000	Conversion of the 1998 Bonds	257	810,789
March 2000	Conversion of the 1998 Bonds	7,978	818,767
August 2000	Conversion of the 1998 Bonds	7,834	826,601
August 2000	Capitalization of retained earnings of NT\$777,828,190 capital surplus of NT\$818,766,520 and employee bonus of NT\$68,825,380	166,542	993,143
June 2001	Capitalization of capital surplus of NT\$982,397,810	98,240	1,091,383
September 2001 . . .	Preferred Stock cash injection of NT\$1,500,000,000	150,000	1,241,383

The Company has obtained the approval of the ROC SFC to conduct a capital increase and the Company expects to issue 150,000,000 Shares by the end of January 2003. After such 150,000,000 Shares being issued, the paid-in capital of the Company will be increased to NT\$13,913,825,880, representing 1,241,382,588 Shares and 150,000,000 preferred shares.

TERMS AND CONDITIONS OF THE BONDS

The following terms and conditions (except for the sentences in italics) will be endorsed on the Certificates issued in respect of the Bonds. The Global Certificate contains provisions which apply to the Bonds when they are represented by the Global Certificate, some of which modify the effect of the terms and conditions set out below. See "The Form of the Bonds". The following summary of certain provisions of the Bonds and the Indenture does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of the Bonds and the Indenture, including the definitions of certain terms therein.

The issue of U.S.\$70,000,000 Credit Enhanced Zero Coupon Convertible Bonds Due 2008 (the "**Bonds**") of Orient Semiconductor Electronics., Ltd. (the "**Company**") was authorized by resolutions of the board of directors of the Company adopted on June 19, 2002 and October 21, 2002. The Bonds are constituted by an indenture (the "**Indenture**") to be dated as of January 23, 2003 and to be made between the Company and The Bank of New York (the "**Trustee**"), which term includes any successor trustee under the Indenture for the holders of the Bonds (the "**Bondholders**"). The Company will enter into a paying and conversion agency agreement (the "**Agency Agreement**") to be dated as of January 23, 2003 with the Trustee, The Bank of New York, appointed as the registrar (the "**Registrar**") and the principal paying, transfer and conversion agent, (the "**Principal Agent**") and The Bank of New York (Luxembourg) S.A., as paying, transfer and conversion agent, appointed thereunder (the "**Paying Agent**", the "**Conversion Agent**" and the "**Transfer Agent**" and such expression shall include the Principal Agent) in relation to the Bonds. The Registrar, the Principal Agent, the Paying Agent, the Conversion Agent and the Transfer Agent together are referred to as the "**Agents**". The statements in these Terms and Conditions ("**Conditions**") include summaries of, and are subject to, the detailed provisions of the Indenture. Copies of the Indenture and the Agency Agreement are available for inspection by the Bondholders during normal business hours at the principal office of the Trustee, being at the date hereof at 101 Barclay Street, 21st Floor West, New York, N.Y. 10286 U.S.A. and at the specified offices of each of the Agents. The Bondholders are entitled to the benefit of the Indenture and are bound by, and are deemed to have notice of, all the provisions of the Indenture and the Agency Agreement.

1. Status

The Bonds constitute direct, unconditional, unsubordinated unsecured general obligations of the Company and rank at least equally among themselves and with all other present and future direct, unconditional, unsubordinated and unsecured obligations of the Company, except as may be required by mandatory provisions of law.

The Bonds will have the benefit of an irrevocable standby letter of credit (the "**Letter of Credit**") issued by Chinatrust Commercial Bank, Ltd ("**LOC Issuing Bank**"). for the benefit of the holders of the Bonds.

The amount under the Letter of Credit is drawable by the Trustee on behalf of the Bondholders, upon the presentation of, *inter alia*, a certificate from the Trustee to the effect that (i) an acceleration of the Bonds has occurred pursuant to an Event of Default described in the Terms and Conditions of the Bonds, or (ii) the Company has failed to pay the principal amount on the due date in respect of the Bonds being redeemed pursuant to the Terms and Conditions of the Bonds.

The stated amount of the Letter of Credit (the "**Stated Amount**") is equal to the maximum aggregate amount payable at maturity of the Bonds, which is U.S.\$70,000,000, subject to reduction as provided herein. The amount available for drawing under the Letter of Credit shall be reduced (a) by the principal amount of the Bonds that were redeemed, (b) by the principal amount of the Bonds that were converted into the common shares of the Company, par value NT\$10 (the "**Shares**"), or (c) by the principal amount of the Bonds that were purchased and cancelled.

The Letter of Credit will expire at the close of business on the earliest of (i) the date 30 days following maturity of the Bonds, (ii) the final drawing under the Letter of Credit is honored and paid by the LOC Issuing Bank, (iii) the date on which the Stated Amount is reduced to zero, and (iv) the date on which the Letter of Credit is surrendered by the Trustee to the LOC Issuing Bank for cancellation.

Each drawing on the Letter of Credit will be payable in immediately available funds to the Trustee on the second Business Day by no later than 10:00 a.m., New York time, following presentation in accordance with the terms of the Letter of Credit. “**Business Day**” for the purpose of this Condition 1 shall mean any day other than a Saturday, Sunday, public holiday or a day on which banking institutions in Taipei or New York City are authorized or required to close.

The Letter of Credit does not support any other obligations of the Company under the Bonds, including the obligations described under “Condition 6 — Conversion” and the obligation to pay Additional Amounts (as defined in Condition 9) below.

2. Form, Denomination and Title

(A) Form and Denomination

The Bonds will be issued in registered form, without coupons, in denominations of U.S.\$10,000 and integral multiples thereof. The Bonds will be offered and sold in principal amounts of U.S.\$10,000 or an integral multiple thereof and will be transferable in principal amounts of U.S.\$10,000 or an integral multiple thereof. The Bonds are not issuable in bearer form. The Bonds will initially be represented by a global certificate (the “**Global Certificate**”) deposited with The Bank of New York, as common depository for, and registered in the name of a nominee for, Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”).

Owners of interests in the Bonds will not be entitled to receive definitive physical certificates (the “**definitive Certificate**”) in respect of their Bonds except in the limited circumstances described in the Global Certificate. In the event that certificates do become issuable, a 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.

(B) Title

The Bonds will be registered instruments, title to which will pass only by transfer and registration in the register of Bondholders. The registered holder of any Bond will (except as otherwise required by law) 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.

3. Negative Pledge

There is no Negative Pledge arrangement in this Offering.

4. No Interest

No interest will be payable on the Bonds and no default interest will be payable on the Bonds on the occurrence of an Event of Default as set out in Condition 10.

5. Transfers of Bonds; Issue of Certificates

(A) Transfers

Subject to Condition 5(D) below, a Bond may be transferred by delivering the individual definitive Certificate evidencing that Bond duly endorsed and accompanied by a form of transfer, duly completed and signed, at the specified office of any Transfer Agent (including the Transfer Agent in Luxembourg) (if a definitive Certificate has been issued) or, in the case of a Bond represented by the Global Certificate, delivery at such office of a form of transfer obtainable from any of the Transfer Agents (the “**Form of Transfer**”), duly completed and executed and any other evidence that such

Transfer Agent may reasonably 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 Transfer Agent (including the Transfer Agent in Luxembourg) 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 upon receipt by the Transfer Agent (including the Transfer Agent in Luxembourg) 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 within five Business Days of receipt by the Transfer Agent of the relevant Certificate and the Form of Transfer 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.

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

For the purposes of this Condition 5, “**Business Day**” means a day (other than a Saturday or Sunday) on which banks are open for business in the city in which the specified office of the relevant Transfer Agent with whom a Certificate is deposited or surrendered in connection with a transfer, conversion or redemption is located.

(C) Formalities Free of Charge

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

(D) Restricted Transfer Periods

No Bondholder may require the transfer of a Bond to be registered (i) during the period of 10 days preceding the due date for any payment of principal on the Bond; (ii) after such Bond has been called for redemption pursuant to Condition 8(B) or 8(D); (iii) after the Conversion Notice (as defined in Condition 6(B)) and the individual definitive Certificate in respect of such Bond (if issued) have been deposited for conversion pursuant to Condition 6; or (iv) following exercise of the Bondholder’s put option pursuant to Condition 8(C).

(E) Regulations

All transfers of Bonds and entries on the register of Bondholders will be made subject to the detailed regulations concerning transfer of Bonds (the “**Regulations**”) set forth in the Agency Agreement. The Regulations may be changed by the Company, with the prior written approval of the Trustee and the Registrar. A copy of the Regulations will be mailed (at the Company’s expense) by the Registrar to any Bondholder who asks for one and will also be available at the office of the paying and conversion agent in Luxembourg and elsewhere.

6. Conversion

The Indenture provides, in summary, that the term “Shares” means, when used to refer to the class or classes of the Company’s capital stock into which the Bonds are convertible and when used in certain other instances, only the Company’s common shares, NT\$10 par value per share, but that when used elsewhere, including in Condition 6(C), such term also includes shares of any other class or classes of the share capital of the Company authorized after the date of the Indenture which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or winding-up of the Company.

(A) Conversion Right

(i) *Conversion Period:* Each Bondholder has the right during the Conversion Period (as defined below) to convert any Bond into Shares, credited as fully paid (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 February 22, 2003 and prior to the close of business (at the place where the Conversion Notice (as defined in Condition 6(B)) and the individual definitive Certificate (if issued) in respect of such Bond are deposited for conversion) on January 13, 2008 (or if such date shall not be a business day, on the immediately preceding business day at such place) (but in no event thereafter), or, if such Bond shall have been called for redemption prior to that date, then up to the close of business (at the place aforesaid) on the seventh day prior to the date fixed for redemption thereof (or if such day shall not be a business day at such place on the immediately preceding business day at such place) (the “**Conversion Period**”); provided, however, that the Conversion Right during any Closed Period shall be suspended and the Conversion Period shall not include any such Closed Period.

“**Closed Period**” shall mean any period during which, under the laws of the ROC or otherwise, the Company shall close its shareholders register, which period includes (a) 60 days prior to the date of the annual meeting of shareholders (“**AGM**”), (b) 30 days prior to an extraordinary shareholders’ meeting, (c) the period from the eighth calendar day after the AGM determining the annual dividend and bonus distribution to the relevant record date, (d) the five day period commencing from the fourth calendar day prior to the record date for determining the identity of shareholders entitled to receive other rights or benefits and (e) the period from the 15th Trading Day (as defined in Condition 8(B)) before the closure of the Company’s shareholders’ register for the Company’s rights issue where the shareholders are entitled to subscribe new shares to the relevant record date, or such other periods determined by ROC law applicable from time to time. The Company shall procure that the Bondholders and the Trustee are given at least 10 days’ prior notice of any Closed Period in accordance with Condition 15.

For the purpose of Condition 6(A)(i), “**business day**” means a day on which commercial banks are open for business in London, and in the place where the Conversion Agent with whom the individual definitive Certificate (if issued) and the Conversion Notice are deposited is open for business.

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

*Under current ROC law, a non-ROC converting Bondholder when exercising his Conversion Right to convert the Bonds into Shares is required to appoint a local agent in the ROC with such qualifications as are set by the ROC Securities and Futures Commission (“**ROC SFC**”), to obtain an approval from the Taiwan Stock Exchange (“**TSE**”), open a securities trading account with a local brokerage firm and a New Taiwan Dollar bank account, who will act as custodian for the securities, pay ROC withholding taxes, remit funds, exercise shareholders’ rights, handle conversion application, hold the securities for safekeeping, make confirmation and settlement, report all relevant information,*

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). Under existing ROC laws and regulations, without obtaining an approval from TSE and 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. Delivery of the Shares into which the Bonds may be converted will only be made through the book entry system maintained by Taiwan Securities Central Depository Co., Ltd. ("**TSCD**"). No definitive share certificates will be delivered to the converting holder (or its designee) upon conversion. 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\$34.467 = U.S.\$1.00) (the "**Fixed Exchange Rate**") by the Conversion Price (as defined below) in effect on the Conversion Date as defined in Condition 6(B)(ii) (translated into NT Dollars at the Fixed Exchange Rate of NT\$34.467 = U.S.\$1.00). Fractional Shares will not be issued or paid in cash, or in any other means.

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 January 23, 2003, the Company will upon conversion of the Bonds pay in U.S. Dollars a sum equal to such portion of the principal amount of the Bond or Bonds converted as corresponds to any fraction of a Share not issued as aforesaid if such sum exceeds U.S.\$10. For the purpose of calculating the amount of such payment, the Company shall use the Fixed 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\$6.03 per Share, which is equivalent to U.S.\$0.175 per Share based on the Fixed Exchange Rate of NT\$34.467 = U.S.\$1.00 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 prior to January 23, 2008 on the date fixed for redemption thereof, the Conversion Right attaching to such Bond will continue to be exercisable up to and including the close of business (at the place where the relevant individual definitive Certificate (if issued) in respect of such Bond and the Conversion Notice (as defined in Condition 6(B) are deposited for conversion) on the date upon which the full amount of the monies payable in respect of such Bond has been duly received by the Trustee or the Principal Agent and notice of such receipt has been duly given to the Bondholders.

(B) *Conversion Procedure*

(i) *Exercise Procedure:* To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at its own expense between 9:00 a.m. and 3:00 p.m. (local time at the specified office referred to below) on any business day (as defined in Condition 6(A)(i)) 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 individual definitive Certificate (if issued) and any certificates and other documents as may be required under the law of the ROC or the jurisdiction in which such Conversion Agent is located and any amount to be paid by the Bondholder. A Conversion Notice, or the Bond deposited outside the hours specified above or on a day which is not a business day at the place of the specified office of the relevant Conversion Agent shall for all purposes be deemed to have been deposited with the Conversion Agent between 9:00 a.m. to 3:00 p.m. on the next business day.

Under current ROC law and regulations, the Company may have certain disclosure obligations and reporting obligations if:

- (i) the person to become a shareholder is a “related party” of the Company under Statements of Financial Accounting Standard No. 6 of the ROC and such person beneficially owns the Shares issued upon the conversion of Bonds; or*
- (ii) the person to become a shareholder owns the Shares issued upon the conversion of Bonds and such Shares exceed 10% of the total number of Shares expected to be issued upon conversion of all the Bonds at the initial Conversion Price.*

As a result of such disclosure obligations, the converting Bondholders will be required to provide information to enable the Company’s compliance with its obligation under the ROC regulations including the following:

- *name of the converting Bondholder;*
- *name and nationality (and the identity number, if such person is a ROC citizen) of the person (“Holder”) who will become the shareholder upon such conversion;*
- *the number of Shares the Holder will acquire upon such conversion and the aggregate number of Shares the Holder has acquired upon all conversion of the Bonds; and*
- *any other information that the Company or the Conversion Agent may deem necessary or desirable to comply with any ROC disclosure or reporting requirements.*

The conversion of Bonds may be delayed until the requested information has been provided by Bondholder in the Conversion Notice.

Bondholders who deposit a Conversion Notice during a Closed Period will not be permitted to convert their Bonds until the Trading Day following the last day of the Closed Period which (if all other conditions to convert have been fulfilled) will be the Conversion Date for such Bonds. Such Bondholders will not be deemed 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 the number of TSCD book entry account maintained by the converting holder (or its designee). The Conversion Agent will deem any Conversion Notice which does not include a TSCD account number incomplete or incorrect and reject such Conversion Notice. A Conversion Notice once deposited may not be withdrawn without the consent in writing of the Company and the Conversion Agents, Principal Agent and Trustee be immediately notified in writing by such written consent of the Company accompanied by the relevant Conversion Notice. The price at which such Bonds will be converted will be the Conversion Price in effect on the Conversion Date.

(ii) Taxes and Expenses; Deposit Date and Conversion Date: As conditions precedent to conversion, together with the Conversion Notice, the Bondholder must pay to the relevant Conversion Agent all stamp, issue, registration, excise and similar taxes or duties or transfer costs (if any) arising on conversion in the country in which the Bond is deposited for conversion, or payable in any jurisdiction consequent upon the issue or delivery of Shares 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 as provided in the Indenture and Agency Agreement. The date on which any 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 shall mean the next day following the Deposit Date, which day both is a Trading Day (as defined in Condition 8(B)) and occurs during the Conversion Period. Where the relevant Bond(s) is/are represented by a Global Certificate, the Deposit Date shall be the date on which the duly signed and completed Conversion Notice relating thereto and the written authorization referred to above shall have been lodged at the specified office of a Conversion Agent as aforesaid. The holder

must therefore satisfy all such conditions on or before the Trading Day prior to the end of the conversion period. Bondholders who deposit a Conversion Notice during a Closed Period will not be permitted to convert their Bonds until the Trading Day following the last day of that Closed Period.

(iii) *Holder of Record:* With effect from the opening of business in the ROC on the Conversion Date, the Company will deem the converting Bondholder (or its designee) as indicated in the Conversion Notice to have become the holder of the number of Shares to be issued upon such conversion to such holder (disregarding any retroactive adjustment of the Conversion Price referred to below prior to the time such retroactive adjustment shall have become effective) and at such time, subject to Condition 6(B)(v), the rights of such converting Bondholder as a Bondholder with respect to such Bonds converted shall cease (except rights arising under Condition 6(B)(iv) and 6(B)(vi)).

(iv) *Availability of Shares:* The Company shall, for the benefit of Bondholders, ensure that sufficient Shares are available as soon as possible, but no later than 5 Trading Days after the Conversion Date.

(v) *Delivery of Shares:* Subject to any applicable limitations then imposed by ROC laws and regulations (including obtaining TSE approval and opening TSCD account), the Company will, 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, the relevant Shares be delivered to the TSCD account maintained by the converting holder (or its designee) as specified in the Conversion Notice. If the converting Bondholder (or its designee) has not opened the required TSCD account, the Company will deliver the Shares after such account has been set up.

(vi) *Retroactive Adjustment of Conversion Price:* If the Conversion Date in relation to any Bond shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions referred to in Condition 6(C) and the Indenture and the relevant Conversion Date falls on a date when the relevant adjustment has not been reflected in the Conversion Price, the Company will, within 20 days after such adjustment of the Conversion Price have become effective (but not retroactive effective), issue and deliver, through the book entry system maintained by TSCD, such number of Shares as is equal to the excess of the number of Shares that would have been required to be issued on conversion of such Bond if the relevant retroactive adjustment had been made as at the said Conversion Date over the number of Shares previously issued pursuant to such conversion, and in such event and in respect of such number of Shares, references in Condition 6(B)(v) to the Conversion Date shall be deemed to refer to the date upon which such retroactive adjustment becomes effective (disregarding the fact that it becomes effective retroactively). Fractions of Shares will not be issued and no cash adjustment will be made in respect thereof.

(vii) *Dividends and Other Entitlements:* To the extent permitted under the laws and regulations of the ROC, the converting Bondholders will be entitled to the annual dividend distributions or other benefits if the Conversion Date falls prior to the eighth day after AGM determining the distribution of annual dividend or other benefits.

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

(C) *Adjustments to Conversion Price*

The Conversion Price will be subject to adjustment in the circumstances described below, which are provided in the Indenture:

- (i) If the Company shall declare a dividend in Shares or make a free distribution or bonus issue of Shares which is treated as a capitalisation issue for accounting purposes (including but not limited to capitalization of capital reserves), then the Conversion Price in effect on the date when such dividend and/or distribution is declared (or, if the Company has fixed a prior record date for the determination of shareholders entitled to receive such dividend and/or distribution, on such record date) shall be adjusted in accordance with the following formula:

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

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding at the time of declaration of such dividend and/or distribution (or at the close of business in Taipei on such record date as the case may be).

n = the number of Shares to be distributed to the shareholders as a dividend and/or free distribution.

An adjustment made pursuant to this sub-section (i) shall become effective on the record date for determination of shareholders entitled to receive such dividend and/or distribution; provided that in the case of a dividend in Shares or capitalization of reserves which must, under applicable law of the ROC, be submitted for approval to a general meeting of shareholders before being legally paid or made, and which is so approved after the record date fixed for the determination of shareholders entitled to receive such dividend and/or distribution, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date.

- (ii) If the Company shall (1) subdivide its outstanding Shares, (2) consolidate its outstanding Shares into a smaller number of Shares, or (3) re-classify any of its Shares into other securities of the Company, then the Conversion Price shall be appropriately adjusted so that the holder of any Bond, in respect of the Conversion Date which occurs after the coming into effect of the adjustment described in this sub-section (ii), shall be entitled to receive the number of Shares and/or other securities of the Company which it would have held or have been entitled to receive after the happening of any of the events described above had such Bond been converted immediately prior to the happening of such event (or, if the Company has fixed a prior record date for the determination of shareholders entitled to receive any such securities issued upon any such sub-division, consolidation or re-classification, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the happening of such event (or such record date) or any time thereafter.

An adjustment made pursuant to this sub-section (ii) shall become effective immediately on the relevant event referred to above becoming effective or, if a record date is fixed therefore, immediately after such record date;

- (iii) If the Company shall grant, issue or offer to the holders of Shares rights entitling them to subscribe for or purchase Shares (a “Rights Issue”, which expression shall include those Shares which are required to be offered to employees and persons other than shareholders in connection with such grant, issue or offer) at a consideration per Share receivable by the Company which is fixed:

- (1) on or prior to the record date mentioned below and is less than the Current Market Price per Share on such record date; or
- (2) after the record date mentioned below and is less than the Current Market Price per share on the date the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (1) above) on the record date for the determination of shareholders entitled to receive such rights or (in a case within (2) above) on the date the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times [(N+v)/(N+n)]$$

where:

NCP and OCP have the meanings ascribed thereto above.

- N = the number of Shares outstanding at the close of business in the ROC (in a case within (1) above) on such record date or (in a case within (2) above) on the date the Company fixes the said consideration.
- n = the number of Shares to be issued in connection with such Rights Issue at the said consideration.
- v = the number of Shares which the aggregate consideration receivable by the Company would purchase at such Current Market Price per Share specified in (1) or, as the case may be, (2) above.

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

- (iv) If the Company shall grant, issue or offer to the holders of Shares warrants entitling them to subscribe for or purchase Shares at a consideration per Share receivable by the Company which is fixed:

- (1) on or prior to the record date for the determination of shareholders entitled to receive such warrants and is less than the Current Market Price per Share at such record date; or
- (2) after the record date mentioned above and is less than the Current Market Price per Share on the date the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (1) above) on the record date for the determination of shareholders entitled to receive such warrants or (in a case within (2) above) on the date the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times [(N+v)/(N+n)]$$

where:

NCP and OCP have the meanings ascribed thereto above.

- N = the number of Shares outstanding at the close of business in the ROC (in a case within (1) above) on such record date or (in a case within (2) above) on the date the Company fixes the said consideration.
- n = the number of Shares to be issued upon exercise of such warrants at the said consideration where no applications by shareholders entitled to such warrants are required, shall be based on the number of warrants issued. Where applications by shareholders entitled to such warrants are required, n = the number of such Shares that equals (A) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the case may be, (B) the number of warrants for which applications are received from shareholders as referred to below save to the extent already adjusted for under (A).
- v = the number of Shares which the aggregate consideration receivable by the Company would purchase at such Current Market Price per Share specified in (1) or, as the case may be, (2) above.

Subject as provided below, such adjustment shall become effective (1) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (2) where applications by shareholders entitled to the same are required as aforesaid, immediately after the latest date for the submission of such applications or (if later) immediately after the Company fixes the said consideration but in all cases retroactively to immediately after the record date mentioned above.

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

If the warrants expire prior to exercise, the Conversion Price shall be readjusted to reflect the actual securities received upon exercise.

- (v) If the Company shall distribute to the holders of Shares evidences of indebtedness, or shares of capital stock of the Company (other than Shares), assets (excluding regular periodic dividends in cash) or rights or warrants to subscribe for or purchase Shares or securities (excluding those mentioned in (iii) or (iv) above), then the Conversion Price in effect on the record date for the determination of shareholders entitled to receive such distribution shall be adjusted in accordance with the following formula:

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

where:

NCP and OCP have the meanings assigned thereto above.

CMP = the Current Market Price per Share on the record date for the determination of shareholders entitled to receive such distribution.

fmv = the fair market value (as determined by the Company and notified to the Trustee or, if pursuant to applicable law of the ROC such determination is to be made by application to a court of competent jurisdiction, as determined by such court or by an appraiser appointed by such court) of the portion of the

evidences of indebtedness, equity share capital shares of capital stock, assets, rights or warrants so distributed applicable to one Share less any consideration payable for the same by the relevant shareholder.

In making a determination of the fair market value of any such evidences of indebtedness, shares of capital stock, assets, rights or warrants, the Company shall consult a leading independent securities company or bank in Taipei City, Taiwan selected by the Company and shall take fully into account the advice received from such company or bank.

Such adjustment shall become effective immediately after the record date for the determination of shareholders entitled to receive such distribution, provided that (a) in the case of such distribution which must, under applicable law of the ROC, be submitted for approval to a general meeting of shareholders of the Company before such distribution may legally be made and is so approved after the record date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date and (b) if the fair market value of the evidences of indebtedness, shares of capital stock, assets, rights or warrants so distributed cannot be determined until after the record date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such fair market value being determined, become effective retroactively to immediately after such record date.

If the rights or warrants expire prior to exercise, the Conversion Price shall be readjusted to reflect the actual securities received upon exercise.

- (vi) If the Company shall issue any securities (other than the Bonds) convertible into or exchangeable for Shares at less than the then Current Market Price or grant, issue or offer options, rights or warrants (other than those mentioned in (iv) above) to subscribe for or purchase Shares at less than the then Current Market Price or to subscribe for or purchase securities convertible into or exchangeable for Shares at less than the then current Market Price per Share on the date in the ROC on which the Company fixes the said consideration (or, if the issue of such securities is subject to approval by a general meeting of shareholders, on the date on which the board of directors of the Company fixes the consideration to be recommended at such meeting) then the Conversion Price in effect immediately prior to the date of issue of such convertible or exchangeable securities or offer, grant or issue of such options, rights or warrants shall be adjusted in accordance with the following formula:

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

where:

NCP and OCP have the meanings assigned thereto above.

- N = the number of Shares outstanding at the close of business in the ROC on the day immediately prior to the date of such issue.
- n = the number of Shares to be issued upon conversion or exchange of such convertible or exchangeable securities or an exercise of such options, rights or warrants at the initial conversion or exchange or exercise price or rate.
- v = the number of Shares which the aggregate consideration receivable by the Company would purchase at such Current Market Price per Share.

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

If the conversion or exchange right of any such convertible or exchangeable securities expires prior to exercise, the Conversion Price shall be readjusted to reflect the actual securities converted or exchanged.

- (vii) If the Company shall issue any Shares (other than Shares issued (a) on conversion or in exchange for any convertible or exchangeable bonds, including the Bonds, or (b) upon exercise of any rights or warrants granted, offered or issued by the Company or in any of the circumstances described in (i) (ii) or (iii) above, or (c) to shareholders of any company which mergers with the Company in proportion to their shareholdings in such company immediately prior to such merger, upon such merger but including Shares issued pursuant to any employee bonus or profit-sharing arrangements) for a consideration per Share receivable by the Company less than the Current Market Price per Share on the date in the ROC on which the Company fixes the said consideration (or, if the issue of such Shares is subject to approval by a general meeting of shareholders, on the date on which the board of directors of the Company fixes the consideration to be recommended at such meeting) then the Conversion Price in effect immediately prior to the date of issue of such additional Shares shall be adjusted in accordance with the following formula:

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

where:

NCP and OCP have the meanings assigned thereto above.

N = the number of Shares outstanding at the close of business in the ROC on the day immediately prior to the date of issue of such additional Shares;

n = the number of additional Shares issued as aforesaid.

v = the number of Shares which the aggregate consideration receivable by the Company would purchase at such Current Market Price per Share.

In the case of the issue of Shares to employees under any employee bonus or profit sharing arrangements where the Shares are credited as fully paid out of retained earnings at their par value and the Company would otherwise have been required to pay to those employees the cash equivalent of the aggregate par value of the number of Shares so issued had such Shares not been so issued, the aggregate consideration receivable per Share by the Company shall be deemed to be the par value of such issued Share.

Such adjustment shall become effective as of the calendar day in the ROC of the issue of such additional Shares.

If the conversion or exchange right of any such convertible or exchangeable securities expires prior to exercise, the Conversion Price shall be re-adjusted to reflect the actual securities converted or exchanged.

No adjustment will be made to the Conversion Price as a result of the issue of Shares to the shareholders of a company that is to be merged into the Company as consideration for the merger.

- (viii) If any other event or circumstance has occurred which would have in the determination of the Company an analogous effect to any of the events in (i) to (vii) above, then the Company shall notify the Trustee thereof and the Company shall consult with a leading independent securities company or commercial bank in Taipei selected by the Company as to what adjustment, if any, should be made to the Conversion Price to preserve the value of the Conversion Right of Bondholders and will make any such adjustment.

For the purposes of this Condition 6(C), the “**Current Market Price**” per Share on any date means the average of the daily closing prices (as defined below) of the relevant Shares for the 20 consecutive Trading Days before such date. If the Company has more than one class of share capital comprising Shares, then the relevant Current Market Price for Shares shall be the price for that class of Shares the issue of which (or of rights or warrants in respect of, or securities convertible into or exchangeable for, that class of Shares) gives rise to the adjustment in question. For purposes of this Condition 6(C), the “closing price” of the Shares for each Trading Day shall be the last reported transaction price of the Shares on the TSE for such day or, if no transaction takes place on such day, the last available reported transaction price of the Shares on the TSE in effect on the Trading Day immediately preceding such day or, if the Shares are not listed or admitted to trading on such exchange, the average of the closing bid and offered prices of Shares for such day as furnished by a leading independent securities firm licensed to trade on the TSE selected from time to time by the Company. The term “**Trading Day**” means a day when the TSE is open for business, but does not include a day when (a) no such last transaction price or closing bid and offered prices are reported and (b) (if the Shares are not listed or admitted to trading on such exchange) no such closing bid and offered prices are furnished as aforesaid.

No adjustment of the Conversion Price shall be required unless such adjustment would require an increase or decrease in such price of at least one-tenth of one New Taiwan Dollar; provided that any adjustment which by reason of this sub-section is not required to be made shall be carried forward and taken into account as if such adjustment had been made at the time when it would have been made but for the provisions of this sub-section in any subsequent adjustment. All calculations shall be made to the nearest one-tenth of one New Taiwan Dollar with one twentieth or more of one New Taiwan Dollar to be considered one-tenth of one New Taiwan Dollar. Any adjustment will be notified promptly by the Company to the Bondholders and the Luxembourg Stock Exchange in accordance with Condition 15.

Notwithstanding the adjustment provision above, the Conversion Price shall not be reduced below the par value at the shares (NT\$10 at the date hereof) as a result of any adjustment made under the Indenture unless under applicable law then in effect the Bonds may be converted at such reduced Conversion Price into legally issued and fully paid Shares.

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

(D) Conversion Price Reset

The Conversion Price shall be adjusted (the “**Adjusted Conversion Price**”) on the day of expiry of every six month after the Closing Date (the “**Reset Dates**” and each a “**Reset Date**”), in the event that the closing price of the Share on the TSE translated into U.S. Dollars at the then Prevailing Rate (defined below) for each of the 20 consecutive Trading Days (as defined in Condition 6(C)(viii), immediately prior to a Reset Date (the “**20-day Closing Prices**”) is less than the Conversion Prices then in effect on the relevant Reset Date, converted into U.S. Dollars at the Fixed Exchange Rate, in accordance with the following formula:

$$\text{Adjusted Conversion Price} = \frac{\text{Fixed Exchange Rate}}{\text{Prevailing Rate}} \times \text{average of the 20-day Closing Prices ("Average Closing Price")}$$

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

- (i) any adjustment to the Conversion Price pursuant to this Condition 6(D) shall be limited so that the Conversion Price adjusted in accordance with this Condition 6(D) shall not be less than 80% of the initial Conversion Price prevailing on January 23, 2003 (as adjusted to reflect any adjustments required under Condition 6(C) above, which may have occurred prior to the Reset Date);

- (ii) the provisions of Condition 6(C) shall apply mutatis mutandis to this Condition 6(D) to ensure that appropriate adjustments shall be made to any Closing Price to reflect any adjustments made to the Conversion Price in accordance with Condition 6(C) during the period of calculation of the Average Closing Price;
- (iii) the Conversion Price shall not be reduced below the par value of the Shares (currently NT\$10 per share) unless, under applicable law then in effect, the Bonds could be converted at such reduced Conversion Price into legally issued, fully-paid and non-assessable Shares; and
- (iv) for the avoidance of doubt (x) any adjustments to the Conversion Price made pursuant to this Condition 6(D) shall only be downward adjustments and (y) an adjustment may be made in respect of a Reset Date notwithstanding that an adjustment may have been made in respect of a preceding Reset Date, if any.

The “**Prevailing Rate**” for the translation of the Closing Prices shall be the arithmetic average of the closing rate for the purchase of U.S. Dollars with NT Dollars quoted by Taipei Forex Inc. (or a replacement agency selected by the Company with the Trustee’s consent) at the close of business on each day of the 20 consecutive Trading Days preceding the relevant Reset Date. For the purpose of the formula in this Condition, the Prevailing Rate shall be expressed as the number of NT Dollars per U.S.\$1.00.

Any such adjustment shall become effective as of the relevant Reset Date and the Bondholders and the Luxembourg Stock Exchange shall be notified by the Company of any adjustment to the Conversion Price as soon as practicable the relevant Reset Date in accordance with Condition 15.

(E) Alternative Conversion Price Reset

To stimulate Bondholder’s interest to exercise their conversion right, Condition 6(E) provides an alternative.

The Company may (but is not obliged to) grant the Bondholders options, within a seven Trading-Day period (the “**Alternative Conversion Period**”, the first day of such period will be determined by the Company) after December 24, 2005 and December 24, 2007 (the “**Alternative Reset Date**”) and before the relevant Put Date or the Maturity Date, to convert the Bonds into Shares based on the reset alternative Conversion Price (the “**Alternative Conversion Price**”), which would be 95.24% of the then market price.

The above-mentioned “**market price**” is the lowest among the average closing prices of the Shares on the TSE translated into U.S. Dollars at the Prevailing Rate for 10, 15 and 20 Trading Days immediately preceding the applicable Alternative Reset Date.

The Company undertakes to notify the Bondholders the Market Price and the beginning and end of each relevant seven Trading-Day period as soon as practicable after the Alternative Reset Date, as the case may be, in accordance with Condition 15.

The Alternative Conversion Prices will only be applicable within the relevant seven Trading-Day Alternative Conversion Period described in this Condition 6(E). The Conversion Price will be applicable to any conversion after the relevant Alternative Conversion Period.

(F) Mergers; Disposals

The Company will not merge, amalgamate or consolidate with or into any other corporation or entity where the Company is not being the continuing entity or sell or transfer all, or substantially all, of the assets of the Company, whether as a single transaction or a number of transactions, related or not, to any corporation, entity or person or to one or more members of any group under the common control of any corporation, entity or person unless the Company shall have notified the Bondholders of such event in accordance with Condition 15 and the Company and such corporation, entity or person shall have executed an indenture supplemental to the Indenture in form and substance satisfactory to the Trustee providing that such corporation, entity or person shall assume the obligations of the

Company under the Bonds, the Indenture and the Agency Agreement and providing that each Bond then outstanding shall be convertible into the class and amount of shares and other securities, cash and other property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares into which such Bond would have been convertible immediately prior to such consolidation, amalgamation, merger, sale or transfer (assuming for such purpose that the Bonds were convertible at the time of such consolidation, amalgamation, merger, sale or transfer) at the Conversion Price as adjusted from time to time pursuant to the Indenture. Such supplemental indenture will provide for adjustments which will be as nearly equivalent as may be practicable to the adjustments provided for in the foregoing provisions to this Condition. The above provisions of this Condition 6(F) will apply in the same way to any subsequent or further consolidations, amalgamations, mergers, sales or transfers.

(G) *Conversion Undertakings*

The Company undertakes to ensure that any Closed Period is as short a period as is reasonably practicable having regard to applicable ROC laws and regulation and practices.

7. Payments

(A) *Principal*

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

(B) *Registered Accounts*

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

(C) *Fiscal Laws*

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

(D) *Payment Initiation*

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that date is not a business day, for value the next following business day) will be initiated and, where payment is to be made by check, the check will be mailed (provided that the Principal Agent shall have received the relevant funds in full from the Company or LOC Issuing Bank in accordance with the Agency Agreement), 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.

(E) *Payment Delay*

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

(F) *Business Days*

In this Condition 7, “**business day**” means a day on which commercial banks are open for business in The City of New York and London and, in the case of the surrender of a Certificate, in London and in the place where the Certificate is surrendered.

(G) *Partial Payments*

If the amount of principal 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, in fact paid.

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

8. **Redemption, Purchase and Cancellation**

(A) *Redemption at Maturity*

Unless previously redeemed, converted or purchased and cancelled as herein provided, the Company will redeem the Bonds at their principal amount in U.S. Dollars on January 23, 2008. The Bonds may be redeemed in whole or in part prior to that date only as provided in paragraphs (B), (C) and (D) below (but without prejudice to Condition 10).

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

(i) On or at any time after January 23, 2004, the Company may, having given not less than 40 nor more than 60 days’ notice to the Bondholders in accordance with Conditions 8(H) and 15 (which notice will be irrevocable), redeem all or part of the Bonds at their principal amount if the Closing Price of the Shares translated into U.S. Dollars at the Prevailing Exchange Rate for each of the 20 Trading Days in a 30 consecutive Trading-Day period, the last of which occurs not more than 5 days prior to the date upon which notice of such redemption is published, is at least 130% of the Conversion Price then in effect, translated into U.S. Dollars at the Fixed Exchange Rate of NT\$34.467 = U.S.\$1.00, on each such Trading Day. If there shall occur an event giving rise to a change in the Conversion Price during any such 30 consecutive Trading-Day period, appropriate adjustments for the relevant days shall be made for the purpose of calculating the Closing Price for such days. If the Closing Price cannot be determined for one or more consecutive Trading Days, such day or days will be disregarded in the relevant calculation and will be deemed not to have existed when ascertaining such 30 consecutive Trading-Day period.

(ii) The Company may, at any time, having given not less than 40 nor more than 60 days’ notice to the Bondholders in accordance with Conditions 8(H) and 15 (which notice shall be irrevocable), redeem all but not some only of the Bonds at their principal amount if at least 90% of the Bonds have been previously redeemed, repurchased, or converted 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 term “**Trading Day**” means a day on which the TSE is open for business but does not include a day when (a) no such last transaction price or closing bid and offered prices are reported and (b) (if the Shares are not listed or admitted to trading on such exchange) no such closing bid and offered prices are furnished as aforesaid. The “**Closing Price**” of the Shares for each Trading Day shall be the last reported transaction price of the Shares on the TSE for such day or, if no transaction takes place on such day, the last available reported transaction price of the Shares on the TSE in effect on the Trading Day immediately preceding such day or, if the Shares are not listed or admitted to trading on such exchange, the average of the closing bid and offered prices of Shares for such day as

furnished by a leading independent securities firm licensed to trade on the TSE selected by the Company for the purpose. The term “**Prevailing Exchange Rate**” in this Condition 8(B) means the closing rate of U.S. Dollars to NT Dollars quoted by Taipei Forex Inc (or a replacement agency selected by the Company with the Trustee’s consent) at the close of business on any relevant Trading Day.

(C) Redemption at the Option of Bondholders

Unless previously redeemed, converted or repurchased and cancelled as herein provided, the Company will, at the option of the holder of any Bond, redeem all or part of the Bonds held by that Bondholder on January 23, 2006 at the principal amount (the “**Put Date**”).

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

The exercise of the Bondholders’ option under this Condition 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 notices given by the Company of the Bondholders pursuant thereto.

(D) Redemption for Taxation Reasons

At any time, the Company may, having given not less than 40 nor more than 60 days’ notice to the Bondholders in accordance with Conditions 8(H) and 15 (which notice shall be irrevocable) redeem all but not some only of the Bonds at their principal amount, if (i) the Company determines immediately prior to the giving of such notice that it has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the ROC or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after January 23, 2003 and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Amounts were a payment in respect of the Bonds then due. Prior to the giving of any notice of redemption pursuant to this paragraph, the Company shall deliver to the Trustee a certificate signed by two directors of the Company stating that the obligation referred to in (i) above cannot be avoided by the Company taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedents set out in (ii) above, in which event it shall be conclusive and binding on the Bondholders. Bonds in respect of which a notice of redemption has been given under Condition 8(B) and Condition 8(C) shall not be affected by any notice given subsequently under this Condition 8(D).

(E) Purchase

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

(F) *Selection of Bonds*

In the case of redemption of some only of the Bonds pursuant to Condition 8(B)(i), where individual definitive Certificates have been issued, 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.

(G) *Cancellation*

All Bonds which are redeemed or converted or purchased and surrendered to any Agent will forthwith be cancelled in accordance with the provisions of the Agency Agreement. 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.

(H) *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.

9. Taxation

- (A) All payments of principal 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) In the event that any such withholding or deduction in respect of principal is required, the Company will pay such additional amounts (“**Additional Amount**”) by way of principal, as will result in the receipt by the Bondholders of the amounts which would have been receivable in the absence of any such withholding or deduction, except that no such additional amounts shall be payable in respect of any Bond:
- (i) to, or on behalf of, a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his being connected with the ROC otherwise than merely by holding such Bond or by the receipt of principal in respect of the Bond; or
 - (ii) if the individual definitive Certificate in respect of such Bond (if issued) is surrendered more than 30 days after the relevant date except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant 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.
- (C) References in these Conditions to principal shall be deemed also to refer to any increased or additional amounts which may be payable in respect thereof under this Condition or any undertaking given in addition to or substitution for it under the Indenture.

10. Events of Default

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

- (i) there is failure to pay the principal of any of the Bonds within 15 business days after the same shall become due and payable in accordance with these Conditions; or
- (ii) the Company defaults in performance or observance of or compliance with any of its other obligations (other than the covenant to pay the principal in respect of the Bonds) set out in the Bonds or the Indenture or otherwise in connection with the Bonds which default is incapable of remedy or, if in the opinion of the Trustee such default is capable of remedy, such default is not in the opinion of the Trustee remedied within 30 days after written notice of such default shall have been given to the Company by the Trustee; or
- (iii) any other present or future indebtedness or obligations of the Company, or any of its Principal Subsidiaries, whether or not 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 or obligations is not paid or fulfilled when due or, as the case may be, within any applicable grace period originally provided for, or the Company or any of its Principal Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee or indemnity or arrangement or obligation having a like or similar effect (howsoever described) for any monies borrowed or raised by any person, provided that the aggregate amount of the relevant indebtedness and guarantees in respect of which one or more events mentioned above in this paragraph (iii) have occurred and is continuing equals or exceeds U.S.\$5,000,000 or its equivalent in any other currency (determined as provided below), and provided further that where two or more of the Company and/or its Principal Subsidiaries are liable for the payment of the same relevant indebtedness or guarantee (whether liable jointly and severally, by way of guarantee, surety or otherwise), any such amount shall be counted once only; or
- (iv) an execution by a court having jurisdiction is levied or enforced or sued out, or other legal enforcement process is levied or sued out upon, commenced or issued upon, against or in respect of the whole or any substantial part of the undertaking, property, assets or revenues of the Company or any of its Principal Subsidiaries and in any such case is not discharged or stayed within 60 days of having been so levied, sued out, commenced or issued, unless the Company or such Principal Subsidiary is contesting such proceedings in accordance with relevant laws and regulations; or
- (v) any person entitled to the benefit thereof shall institute appropriate legal proceedings to enforce any encumbrance upon the whole or any substantial part of the assets or revenues of the Company or any Principal Subsidiary and the same is not stayed, discharged, released or satisfied (as the case may be) within 60 days of such proceedings; 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 the Trustee or an Extraordinary Resolution of the Bondholders) or receiver (or other similar official) in bankruptcy or insolvency of the Company or any of its Principal Subsidiaries or in respect of the whole or any substantial part of the undertakings, property, assets or revenues of the Company or any of its Principal Subsidiaries or the Company or any of its Principal Subsidiaries stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts; or

- (vii) an order issued by a court with competent jurisdiction is made or an effective resolution passed by the Company or any of its Principal Subsidiaries for the winding-up or dissolution of the Company or any of its Principal Subsidiaries (except for the purpose of and followed by a solvent reconstruction, merger, consolidation, amalgamation or other similar arrangement the terms of which are approved by the Trustee or an Extraordinary Resolution of the Bondholders); or
- (viii) the Company shall merge, amalgamate or consolidate with any other corporation or entity (with the Company not being the continuing entity) or shall sell or dispose of substantially all its business or assets whether as a single transaction or a number of transactions, related or not, to any person, unless the Company shall have notified the Bondholders of such event in accordance with Condition 15 (with a copy of such notice sent to the Luxembourg Stock Exchange) and the Company and such corporation, entity or person shall have executed an indenture supplemental to the Indenture in form and substance satisfactory to the Trustee providing that such corporation, entity or person shall assume the obligations of the Company under the Bonds, the Indenture and the Agency Agreement and providing that each Bond then outstanding shall be convertible into the class and amount of Shares and other securities, cash and other property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares into which such Bond would have been convertible immediately prior to such consolidation, amalgamation, merger, sale or transfer (assuming for such purpose that the Bonds were convertible at the time of such consolidation, amalgamation, merger, sale or transfer) at the Conversion Price as adjusted from time to time pursuant to the Indenture; provided that such agreement by such other person shall not be required if such assumption shall be effective by operation of law; or
- (ix) any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or a substantial part of the assets or Shares of the Company or any of its Principal Subsidiaries; or
- (x) proceedings shall have been initiated against the Company or any of its Principal Subsidiaries under any applicable bankruptcy, insolvency or reorganization law and such proceedings shall not have been discharged or stayed within a period of 60 days; or
- (xi) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, license, order, recording or registration) at any time required to be taken, fulfilled or done in order to (i) enable the Company lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds and the Indenture, and (ii) ensure that those obligations are legally binding and enforceable (subject to the qualifications set out in the legal opinion issued in connection therewith), and such case is incapable of remedy or is not in the opinion of the Trustee remedied within such period (being not less than 30 days) as the Trustee may consider reasonable; or
- (xii) any event occurs which under the laws of the ROC has an analogous effect to any of the events referred to in the foregoing paragraphs.

For the purposes of Condition 10 (iii) above, any indebtedness which is in a currency other than U.S. Dollars shall be translated into NT Dollars at the spot rate for the sale of U.S. Dollars against the purchase of the relevant currency quoted by any leading bank in the relevant market selected by the Trustee on any day when the Trustee requests such a quotation for such purposes. If no direct spot rate is available, a rate shall be calculated by reference to the cross-rates through U.S. Dollars and relevant currencies.

Upon any such notice being given to the Company, the Bonds will immediately become due and payable at 100% of their principal amount.

Notwithstanding the foregoing, if any event specified in Condition 10(vi), (vii) or (x) occurs, the Bonds shall automatically become and be immediately due and payable at their principal amount without any declaration or other act on part of the Trustee or any Bondholder.

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

11. Prescription

Claims in respect of (a) principal will become unenforceable after 10 years 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 with respect thereto and to enforce the provisions of the Indenture, but it will not be bound to take any such proceedings unless (a) it shall have been so requested in writing by the holders of at least 25% in principal amount of the Bonds then outstanding or so directed by an Extraordinary Resolution and (b) it shall have been indemnified and/or secured to its satisfaction. No Bondholder will be entitled to proceed directly against the Company, unless the Trustee, having become bound to do so, fails to do so and such failure shall have continued for a period of 60 days and no direction inconsistent with such written request or Extraordinary Resolution has been given to the Trustee during such 60-day period by the holders of a majority in principal amount of the outstanding Bonds.

13. Meetings of Bondholders, Modification and Waiver

(A) Meetings

The Indenture contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds or the provisions of the Indenture. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing over 50% in principal amount of the Bonds for the time being outstanding or, at any such meeting which has been adjourned, two or more persons holding or representing over 25% in principal amount of the Bonds for the time being outstanding. If the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity date of the Bonds, (ii) to reduce or cancel the amount of principal of the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify or cancel the right to convert the Bonds into Shares (except in accordance with Condition 6(B) and 13(B)) or to modify the circumstances in which the Bonds may be redeemed or converted at the option of the Company or to shorten the Conversion Period, (v) to modify the provisions relating to the resetting of the Conversion Price, (vi) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution or sign a resolution in writing, (vii) to release the LOC Issuing Bank from its obligation to make payment under the Letter of Credit, (viii) to modify the Letter of Credit to reduce the Stated Amount and/or to impose additional drawing conditions on the Letter of Credit, (ix) to modify Condition 10(ii), (iii), (vi), (vii) or (x), the necessary quorum for passing an Extraordinary Resolution will be all Bondholders holding or representing in aggregate 100% in principal amount of the Bonds for the time being outstanding at any meeting or adjourned meeting. 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 Company shall prepare a supplement to this Offering Circular and notify the Bondholders (and the Luxembourg Stock Exchange) in accordance with Condition 15 in respect of any proposed Extraordinary Resolution relating to items (i) to (vi) above in this Condition 13(A).

(B) *Modification of Conversion Right*

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

(C) *Other Modifications and Waivers*

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

(D) *Exercise of Trustee's Functions*

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

14. Replacement of Certificates

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Company 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 on demand such costs at the fixed exchange rate of NT\$34.467 for each U.S.\$1.00 of the principal amount of such Bond). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. Notices

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

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

16. Indemnification

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

17. Agents

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

18. Governing Law and Jurisdiction

(A) *Governing Law*

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

Bondholder should note that exercise of the Conversion Right is subject not only to the provisions of the Indenture but also applicable ROC laws.

(B) *Jurisdiction*

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

(C) *Agent for Service of Process*

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

Under current ROC law, ROC court may not recognize a foreign judgment where a default judgment was rendered by the foreign court and where the defendant was not personally served while within the jurisdiction of such foreign court or with assistance of the judicial authorities of the ROC. The ROC courts may further decide that the process served on the agent for service of process of the Company does not constitute a service of process in person. Therefore, to ensure the recognition of a foreign judgment by ROC courts, it may be necessary to serve the Company through the assistance of the ROC judicial authorities.

THE FORM OF THE BONDS

The Bonds will be issued in registered form, without coupons, in denominations of U.S.\$10,000 and integral multiples thereof. The Bonds are not issuable in bearer form.

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

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

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

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

The holder of a registered Bond in definitive certificated form may transfer or exchange such Bond by surrendering it at the office or agency maintained by the Company for such purpose in London and, for so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, in Luxembourg, which offices will initially be the corporate trust offices of the Trustee maintained in The City of New York or such other offices as may be notified by the Trustee from time to time and the offices of the Paying Agent in Luxembourg, respectively.

Any such Bond in physical certificated form issued prior to the 41st day following the original issuance of the Bonds shall bear the legend set out under “Notice to Investors”.

The Global Certificate

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

Meetings

The registered holder (as defined in the Conditions) of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each U.S.\$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 at a meeting of Bondholders on appropriate proof of his identity and interest.

Cancellation

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

Trustee’s Powers

In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, without being obliged to do so, have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to Bonds and may consider such interests as if such accountholders were the holders of the Bonds.

Conversion

Subject to the requirements of Euroclear and Clearstream, Luxembourg, the Conversion Right attaching to a Bond in respect of which the Global Certificate is issued may be exercised by the presentation to or to the order of the Principal Agent of one or more Conversion Notices duly completed by or on behalf of a holder of a book-entry interest in the Bond. Deposit of the Global Certificate with the Principal Agent together with the relevant Conversion Notice shall not be required. The exercise of the Conversion Right shall be notified by the Principal Agent to the Registrar and the holder of the Global Certificate.

Payment

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

Notices

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

Redemption at the Option of the Company

No drawing of Bonds will be required under Condition 8(F) in the event that the Company exercises its call option pursuant to Condition 8(B) (i) in respect of less than the aggregate principal amount of Bonds in respect of which the Global Certificate is issued. Notices will be made by the Company in accordance with the previous paragraph and the Luxembourg Stock Exchange will be informed should the Company exercise the call option.

Redemption at the Option of Bondholders

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

Registration of Title

Certificates in definitive form for individual holdings of Bonds will not be issued in exchange for interests in Bonds in respect of which the Global Certificate is issued, except in case that (a) either Euroclear or Clearstream, Luxembourg (or any clearing system designated by the Company and approved in writing by the Trustee (the “**Alternative Clearing System**”) on behalf of which the Bonds evidenced by the Global Certificate may be held) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, or (b) the Bonds become immediately due and payable in accordance with the provisions of Condition 10 or if in connection with judicial proceedings brought by the Trustee, the Trustee has been advised that it is necessary or appropriate for definitive Certificates to be executed and delivered.

Transfers

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

Enforcement

For the purposes of enforcement of the provisions of the Indenture against the Trustee, the persons named in a certificate of the holder of the Bonds in respect of which the Global Certificate is issued shall be recognized as the beneficiaries of the trusts set out in the Indenture, to the extent of the principal amount of their interest in the Bonds set out in the certificate of the holder, as if they were themselves the holders of Bonds in such principal amounts.

DESCRIPTION OF THE SHARES

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

General

The Company was incorporated on June 10, 1971 pursuant to the ROC Company Law as a company limited by shares.

As of June 19, 2002, the authorized share capital of the Company was NT\$20,000,000,000 divided into 1,850,000,000 common shares (the "**Shares**") and 150,000,000 unlisted preferred shares each with a par value of NT\$10. As of June 19, 2002, the paid-in capital was NT\$12,413,825,880, representing 1,091,382,588 Shares and 150,000,000 preferred shares, all of which are issued and outstanding and in registered form. On June 19, 2002, the Company's shareholders adopted a resolution to issue 150,000,000 Shares with a par value of NT\$10 and 10% of such issue will be offered to the public. The Company have obtained the approval of the ROC SFC and the Company expects to implement such issue by the end of January 2003. After such 150,000,000 shares being issued, the paid-in capital of the Company will be increased to NT\$13,913,825,880, representing 1,241,382,588 shares and 150,000,000 preferred shares.

The Company's shareholders meeting held on June 19, 2002 also adopted a resolution to issue 150,000,000 Shares with a par value of NT\$10 through private placement. Shares to be issued in the private placement will not be fungible with other outstanding Shares and will be subject to certain selling restrictions for three years. According to ROC law, the above mentioned private placement should be completed before June 19, 2003. The Company has not yet issued any Share through such private placement.

On October 19, 2001, the Company privately issued preferred shares (the "**Preferred Stock**") in the amount of NT\$1,500,000,000, divided into 150,000,000 shares with a par value of NT\$10 each. Preferred Stockholders are entitled to be paid an annual cash dividend at a rate of 5.6% on the actual issue price of each Preferred Stock (i.e. NT\$11.5 per share). However, Preferred Stockholders are not entitled to receive cash or stock dividend from distribution of profit or capital reserve to holders of Shares. Preferred Stockholders are entitled to cumulative dividends and dividends on such Preferred Stock have priority over any other dividend distribution made by the Company. Preferred Stockholders are not entitled to vote in the common shareholders' meeting. However, the Preferred Stockholders are eligible for being elected as directors or supervisors, and they enjoy voting rights in Preferred Stockholders' meeting. Preferred Stockholders have priority, subject to the original issuance amount, over the Shares in the allocation of residual assets of the Company. The Preferred Stock shall be converted into the Shares on the third anniversary of the date of issuance on one-to-one basis.

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

Other than the Bonds offered hereby and the Preferred Stock described above, the Company has not issued any warrants, any convertible debt securities, exchangeable securities or debt securities with warrants attached.

The Articles of Incorporation

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

- ▶ Integrated circuit and various components and parts of semiconductor.
- ▶ Various types of electronics, computer and communication network cards.

- ▶ Hardware, software and systems of products of computer and communication and the peripheral equipments.
- ▶ Research, development, design, manufacture, assembling, processing, testing and after sale service of the aforesaid products.
- ▶ Ordinary import and export trading business (excluding the business required for permission).

Dividends and Distribution

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

The ROC Company Law also requires that 10% of the Company's annual earnings, less prior years' losses, if any, and outstanding tax, 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 provide that the Company may distribute earnings to shareholders after having set aside the following items in the order they are listed:

- ▶ payment of all taxes;
- ▶ deduction of any past losses;
- ▶ deduction of any after-tax gains on disposal of properties as capital surplus;
- ▶ allocation of 10% as a legal reserve;
- ▶ allocation or re-transfer of a special reserve in accordance with government orders and regulations of the Company's supervising authority; and
- ▶ allocation to the Preferred Stockholders as annual dividends calculated at interest rate 5.6% per annum;

When the Company makes an earnings distribution, it is made in the following manner:

- ▶ allocation of 1% to the directors and supervisors as remuneration;
- ▶ allocation of 10% to the employees as special bonus; and
- ▶ the balance after retaining a portion of the remaining earnings as bonus and dividend, together with the previously undistributed retained earnings, to the shareholders.

At each annual ordinary shareholders' meeting, the board of directors of the Company submits to the shareholders for their approval any proposal for the distribution of a dividend or the making of any other distribution to shareholders from the Company's earnings (subject to compliance with the requirements mentioned above) for the preceding fiscal year. All common shares outstanding and fully paid as of the relevant record date are entitled to share equally in any dividend or other distribution so approved. Dividends may be distributed in cash, in the form of shares or a combination of the two, as determined by the shareholders at the meeting. The Articles provide that cash dividends should consist of not less than 10% and not more than 50% of the distributed shareholder dividends. All or part of the earnings eligible for distribution to shareholders may be reserved at the relevant annual shareholders' meeting as retained earnings for distribution in later years.

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

Preemptive Rights

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

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

Meetings of Shareholders

The ordinary meeting of shareholders of the Company is usually held in Kaohsiung City, Taiwan, as determined by the board of directors, within six months after the end of each fiscal year. Extraordinary meetings of shareholders may be convened by resolution of the board of directors whenever they consider it necessary, and they must do so if requested in writing by shareholders holding not less than 3% of the paid-in capital who have held these shares for more than a year. Extraordinary meetings of shareholders may also be convened by a supervisor of the Company under certain circumstances. Notice in writing of ordinary and extraordinary shareholders' meetings stating the place, time and purpose thereof must be dispatched to each shareholder of the Company at least 30 days and 15 days, respectively, prior to the date set for the meeting.

Voting Rights

Under the Articles, a shareholder has one vote for each share.

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

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

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

A shareholder may be represented at an ordinary or extraordinary meeting by proxy if a valid proxy form is delivered to the Company five days before the commencement of the ordinary or extraordinary shareholders' meeting. Voting rights attached to the Shares that are exercised by the shareholders' proxy are subject to ROC proxy regulations. Any shareholder who has a personal interest in a matter to be discussed at the Company's shareholders' meeting, the outcome of which may impair the Company's interests, is not permitted to vote or exercise voting rights on behalf of another shareholders on such matter. Except for trust enterprises or stock affair agents approved by the ROC SFC, where one person is appointed as proxy by two or more shareholders who together hold more than 3% of the total issued common shares, the votes of those shareholders in excess of 3% of the outstanding Shares shall not be counted.

Other Rights of Shareholders

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

In addition to appraisal rights, within 30 days after the date of the shareholders' meeting, any shareholder has the right to annul any resolution adopted at a shareholders' meeting where the procedures or the method of resolution were legally defective. However, if the court is of the opinion that such violation is not material and does not affect the result of the resolution, the court may reject or dismiss the shareholder's lawsuit. If the substance of a resolution adopted at a shareholders' meeting contradicts any applicable law or regulation or the Articles, a shareholder may bring a suit to determine the validity of such resolution.

Shareholders may bring suit against directors and supervisors under the following circumstances:

- ▶ Shareholders who have continuously held 3% or more of the total number of issued and outstanding shares for a period of one year or longer may request in writing that a supervisor institute an action against a director on the Company's behalf. In case the supervisor fails to institute an action within 30 days after receiving such request, the shareholders may institute an action on the Company's behalf. In the event that shareholders institute an action, a court may, upon application of the defendant, order such shareholders to furnish appropriate security.
- ▶ In the event that any director, supervisor, officer or shareholder holds more than 10% of the issued and outstanding shares and their respective spouse and minor children and/or nominees sells shares within six months after the acquisition of such shares, or repurchases the shares within six months after the sale, the Company may make a claim for recovery of any profits realized from the sale and purchase. If the board of directors or the supervisors fail to make a claim for recovery, any shareholder may request that the board of directors or the supervisors exercise the right of claim within 30 days. After such 30-day period, such requesting shareholder will have the right to make a claim for such recovery on behalf of the Company. The Company's directors and supervisors will be jointly and severally liable for damages suffered by the Company as a result of their failure to exercise the right of claim.

Annual Financial Statements

Under the ROC 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 in Kaohsiung City, for inspection by the shareholders.

Transfers of Common Shares

Under the ROC Company Law, the transfer of Shares (in registered form) is effected by endorsement and delivery of share certificates. In order to assert shareholders' rights against the Company, the transferee must have his name and address registered on the Company's register of shareholders. Shareholders are required to register their respective specimen seal or chop with the Company. The settlement of trading of the common stock is normally carried out on the book-entry system maintained by Taiwan Securities Central Depository Co., Ltd.

Acquisition by the Company of its own Common Shares

Under the ROC Company Law, with minor exceptions, the Company cannot acquire its own Shares, and any Share acquired by the Company must be sold by the Company at the current market price within six months after its acquisition.

In addition, under the Securities and Exchange Law, a company whose shares are listed on the TSE or traded on the ROSE 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 ROSE or by a tender offer for the following purposes:

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

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

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

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

According to the Republic of China Company Law, as amended and effective from November 14, 2001, an entity, referred to as controlled entity, in which the Company directly or indirectly owns more than 50% of the voting shares or paid-in capital, may not purchase the Shares. Also, if the Company and a controlled entity jointly own, directly or indirectly, more than 50% of the voting shares or paid-in capital of another entity, referred to as a third entity, the third entity may not purchase shares in either the Company or a controlled entity. This restriction does not, however, affect any of the Shares acquired by a controlled entity or a third entity prior to November 14, 2001.

During November 15, 2000 to January 3, 2001, the Company purchased its own common shares on the TSE with tendering price ranging from NT\$9.17 to NT\$23.10. As of April 21, 2002, OSE has purchased 10,745,000 Shares totaling NT\$96,931,100, representing 0.98% of the Company's total outstanding Shares. The acquired Shares will be reserved for re-sale to employees.

Liquidation Rights

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

Significant Shareholders and Transfer Restrictions

The ROC Securities and Exchange Law currently requires (1) each director, supervisor, manager or significant shareholder (i.e., a shareholder who, together with his or her spouse, minor children or nominees, holds more than 10% of the shares of a public company) to report any change in that person's shareholding to the issuer of the shares, and (2) each director, supervisor, manager or significant shareholder to report his or her intent to transfer any shares traded on the TSE or ROSE to the ROC SFC at least three days before the intended transfer, unless the number of shares to be transferred is less than 10,000. The Securities and Exchange Law also limits the number of shares that can be sold or transferred on the TSE or ROSE by each director, supervisor, manager or significant shareholder per day.

Limitation on Shareholdings in the Company and Reporting Obligations

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

Register of Shareholders

Chinatrust Commercial Bank acts as the Company's Share registrar and maintains the register of shareholders of the Company at its offices in Taipei, Taiwan, and enters transfers of Shares in such register upon presentation of, among other documents, certificates in respect of the transferred Shares.

The ROC Company Law permits the Company to set a record date and close its shareholder register for a specified period in order for the Company to determine the shareholders or pledgees that are entitled to certain rights pertaining to the Company's Shares by giving advance public notice. Pursuant to the ROC Company Law and the Articles, the Company's register is closed for a period of 60 and 30 days before each ordinary or extraordinary meeting of shareholders and a period of five days before each record date.

TAXATION

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

ROC Taxation of Non-Residents

The following is a summary under present law of the principal ROC tax consequences of the ownership and disposition of Bonds and Shares to a Non-ROC Resident Individual or Non-ROC Resident Entity that holds Bonds or Shares (each a “**Non-ROC Holder**”). As used in the preceding sentence, a “**Non-ROC Resident Individual**” is a foreign national individual who owns Bonds or Shares and is not physically present in the ROC for 183 days or more during any calendar year and a “**Non-ROC Resident Entity**” is a profit seeking 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.

Dividends on the Shares

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

Capital Gains

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

ROC law currently provides no specific provisions regarding the ROC income tax consequences of a conversion of Bonds into Shares. Without further clarification from the ROC tax authorities, it is impossible to conclude definitively that gain on the conversion of Bonds into Shares will not be deemed as taxable gain, additional interest income (subject to the 20% withholding tax) or otherwise subject to other ROC taxes.

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 levied on sales of Shares at the rate of 0.3% of the transaction price and on sales of Bonds at the rate of 0.1% of the sales proceeds. According to a special exemption granted pursuant to the amended Statute for Upgrading Industries effective as of February 1, 2002, securities transaction tax otherwise be imposed on the sale of the Bonds by the above referenced law has been suspended for all sales of Bonds which occur between February 1, 2002 and December 31, 2009.

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

Inheritance Tax and Gift Tax

ROC inheritance tax is payable on any property within the ROC of a deceased Non-ROC Resident Individual, and ROC gift tax is payable on any property within the ROC donated by a Non-ROC Resident Individual. Inheritance tax is currently imposed at rates ranging from 2% of the first NT\$600,000 to 50% of

amounts in excess of NT\$100,000,000. Gift tax is imposed at rates ranging from 4% of the first NT\$600,000 donated to 50% of amounts donated in excess of NT\$45,000,000. Under ROC inheritance and gift tax laws, the Bonds and Shares will be deemed to be located in the ROC without regard to the location of the owner.

Tax Treaty

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

Withholding Tax on Payments of Premium

Premium (if any) derived from conversion of the Bonds and received by the Non-ROC Holders may be deemed as taxable gain, additional income (subject to the 20% withholding tax) or otherwise subject to other ROC taxes.

Subscription Rights

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

UNDERWRITING

Chinatrust Commercial Bank, Ltd. (acting through its Offshore Banking Branch) (the “**Lead Manager**” or the “**Manager**”) has pursuant to a Subscription Agreement to be dated January 23, 2003 (the “**Subscription Agreement**”), agreed with the Company to subscribe and purchase the Bonds at the issue price of 100% of their principal amount. The Company has pursuant to the Subscription Agreement agreed to pay a combined management and underwriting commission and selling fees to the Lead Manager.

The obligations of the Manager to subscribe for the Bonds are subject to termination if certain conditions are not met prior to the time of delivery of the Global Certificate which is expected to be 6:00 p.m., Hong Kong time, on January 23, 2003. In such event, the listing of the Bonds on the Luxembourg Stock Exchange would not become effective.

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

The Bondholders who purchase the Bonds from the Manager may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the issue price of the Bonds.

Selling Restrictions

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

United States

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

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

United Kingdom

Each 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 FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and

- (3) it has only issued or passed onto any person in the United Kingdom any document received by it in connection with the issue of the Bonds, if that person is of a kind described in Articles 19, 47 or 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on.

The ROC

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

Hong Kong

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

Japan

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

Singapore

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

LEGAL MATTERS

Certain legal matters with respect to the Bonds will be passed upon for the Company by Russin & Vecchi, International Legal Counsellors, and for the Manager by Baker & McKenzie, Hong Kong. Baker & McKenzie, Hong Kong will rely upon Russin & Vecchi with respect to certain matters of ROC law. Russin & Vecchi will rely upon Baker & McKenzie, Hong Kong with respect to certain matters of United States federal and New York law.

INDEPENDENT AUDITORS

The consolidated and non-consolidated financial statements of the Company as of and for the years ended December 31, 1999, 2000 and 2001 and the non-consolidated financial statements of the company as of and for the periods ended September 30, 2001 and 2002 included in this Offering Circular have been audited by Diwan, Ernst & Young, independent auditors, as stated in their reports appearing herein.

GENERAL INFORMATION

Registered Office and Principal Place of Business

The Company is registered with the Ministry of Economic Affairs of the ROC under a uniform registration number of 89004161. The Company's registered office is located at 9 Central 3rd Street, N.E.P.Z., Kaohsiung, Taiwan 811, R.O.C.

Company Confirmation

The Company, having made all reasonable inquiries, confirms that this Offering Circular contains all information with respect to the Company, the Company and its subsidiaries as a whole, the Bonds, and the Shares which is material in the context of the issue and offering of the Bonds (including all information required by applicable laws of the ROC); that the information contained herein (save as set out below) is true and accurate in all material respects and is not misleading; that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions; that there are no other facts, the omission of which would, in the context of the issue and offering of the Bonds, make this Offering Circular as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respects; that all reasonable inquiries have been made by the Company to verify the accuracy of such information; and that this Offering Circular does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary in order to make the statements herein, in the light of the circumstances under which they are made, not misleading. The Company accepts responsibility accordingly. Information provided herein with respect to the ROC, its political status and economy, has been derived from government and other public sources, and the Company accepts responsibility only for accurately extracting information from such sources.

Authorizations

The offering of the Bonds was authorized and approved by the Company's board of directors on June 19, 2002 and October 21, 2002 and by the ROC SFC on November 4, 2002.

The irrevocable letter of credit supporting the Bond is expected to be issued by Chinatrust Commercial Bank, Ltd. on or about January 23, 2003.

Listing and Trading

Application has been made to list the Bonds on the Luxembourg Stock Exchange. The legal notice relating to the issue of the Bonds and the Company's articles of incorporation will be registered prior to the listing with the Chief Registrar of the District Court in Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*), where such documents will be available for inspection and where copies thereof can be obtained upon request. As long as the Bonds are listed on the Luxembourg Stock Exchange, the Company will maintain a paying agent, a conversion agent and a transfer agent in Luxembourg.

According to Chapter VI, Article 3, Point A/II/2 of the Rules and Regulations of the Luxembourg Stock Exchange, the Bonds shall be freely transferable and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled.

Documents Available

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

- ▶ the Company's articles of incorporation;
- ▶ the LOC Issuing Bank's articles of incorporation;

- ▶ a copy of the annual reports of the independent accountants, containing the audited financial statements of the Company as at and for the years ended December 31, 1999, 2000 and 2001, and a copy of the unaudited non-consolidated financial statements of the Company as for the period ended September 30, 2001 and 2002;
- ▶ a copy of the annual reports of the independent accountants, containing the audited financial statements of the LOC Issuing Bank as at and for the years ended December 31, 1999, 2000 and 2001, and a copy of the unaudited non-consolidated financial statements of the LOC Issuing Bank as for the period ended September 30, 2001 and 2002;
- ▶ the Subscription Agreement relating to the Bonds;
- ▶ the Indenture constituting the Bonds (which includes the form of the Global Certificate); and
- ▶ the Paying and Conversion Agency Agreement (which includes the Regulations concerning transfer of Bonds).

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

No Material Adverse Change

Except as disclosed herein, there has been no material adverse change in the financial position of the Company and its subsidiaries since December 31, 2001, the date of the latest audited consolidated financial statements contained herein.

Governing Law

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

Clearance

The Bonds have been accepted for clearance by Euroclear and Clearstream, Luxembourg. Relevant clearance and settlement information for the Bonds is set forth below:

Common Code	015676051
ISIN	XS015676051-3

Litigation

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

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

The Company's financial statements were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of China and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions (including the U.S. and U.K.) other than those in the Republic of China. The generally accepted accounting principles in the ROC, or "ROC GAAP", differ in many material respects from generally accepted accounting principles in the U.S. or "U.S. GAAP". Significant differences between ROC GAAP and U.S. GAAP applicable to the Company are summarized below. The summary should not be construed to be all-inclusive or exhaustive. In addition, no attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in the Company's financial statements or notes thereto. Further, no attempt has been made to identify future differences between ROC GAAP and U.S. GAAP as a result of prescribed changes in accounting standards.

ROC GAAP	U.S. GAAP
1. Presentation of Non-Consolidated Financial Statements	
Under ROC SFC requirements, non-consolidated financial statements of a company are presented as the primary financial statements and consolidated financial statements as supplemental financial statements.	Under U.S. GAAP, parent-company-only non-consolidated financial statements are not allowed to be presented as the primary financial statements for any period.
2. Investments in Debt and Equity Securities (excluding investments accounted for under the equity method)	
Investments are classified as short-term or long-term depending on the management's intention as to how long the investments will be held.	Debt and equity securities are classified as held-to-maturity, held-for-trading, or available-for-sale, primarily based on management's intent and ability. Debt and equity securities classified as held-for-trading securities are reported at fair value with unrealized gains and losses included in current operating results; debt securities classified as held-to-maturity are reported at amortized cost; and debt and equity securities classified as available-for-sale securities are reported at fair value with unrealized gains and losses reported in stockholders' equity as part of other comprehensive income.
Investments in debt securities and short-term investments are stated at the lower of amortized cost or market value. Long-term investments in listed equity securities that represent less than 20% of the investee's voting right without significant influence are stated at the lower of cost or market value, and unrealized losses are deducted from stockholders' equity. Long-term investments in non-listed equity securities that represent less than 20% of the investee's voting right without significant influence are stated at cost, subject to a permanent impairment test.	
3. Retained Earnings-Surtax	
Companies in the ROC are subject to a 10% surtax on profits retained and earned after December 31, 1997. A company may defer the accrual of the surtax to the subsequent year if the manner of distribution of retained earnings is not clearly specified in its articles of incorporation and subject to shareholder approval.	Under U.S. GAAP, income tax expense related to the 10% surtax on undistributed retained earnings would be recorded in current operations and based on management's estimate of the amount of earnings to be retained.

4. Deferred Income Taxes

Under ROC Statement of Financial Accounting Standards (“SFAS”) No. 22, “Accounting for Income Tax,” the liability method is applied. Current tax liabilities are recognized for estimated taxes payable for the current period. All temporary differences between the carrying values of assets and liabilities and their respective tax bases are recognized as deferred income tax liabilities or assets. A valuation allowance is provided on deferred income tax assets to the extent that it is not “more likely than not” such deferred income tax assets will be realized. A change in tax rate or law requires an adjustment to such deferred income tax assets and liabilities in the period of enactment, and is reported in current operations.

The requirements under U.S. Statement of Financial Accounting Standards SFAS No. 109, “Accounting for Income Taxes,” are similar to ROC SFAS No. 22, except for the application of the “more likely than not” criteria on the recognition of a deferred income tax asset valuation allowance, which may result in a difference between U.S. and ROC GAAP due to different tax rules and regulations.

5. Capital Surplus

According to the Company Law and the Law of Business Accounting, the following items are treated as capital surplus before November 12, 2001:

- (a) any premium on issuance of capital stock;
- (b) any after tax gain on disposal of property, plant and equipment;
- (c) any donated surplus;
- (d) any revaluation increment of property, plant and equipment; and
- (e) the value of assets of a company acquired in a merger in excess of assumed liabilities and the consideration paid for shares of such company in connection with the acquisition.

The Capital Surplus in the Company Law was removed on November 12, 2001, and the items of Capital Surplus in the Law of Business Accounting are revised in December 26, 2001 that only premiums on issuance of capital stock and premiums on issuance of treasury stock could be treated by a company as capital surplus. Gains on disposal of fixed assets were no longer treated as capital surplus.

Under U.S. GAAP, item (a) and (c) of the preceding column are reported as additional paid-in capital. Item (b), gain on sale of fixed assets is reported as non-operating income. Item (d) and (e) of the preceding column are not permitted.

6. Stock Dividends

Under ROC GAAP, stock dividends are recorded at the par value of common stock issued, with a reduction from unappropriated retained earnings and an increase to common stock.

Under U.S. GAAP, stock dividends are recorded as a reduction of retained earnings at the fair value of the common stock issued and as an addition to common stock at the par value of the common stock issued. The excess of fair value over par value is recorded as additional paid-in capital.

7. Consolidation

Consolidation is based on ownership. Generally, majority interest is defined as ownership, directly or indirectly, of over 50% of the outstanding voting shares of another company. Some enterprises that are de facto controlled but not majority owned may be excluded from consolidation.

Under U.S. GAAP, consolidation of controlled subsidiaries is required in the preparation of consolidated financial statements.

Additionally, subsidiaries may be excluded when:

- (1) The activities are so dissimilar that consolidated accounts would be misleading;
- (2) The subsidiary is in bankruptcy or reorganization proceedings; or

Under U.S. GAAP, subsidiaries may be excluded when:

- (1) Control by the parent is likely to be temporary;
- (2) Control does not rest with the majority owner; or
- (3) When severe foreign exchange restrictions, controls, or governmentally imposed uncertainties are present.

- (3) It is located overseas and cannot remit dividends.

Also, a company may elect not to consolidate subsidiaries if they meet one or both of the following criteria:

- (1) Total assets or sales of the subsidiary is less than 10% of the parent company's non-consolidated total assets or sales, or
- (2) The subsidiary is in a deficit position.

If the combined total assets or sales of all non-consolidated subsidiaries exceed 30% of a company's respective non-consolidated amounts, any individual subsidiary with total assets or sales greater than 3% of the company's respective amount should be consolidated.

8. Asset Impairment

ROC GAAP does not have any specific accounting principles addressing the valuation of long-lived assets or long-lived assets to be disposed of for impairment. Assets purchased for use in the business but not subsequently used for that purpose are generally recorded as idle assets and reclassified from fixed assets to other assets, in which case there is a requirement to assess the net realizable value such that idle assets are not recorded at an amount in excess of net realizable value.

U.S. SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", requires that long-lived assets held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability, the entity estimates the future cash flows, undiscounted and without interest charges, expected to result from the use of the asset and its eventual disposal. If the sum of such expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized.

U.S. SFAS No. 121 also requires that long-lived assets to be disposed of be reported at the lower of carrying amount or fair value less the cost to sell.

9. Prepayment of Fixed Assets

Under ROC GAAP, prepayments for acquisition of fixed assets is presented as part of fixed assets.

Under U.S. GAAP, prepayments for acquisition of fixed assets should be presented as other assets.

10. Accounting for Derivative Financial Instruments

There are no definitive accounting standards under ROC GAAP addressing the accounting of derivative financial instruments such as options, futures, and swaps. In general practice, hedge accounting is applied when two criteria are met:

- (1) The derivative is not intended to be used as a speculative instrument, and
- (2) The derivative is not transacted in a frequent manner.

Furthermore, there are no accounting standards similar to that of SFAS No. 133, as amended, and therefore, the derivatives are not necessarily recorded on the balance sheet at fair value.

Effective all fiscal years beginning after June 15, 2000, companies are required to adopt SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an amendment of FASB Statement No. 133."

SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, will be required to be recorded on the balance sheet at fair value. If the derivative is designated in a fair-value hedge, the changes in the fair value of the derivative and the hedged item will be recognized in earnings. If the derivative is designated in a cash-flow hedge, changes in the fair value of the derivative will be recorded in other comprehensive income and will be recognized in the income statement when the hedged item affects earnings.

11. Computer Software Developed or Obtained for Internal Use

There are no specific accounting guidelines related to costs of computer software developed or obtained for internal use.

SFAS No. 133 also defines new requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value will be recognized in earnings.

Prior to the application of SFAS No. 133, as amended, SFAS No. 52 addresses the accounting for foreign currency transactions, including derivatives. In order to qualify for hedge accounting, the derivative must be, along with other requirements, designated as, and effective as, a hedge.

U.S. GAAP has detailed rules regarding the accounting treatment for internal-use software costs. AICPA Statement of Position 98-1 specifies the requirements for the capitalization of internal-use computer software costs.

12. Comprehensive Income

There is no requirement to present comprehensive income.

SFAS No. 130, "Reporting Comprehensive Income", establishes standards for the reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. Comprehensive income includes the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

13. Bonuses to Employees, Remuneration to Officers and Directors

Under ROC GAAP, the employees bonuses and officers/directors remuneration are paid in accordance with the ROC Company Law applicable to the distribution of earnings. Such compensation is recorded as an appropriation from retained earnings according to resolutions reached in annual stockholders' meeting. Bonuses to employees in the form of common stock are recorded based on the par value of the common stock issued. Remuneration paid to officers and directors must be in cash and may not be settled through the issuance of common stock.

All bonuses and remuneration are charged to current income in the year incurred. Shares issued as part of these bonuses are recorded at fair market value. Since the amount and form of such bonuses are not finally determinable until the shareholders' meeting in the subsequent year, the total amount of the aforementioned bonuses is initially accrued based on management's estimate regarding the amount to be paid based on the company's articles of incorporation. Any difference between the initially accrued amount and the fair market value of the bonuses settled by the issuance of shares is recognized in the year by shareholders' approval.

14. Interim Reporting

In accordance with ROC SFAS No. 23, "Presentation and Disclosure of Interim Financial Information," as amended in 1999, income tax provision in interim quarterly financial statements is subject to ROC SFAS No. 22, "Accounting for Income Tax". Deferred tax consequences related to temporary differences are recognized in the company's interim non-consolidated financial statements.

Under ROC GAAP, a company is not required to prepare interim financial statements on a consolidated basis. Instead, the company is only required to recognize investment income/loss in majority-owned subsidiaries.

Under U.S. GAAP, income tax provision in interim quarterly financial statements are provided based on an estimated effective tax rate expected to be applicable to the full fiscal year. Such estimated effective tax rate takes into consideration all anticipated tax attributes for the full fiscal year.

15. Accounting for Changes in Ownership Interests of Investees

Under ROC GAAP, when an investee issues additional shares causing changes in the investor's ownership interest, any resulting difference between the investor's investment balance and its proportionate share of investee's underlying equity is recorded in its investment account and in its additional paid-in capital (or retained earnings if the additional paid-in capital is inadequate to stand the charge).

There are two methods of accounting for the effects of the decreased ownership interest under U.S. GAAP as follows: (a) To adjust the additional paid-in capital, or (b) To treat the difference as a gain or loss in current operations. Once an election is made, the method is to be applied consistently thereafter.

16. Depreciation of Property, Plant and Equipment

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

Depreciation is provided over the asset's estimated useful life. No additional depreciation is provided on fully depreciated assets, which continue to be used in the business.

ROC SFC regulations applicable to public and listed companies require that when property, plant and equipment have been fully depreciated over the prescribed service life and the underlying asset continues to be used, the remaining unamortized value (i.e. the salvage value portion) is depreciated over the asset's remaining economic life.

17. Compensated Absences

ROC GAAP has no specific accounting practice regarding compensated absences.

Compensated absences must be accrued based on the liability for employees' rights to receive compensation for future absences when certain conditions are met.

18. Segment Reporting

ROC SFAS No. 20 "Disclosure of Segment Information" established standards for reporting information about industry and foreign operating segments, and information on export sales and sales to major customers.

Disclosure of revenue, operating profit/loss, and identifiable assets for industry segments and domestic operations which meet specific materiality thresholds is required.

SFAS No. 20 defines industry segment as a revenue generating unit of an enterprise which sells certain products or provides services, or a group of related products or services to customers and a foreign operating segment as a revenue generating unit of an enterprise that operates outside Taiwan and sells products or services to customers located in its area of operation. The industry and foreign operating segments information to be provided includes primarily revenues, profits and losses, and book values of identifiable assets. Information on export sales by geographic area are required to be disclosed if they are at least 10% of the enterprise's total sales. Similar threshold applies to the requirement regarding the disclosure of the information on sales to major customers. The segment information should be prepared using the same standards applied to the financial statements except that inter-segment sales and transfers should be recognized based on internal transfer pricing.

Disclose export sales and sales to a single customer in excess of certain materiality thresholds.

19. Statement of Cash Flows

Under ROC GAAP, cash flows are generally reported at their net amount for the period. In addition, disclosures of non-cash investing and financing activities are required.

Under US GAAP, cash flows are generally reported at their gross amounts, rather than netting inflows against outflows for related items (such as netting payments on long-term debt against proceeds from issuance of new long-term debt instruments). In addition, separate disclosure is required of all investing and financing activities that do not result in cash flows, such as conversion of debt instruments to equity and lease financing activities.

20. Functional Currency

NT\$ is always the functional and reporting currency for ROC companies.

Management must make an assessment of its functional currency based on the primary economic environment in which it operates.

21. Accounting for Pensions

ROC Statement of Financial Accounting Standards (SFAS) No. 18, "Accounting for Pension", is similar in general terms, to IAS 19 and provides accounting regulations regarding an employer's accounting for employee retirement plans. The Company has adopted ROC SFAS No. 18 effective December 31, 1995 but, as allowed, recognized pension costs based on actuarial calculations only in 1996. Prior to 1996, pension expense was calculated as a fixed percentage of total annual salaries and wages of employees. The transition net assets or obligations, determined at the time of the adoption of ROC SFAS No. 18, is amortized over the average service period of employees.

There are specific rules in the ROC in respect of the use of the project Unit Credit Method, the use of the rate of specific type of instruments as the discount rate, and the criteria in determining expected return on plan assets.

Under U.S. GAAP, the annual pension provision is recognized as a charge to results of the operations over the employees' service period in accordance with SFAS No. 87. U.S. SFAS No. 87 focuses on the plan's benefit formula as the basis for determining the benefit earned, and therefore the cost incurred, for each year. The benefit earned is actuarially determined, and includes components for service cost, time value of money, return on plan assets and gains or losses from changes in previous assumptions. In certain cases, a minimum liability is recognized through a direct charge to shareholders' equity.

The information set forth above does not in any way attempt to quantify the effects of the aforementioned differences between ROC GAAP and U.S. GAAP and the impact such differences would have on net income or shareholders' equity under U.S. GAAP.

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

REPORT OF INDEPENDENT AUDITORS
English Translation of a Report Originally Issued in Chinese

The Board of Directors and stockholders
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

We have audited the accompanying consolidated balance sheets of Orient Semiconductor Electronics Limited as of December 31, 1999, 2000 and 2001 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. For 2000 and 2001, the consolidation of the Company's subsidiary, ATP ELECTRONICS, INC. as been prepared based on the subsidiary's financial statements, which are audited by other auditors. As of December 31, 2000 and 2001, the amounts of total assets of the subsidiary to the group was NTD676,813 thousand and NTD188,696 thousand, respectively, the percentage of total assets of the subsidiary to the group was 1.99% and 0.61%, respectively. As of December 31, 2000 and 2001, the amounts of total sales of the subsidiary to the group was NTD1,641,832 thousand and NTD874,766 thousand, respectively, the percentage of total sales of the subsidiary to the group was 10.37% and 7.30%, respectively. As of December 31, 1999, 2000 and 2001 the Company's long-term investments, which are accounted for under equity method, included OSE PROPERTIES INC., OSE USA, INC. (formerly IPAC), SPARQTRON CORP. in 1999 and OSE USA, INC., SPARQTRON CORP. in 2000 and OSE USA, INC., SPARQTRON CORP., SCH HIGHTECH INC. in 2001 the total year end balances were NTD209,835 thousand, NTD96,906 thousand and NTD99,939 thousand (total assets constituting 0.86% in 1999, 0.29% in 2000 and 0.32% in 2001 of the Company totals), respectively. Under the equity method, the share of the operating losses of the above investments as of December 31, 1999, 2000 and 2001 amounted to NTD178,842 thousand, NTD290,002 thousand and NTD250,177 thousand (total income before tax constituting 48.66% in 1999, 41.01% in 2000 and 7.71% in 2001 of the Company totals), respectively and was based on the financial statements of the investee companies which were audited by other auditors.

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

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements mentioned above present fairly the financial position of Orient Semiconductor Electronics Limited and subsidiary as at December 31, 1999, 2000 and 2001 and the results of their operations and their cash flows for the years then ended, in conformity with "Regulations Governing the Preparation of Financial Statements of Security Issuers" and generally accepted accounting principles in the Republic of China on Taiwan.

The financial statements of Orient Semiconductor Electronics Limited for the year ended December 31, 2001 expressed in US dollars, has been translated from the New Taiwan dollars financial statements using the exchange prevailing at December 31, 2001. The basis of translation is not in accordance with generally accepted accounting principles in the Republic of China, accordingly, we do not express an opinion thereon.

Diwan, Ernst & Young

February 26, 2002
Kaohsiung, Taiwan
Republic of China

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 1999, 2000 and 2001

(Unless otherwise stated, all amounts expressed in Thousand Dollars)

		December 31						
		1999		2000		2001	2001	
		Amount		Amount		Amount	Amount	
Notes		NTD	%	NTD	%	NTD	USD	%
ASSETS								
Current assets								
Cash and cash equivalents . .	3.b/5	\$ 3,758,073	15.38	\$ 1,118,508	3.29	\$ 714,406	\$ 20,411	2.31
Short-term investments. . . .	3.c/6	—	—	508,113	1.50	92,772	2,651	0.30
Notes receivable								
— non affiliates	3.d/7	62,237	0.25	57,071	0.17	12,126	346	0.04
Notes receivable								
— affiliates	3.d/8/35	46,680	0.19	36,707	0.11	84,862	2,425	0.27
Accounts receivable								
— non affiliates	3.d/9/36	2,071,231	8.48	2,101,991	6.19	1,413,430	40,384	4.57
Accounts receivable-affiliates	3.d/10/35	523,384	2.14	543,209	1.60	184,583	5,274	0.60
Forward contract receivable								
— net	11	—	—	4,771	0.02	—	—	—
Other receivable-non affiliates		—	—	—	—	736,655	21,047	2.38
Other receivable								
— affiliates	35	—	—	3,058	0.01	3,098	88	0.01
Inventories	3.e/12	1,201,888	4.92	1,870,419	5.51	1,105,783	31,594	3.57
Prepayments	13	24,761	0.10	34,247	0.10	73,816	2,109	0.24
Deferred income tax assets								
— current	3.j/33	231,611	0.95	167,208	0.50	30,661	876	0.10
Restricted assets	36	253,854	1.04	—	—	63,866	1,825	0.20
Other current assets		81,460	0.33	82,102	0.24	172,749	4,936	0.56
Total current assets		8,255,179	33.78	6,527,404	19.24	4,688,807	133,966	15.15
Long-term investments								
Long-term investments	3.f/14	1,751,615	7.17	2,004,641	5.90	1,515,010	43,286	4.89
Prepayment for long-term investment		—	—	4,500	0.01	9,000	257	0.03
Total long-term investments		1,751,615	7.17	2,009,141	5.91	1,524,010	43,543	4.92
Property, plant, and equipment								
Cost	3.g/15/36							
Building and equipment . .		2,470,123	10.11	3,450,588	10.16	6,254,743	178,707	20.21
Machinery and equipment.		11,171,576	45.72	19,335,489	56.95	19,885,533	568,158	64.26
Transportation equipment .		16,561	0.07	19,744	0.06	22,060	630	0.07
Furniture and fixtures . . .		48,539	0.20	62,619	0.18	71,634	2,047	0.23
Leased assets		—	—	—	—	1,176,871	33,625	3.80
Leasehold improvements .		9,556	0.04	11,598	0.03	12,127	346	0.04
Other equipment		177,414	0.73	242,204	0.71	234,908	6,712	0.76
Revaluation surplus		10,900	0.04	10,900	0.03	10,900	311	0.04
Cost and Revaluation. . . .		13,904,669	56.91	23,133,142	68.12	27,668,776	790,536	89.41
Less: Accumulated depreciation		(4,096,107)	(16.76)	(5,669,730)	(16.69)	(7,885,945)	(225,313)	(25.48)
Property, plant and equipment-net.		9,808,562	40.15	17,463,412	51.43	19,782,831	565,223	63.93
Construction in progress. .		418,761	1.71	2,158,114	6.36	680,363	19,439	2.20
Prepayment for purchase of fixed assets		2,561,976	10.49	2,663,938	7.85	984,156	28,119	3.18
Total property, plant, and equipment		12,789,299	52.35	22,285,464	65.64	21,447,350	612,781	69.31

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS — (Continued)
DECEMBER 31, 1999, 2000 AND 2001
(Unless otherwise stated, all amounts expressed in Thousand Dollars)

		December 31						
		1999		2000		2001	2001	
		Amount		Amount		Amount	Amount	
Notes		NTD	%	NTD	%	NTD	USD	%
Other assets								
Assets leased to others	3.g/17	5,435	0.02	24,839	0.07	60,595	1,731	0.20
Idle assets	3.g/18	1	0.00	0	0.00	0	0	0.00
Refundable deposits	36	50,530	0.21	71,134	0.21	153,850	4,396	0.50
Deferred expenses	3.h	303,818	1.24	396,737	1.16	281,146	8,033	0.90
Pre-operating expenses		8,875	0.04	8,374	0.02	6,033	172	0.02
Long-term receivable	19	124,882	0.51	162,208	0.48	185,564	5,302	0.60
Deferred income tax assets-								
non current	3.j/33	1,052,166	4.31	1,943,234	5.72	2,070,449	59,156	6.69
Other assets-other		90,422	0.37	35,322	0.10	48,063	1,373	0.15
Consolidation reserve		—	—	490,648	1.45	482,146	13,776	1.56
Total Other Assets		<u>1,636,129</u>	<u>6.70</u>	<u>3,132,496</u>	<u>9.21</u>	<u>3,287,846</u>	<u>93,939</u>	<u>10.62</u>
Total assets		<u>\$24,432,222</u>	<u>100.00</u>	<u>\$33,954,505</u>	<u>100.00</u>	<u>\$30,948,013</u>	<u>\$884,229</u>	<u>100.00</u>

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS — (Continued)
DECEMBER 31, 1999, 2000 AND 2001
(Unless otherwise stated, all amounts expressed in Thousand Dollars)

		December 31						
		1999		2000		2001	2001	
		Amount		Amount		Amount	Amount	
Notes		NTD	%	NTD	%	NTD	USD	%
LIABILITIES AND STOCKHOLDERS' EQUITY								
Current liabilities								
Short-term loans	20	\$ 1,790,403	7.33	\$ 4,765,353	14.03	\$ 4,090,457	\$116,870	13.22
Short-term notes payable . . .	21	295,454	1.21	573,464	1.69	427,386	12,211	1.38
Notes payable								
— non affiliates		44,217	0.18	40,390	0.12	25,574	731	0.08
Other notes payable								
— non affiliates		155,543	0.63	72,630	0.21	62,661	1,790	0.20
Accounts payable								
— non affiliates		1,702,398	6.97	1,784,937	5.26	1,721,165	49,176	5.56
Accounts payable								
— affiliates	35	75,841	0.31	115,173	0.34	136,300	3,894	0.44
Income tax payable		1,736	0.01	—	—	—	—	—
Accrued expenses		473,118	1.94	497,204	1.46	441,959	12,628	1.43
Current portion of long-term loans	23	325,020	1.33	282,736	0.83	1,480,790	42,308	4.78
Current portion of convertible bonds payable	22	—	—	678,417	2.00	—	—	—
Current portion of long-term lease liabilities	25	—	—	—	—	290,803	8,309	0.94
Other current liabilities		52,453	0.21	26,058	0.08	137,784	3,937	0.45
Total current liabilities . . .		4,916,183	20.12	8,836,362	26.02	8,814,879	251,854	28.48
Long-term liabilities								
Convertible bonds payable . .	22	3,056,007	12.51	2,040,034	6.01	4,071	116	0.01
Long-term loans								
— net of current portion . .	23	1,230,534	5.04	4,731,525	13.93	4,157,467	118,785	13.43
Long-term notes payable . . .	24	1,974,592	8.08	3,948,698	11.63	3,975,739	113,593	12.85
Long-term account payable . .		—	—	—	—	17,513	500	0.06
Long-term lease liabilities								
— net of current portion . .	25	—	—	—	—	679,365	19,410	2.20
Total long-term liabilities .		6,261,133	25.63	10,720,257	31.57	8,834,155	252,404	28.55
Other liabilities								
Accrued pension liabilities . .	3.i/16	100,556	0.41	112,356	0.33	131,778	3,765	0.43
Deposits received		3,398	0.01	3,598	0.01	35,918	1,026	0.12
Deferred credit								
— intercompany profit . .		26,391	0.11	26,267	0.08	26,143	747	0.08
Consolidation reserve		58	0.00	—	—	—	—	—
Minority interest		105	0.00	76,653	0.23	6,365	182	0.02
Other liabilities — other . . .		—	—	—	—	255,142	7,290	0.82
Total other liabilities		130,508	0.53	218,874	0.65	455,346	13,010	1.47
Total liabilities		11,307,824	46.28	19,775,493	58.24	18,104,380	517,268	58.50

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS — (Continued)
DECEMBER 31, 1999, 2000 AND 2001
(Unless otherwise stated, all amounts expressed in Thousand Dollars)

		December 31						
		1999		2000		2001	2001	
		Amount		Amount		Amount	Amount	
Notes		NTD	%	NTD	%	NTD	USD	%
Stockholders' equity								
Capital Stock	26							
Common stock		8,105,324	33.17	9,931,428	29.25	10,913,826	311,824	35.26
Preferred stock		—	—	—	—	1,500,000	42,857	4.85
Bonds conversion right . .		2,564	0.01	—	—	—	—	—
Capital surplus	28							
Premium on capital stock .		2,442,473	10.00	2,400,000	7.07	1,881,535	53,758	6.08
Premium on preferred stock		—	—	—	—	223,770	6,393	0.72
Premium on convertible								
bonds payable		1,183,767	4.85	859,040	2.53	395,107	11,289	1.28
Asset revaluation surplus .		63	0.00	63	0.00	63	2	0.00
Gain on disposal of fixed								
assets		16,496	0.07	45,284	0.13	45,284	1,294	0.15
Long-term investment . . .		—	—	21,547	0.06	26,140	747	0.08
Accrued interest on								
convertible bonds		84,072	0.34	159,401	0.47	159,401	4,554	0.52
Legal reserve	29	409,089	1.67	513,382	1.51	520,886	14,882	1.68
Special reserve	30	6,964	0.03	110,917	0.33	6,964	199	0.02
Retained earnings	31	1,068,563	4.37	67,693	0.20	(3,025,895)	(86,454)	(9.78)
Accumulated translation								
adjustment		(194,977)	(0.79)	155,926	0.46	293,483	8,385	0.95
Treasury stock	3.1/27	—	—	(85,669)	(0.25)	(96,931)	(2,769)	(0.31)
Total stockholders' equity		<u>13,124,398</u>	<u>53.72</u>	<u>14,179,012</u>	<u>41.76</u>	<u>12,843,633</u>	<u>366,961</u>	<u>41.50</u>
Total liabilities and								
stockholders' equity		<u>\$24,432,222</u>	<u>100.00</u>	<u>\$33,954,505</u>	<u>100.00</u>	<u>\$30,948,013</u>	<u>\$884,229</u>	<u>100.00</u>

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31, 1999, 2000 and 2001
(Unless otherwise stated, all amounts expressed in Thousand Dollars)

Item	Notes	December 31						
		1999		2000		2001	2001	
		Amount		Amount		Amount	Amount	
		NTD	%	NTD	%	NTD	USD	%
Gross Sales	32	\$9,794,226	100.51	\$15,940,743	100.67	\$12,045,323	\$344,152	100.58
Less: Sales return and allowance		(49,370)	(0.51)	(106,089)	(0.67)	(69,511)	(1,986)	(0.58)
Net sales		9,744,856	100.00	15,834,654	100.00	11,975,812	342,166	100.00
Cost of goods sold		(8,746,053)	(89.75)	(14,219,424)	(89.80)	(13,475,030)	(385,001)	(112.52)
Gross profit		998,803	10.25	1,615,230	10.20	(1,499,218)	(42,835)	(12.52)
Selling and administration expenses		(1,224,580)	(12.57)	(1,625,046)	(10.26)	(1,476,472)	(42,185)	(12.33)
Operating loss		(225,777)	(2.32)	(9,816)	(0.06)	(2,975,690)	(85,020)	(24.85)
Non-operating Income								
Interest income		30,441	0.31	32,498	0.21	22,034	629	0.18
Dividends income		1,071	0.01	14,567	0.09	3,103	89	0.03
Investment income		—	—	131	0.00	16,194	463	0.14
Gain on disposal of fixed assets		3,229	0.03	36,771	0.23	4,074	116	0.03
Gain on disposal of investments		1,127,843	11.57	169,262	1.07	844,765	24,136	7.05
Gain on physical inventories		539	0.01	832	0.01	1,778	51	0.01
Gain on foreign exchange	3.a	186,989	1.92	333,902	2.11	326,430	9,327	2.73
Rental income		7,745	0.08	—	—	2,307	66	0.02
Other income		40,411	0.41	58,048	0.37	45,302	1,294	0.38
Subtotal		1,398,268	14.34	646,011	4.09	1,265,987	36,171	10.57
Non-operating expenses								
Interest expenses		(293,230)	(3.01)	(556,815)	(3.52)	(709,000)	(20,257)	(5.92)
Investment loss		(188,163)	(1.93)	(302,086)	(1.91)	(403,427)	(11,526)	(3.37)
Loss on disposal of fixed assets		(27,434)	(0.28)	(14,062)	(0.09)	(3,981)	(114)	(0.03)
Loss on physical inventories		(1,052)	(0.01)	(1,348)	(0.01)	(1,561)	(45)	(0.01)
Loss on foreign exchange	3.a	(236,774)	(2.43)	(398,228)	(2.51)	(229,718)	(6,563)	(1.92)
Loss on decline in value of inventories	3.e	(18,705)	(0.19)	(32,681)	(0.21)	(24,245)	(693)	(0.20)
Loss on idle assets		(9,819)	(0.10)	(1,435)	(0.01)	(1,435)	(41)	(0.01)
Other loss		(29,790)	(0.31)	(36,630)	(0.23)	(160,294)	(4,580)	(1.34)
Subtotal		(804,967)	(8.26)	(1,343,285)	(8.49)	(1,533,661)	(43,819)	(12.80)
Pretax income from continuing operations		367,524	3.76	(707,090)	(4.46)	(3,243,364)	(92,668)	(27.08)
Income tax credit (expense)	3.j/33	678,992	6.97	809,348	5.11	(11,083)	(316)	(0.09)
Income from continuing operations		1,046,516	10.73	102,258	0.65	(3,254,447)	(92,984)	(27.17)
Minority interest		26	0.00	1,575	0.01	64,410	1,840	0.53
Net income		<u>\$1,046,542</u>	<u>10.73</u>	<u>\$ 103,833</u>	<u>0.66</u>	<u>(\$3,190,037)</u>	<u>(\$ 91,144)</u>	<u>(26.64)</u>
Earnings per share (Expressed in Dollars)	3.k/34							
Primary earnings per share		<u>\$ 1.08</u>		<u>\$ 0.09</u>		<u>(\$ 2.98)</u>	<u>(\$ 0.09)</u>	
Fully diluted earnings per share		<u>\$ 1.08</u>		<u>\$ 0.09</u>		<u>(\$ 2.98)</u>	<u>(\$ 0.09)</u>	

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the years ended December 31, 1999, 2000 and 2001
(Unless otherwise stated, all amounts expressed in Thousand Dollars)

ITEM	Capital stock	Capital stock of Preferred stock	Bonds Conversion Right	Capital Surplus	Legal Reserve	Special Reserve	Retained Earnings	Accumulated Translation Adjustment	Treasury Stock	Total
Balance at January 1, 1999.....	NT\$5,868,671	—	—	NT\$1,882,510	NT\$335,734	NT\$6,964	NT\$743,276	(NT\$116,661)	—	NT\$8,722,494
Proceeds from issue of capital stock.....	1,000,000			2,400,000						3,400,000
Appropriation for legal reserve.....										
Bonus distribution for directors and supervisors.....					73,355		(73,355)			—
Employee bonus transferred to capital.....	52,815						(6,602)			(6,602)
Convertible bonds transferred to bonds conversion rights.....			NT\$12,668				(52,815)			—
Premium on convertible bonds transferred to capital surplus.....				27,612						12,668
Bonds conversion rights transferred to capital.....	10,104		(10,104)	(586,867)			(586,867)			27,612
Capital surplus and retained earnings transferred to capital.....	1,173,734									—
Gain on disposal of fixed assets, net of income tax, transferred to capital surplus.....				3,616			(3,616)			—
Net income of 1999.....							1,046,542			1,046,542
Accumulated translation adjustment.....								(78,316)		(78,316)
Balance at December 31, 1999.....	8,105,324	—	2,564	3,726,871	409,089	6,964	1,068,563	(194,977)	—	13,124,398
Appropriation for legal reserve.....					104,293		(104,293)			—
Appropriation for special reserve.....						103,953	(103,953)			—
Bonus distribution for directors and supervisors.....							(8,603)			(8,603)
Employee bonus transferred to capital.....	68,825						(68,825)			—
Convertible bonds transferred to bonds conversion rights.....			144,977							144,977
Premium on convertible bonds transferred to capital surplus.....				540,040						540,040
Capital surplus transferred to bonds conversion rights.....			13,144	(13,144)						—
Bonds conversion rights transferred to capital.....	160,685		(160,685)	(818,766)			(777,828)			—
Capital surplus and retained earnings transferred to capital.....	1,596,594									—
The difference in equity for not proportionately purchasing new shares issued by the investee company.....				21,547			(12,414)		(NT\$85,669)	9,133
Redemption of treasury stocks.....										(85,669)
Gain on disposal of fixed assets, net of income tax, transferred to capital surplus.....				28,787			(28,787)			—
Net income of 2000.....							103,833			103,833
Accumulated translation adjustment.....								350,903		350,903

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001
(Unless otherwise stated, all amounts expressed in Thousand Dollars)

	Capital stock	Capital stock of Preferred stock	Bonds Conversion Right	Capital Surplus	Legal Reserve	Special Reserve	Retained Earnings	Accumulated Translation Adjustment	Treasury Stock	Total
Balance at December 31, 2000	9,931,428	—	—	3,485,335	513,382	110,917	67,693	155,926	(85,669)	14,179,012
Cash issuance of preferred stock		NT\$1,500,000		223,770						1,723,770
Appropriation for legal reserve					7,504		(7,504)			—
Increase of net worth for change of long-term investment ratio				4,593						4,593
Reversal of special reserve				(982,398)		(103,953)	103,953			—
Capital surplus transferred to capital	982,398									—
Redemption of treasury stocks									(11,262)	(11,262)
Net loss of 2001							(3,190,037)			(3,190,037)
Accumulated translation adjustment								137,557		137,557
Balance at December 31, 2001	NT\$10,913,826	NT\$1,500,000	—	NT\$2,731,300	NT\$520,886	NT\$6,964	(NT\$3,025,895)	NT\$293,483	(NT\$96,931)	NT\$12,843,633
Balance at December 31, 2000	US\$283,755	—	—	US\$99,581	US\$14,668	US\$3,169	US\$ 1,934	US\$4,455	(US\$2,447)	US\$405,115
Cash issuance of preferred stock		US\$42,857		6,394						49,251
Appropriation for legal reserve					214		(214)			—
Increase of net worth for change of long-term investment ratio				131						131
Reversal of special reserve				(28,069)		(2,970)	2,970			—
Capital surplus transferred to capital	28,069									—
Redemption of treasury stocks									(322)	(322)
Net loss of 2001							(91,144)			(91,144)
Accumulated translation adjustment								3,930		3,930
Balance at December 31, 2001	US\$311,824	US\$42,857	—	US\$78,037	US\$14,882	US\$ 199	(US\$ 86,454)	US\$8,385	(US\$2,769)	US\$366,961

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 1999, 2000 and 2001
(Unless otherwise stated, all amounts expressed in Thousand Dollars)

Item	1999 NTD	2000 NTD	2001 NTD	2001 USD
Cash flows from operating activities:				
Net income.	\$1,046,542	\$103,833	(\$3,190,037)	(\$91,144)
Adjustments to reconcile net income to net cash provided by operating activities:				
Bad debts.	60,804	—	54,094	1,546
Gain on reversal of bad debts	—	(7,031)	—	—
Depreciation.	1,324,075	2,008,673	3,180,129	90,861
Loss on decline in value of inventories	18,705	32,681	24,245	693
Amortization	100,834	167,130	181,172	5,176
Investment loss	188,163	302,086	403,427	11,526
Investment income	—	(131)	(16,194)	(463)
Gain on disposal of investments	(1,127,843)	(169,262)	(844,765)	(24,136)
Gain on disposal of fixed assets	(3,229)	(36,771)	(4,074)	(116)
Loss on disposal of fixed assets	27,434	14,062	3,981	114
Depreciation expense of idle assets	9,819	1,435	1,435	41
Reversal of loss on decline in value of idle assets	(1,319)	(1,434)	(1,435)	(41)
Disposal of short-term investments	2,667,382	2,897,975	1,662,176	47,491
Increase in short-term investments.	(2,647,400)	(2,755,795)	(975,000)	(27,857)
(Increase) decrease in notes receivable — Non affiliates.	(13,786)	5,166	44,945	1,284
(Increase) decrease in notes receivable — Affiliates.	53,771	9,973	(48,155)	(1,376)
(Increase) decrease in account receivable — Non affiliates	(794,974)	(21,614)	666,772	19,051
(Increase) decrease in account receivable — Affiliates	(199,147)	(21,940)	326,321	9,323
Decrease (Increase) in forward contract receivable — net.	—	(4,771)	4,771	136
Decrease (Increase) in other receivable-Affiliates	—	(3,058)	(40)	(1)
Decrease (Increase) in other receivable — Non affiliates	—	—	(736,655)	(21,047)
(Increase) decrease in inventories	(585,983)	(701,212)	740,391	21,154
(Increase) decrease in prepayments	(3,068)	(9,486)	(39,569)	(1,131)
(Increase) decrease in deferred income tax assets-current	(183,657)	64,403	136,547	3,901
(Increase) decrease in other current assets.	11,955	(642)	(90,647)	(2,590)
(Increase) decrease in deferred income tax assets — non current	(495,503)	(891,068)	(127,215)	(3,635)
Increase (decrease) in notes payable — Non affiliates	(15,966)	(3,827)	(14,816)	(423)
Increase (decrease) in other notes payable — Non affiliates	110,269	(82,913)	(9,969)	(285)
Increase (decrease) in accounts payable — Non affiliates	788,983	82,539	(63,772)	(1,822)
Increase (decrease) in accounts payable — Affiliates	34,469	39,332	21,127	604
Increase (decrease) in income tax payable	(20,566)	(1,736)	—	—
Increase (decrease) in accrued expenses	161,738	72,173	(55,245)	(1,578)
Increase (decrease) in other current liabilities — other	25,880	(27,578)	60,763	1,736
Increase (decrease) in accrued pension liabilities	29,689	11,800	19,422	555
Accumulated translation adjustment	(68,374)	363,174	142,047	4,058
Foreign currency translation adjustment	2,464	2,433	(785)	(22)
Net cash provided by operating activities	502,161	1,438,599	1,455,392	41,583
Cash flows from investing activities:				
(Increase) decrease in restricted assets	(253,854)	253,854	(63,866)	(1,825)
Disposal of fixed assets	99,706	115,191	1,366,254	39,036
Purchase of fixed assets	(4,943,978)	(11,616,848)	(2,499,203)	(71,406)
Disposal of long-term investments	1,432,311	103,844	937,260	26,779
Decrease (Increase) in long-term investments	(758,839)	(1,157,328)	(7,374)	(211)
(Increase) decrease in prepayment for long-term investments.	—	(4,500)	(4,500)	(129)
(Increase) decrease in deferred expenses.	(84,289)	(259,548)	(63,240)	(1,807)
(Increase) decrease in refundable deposits.	(5,840)	(20,604)	(82,716)	(2,363)
(Increase) decrease in other assets-other	(66,894)	55,100	(12,741)	(364)
Net cash used in investing activities	(4,581,677)	(12,530,839)	(430,126)	(12,290)

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001
(Unless otherwise stated, all amounts expressed in Thousand Dollars)

	1999	2000	2001	2001
	NTD	NTD	NTD	USD
Cash flows from financing activities:				
(Increase) decrease in long-term accounts receivable	(\$ 1,777)	(\$ 37,326)	(\$ 23,356)	(\$ 667)
Increase (decrease) in short-term loans	1,302,078	2,974,950	(674,896)	(19,283)
Increase (decrease) in short-term notes payable	(70,048)	278,010	(146,078)	(4,174)
Proceed from issue of capital stock	3,400,000	—	1,723,770	49,251
Increase (decrease) in long-term notes payable	1,974,592	1,974,106	27,041	773
Increase (decrease) in bonds payable	30,419	299,373	(2,714,380)	(77,554)
Repayment of long-term loans	(357,779)	(325,020)	(282,736)	(8,078)
Increase in long-term loans	858,864	3,783,727	906,732	25,907
Payment of long-term lease liabilities	—	—	(206,703)	(5,906)
Increase (decrease) in deposits received	172	200	32,320	923
Increase (decrease) in deferred credit — intercompany profit . . .	620	—	—	—
Increase (decrease) in minority interest	(45)	76,548	(70,288)	(2,008)
Increase (decrease) in consolidation reserve — credit	(4)	(58)	—	—
(Increase) decrease in consolidation reserve — debit	—	(476,313)	9,188	263
Increase (Decrease) in other current liabilities — Receipt for others	2,609	1,183	495	14
Redemption of treasury stocks	—	(85,669)	(11,262)	(322)
Bonus distribution for directors and supervisors	(6,602)	(8,603)	—	—
Net cash provided by financing activities	7,133,099	8,455,108	(1,430,153)	(40,861)
Foreign currency translation adjustment	(2,464)	(2,433)	785	22
Net increase (decrease) in cash	3,051,119	(2,639,565)	(404,102)	(11,546)
Cash, beginning of Year	706,954	3,758,073	1,118,508	31,957
Cash, end of Year	<u>\$3,758,073</u>	<u>\$1,118,508</u>	<u>\$714,406</u>	<u>\$20,411</u>
Supplemental disclosure of cash flows information:				
Cash paid for interest during the year (excluding of capitalized interest)	<u>\$ 288,857</u>	<u>\$ 546,182</u>	<u>\$ 763,217</u>	<u>\$21,806</u>
Cash paid for income tax during the year	<u>\$ 20,744</u>	<u>\$ 19,053</u>	<u>\$ 27</u>	<u>\$ 1</u>
Supplemental disclosure of non-cash investing and financing activities:				
Current portion of long-term loans transferred from long-term loans	<u>\$ 325,020</u>	<u>\$ 282,736</u>	<u>\$1,480,790</u>	<u>\$42,308</u>
Current portion of bonds payable transferred from convertible bonds payable	<u>—</u>	<u>\$ 678,417</u>	<u>—</u>	<u>—</u>
Current portion of long-term lease liabilities transferred from long-term lease liabilities	<u>—</u>	<u>—</u>	<u>\$ 290,803</u>	<u>\$ 8,309</u>
Sale and lease back of fixed assets under capital lease	<u>—</u>	<u>—</u>	<u>\$1,176,871</u>	<u>\$33,625</u>
Sale and buy back of fixed assets	<u>—</u>	<u>—</u>	<u>\$ 67,981</u>	<u>\$ 1,942</u>
Convertible bonds payable and interest payable transferred to capital surplus	<u>\$ 27,612</u>	<u>\$ 526,896</u>	<u>—</u>	<u>—</u>
Convertible bonds payable transferred to capital of common stocks	<u>\$ 12,668</u>	<u>\$ 158,121</u>	<u>—</u>	<u>—</u>
Short-term investment transferred from long-term investment . . .	<u>—</u>	<u>\$ 562,244</u>	<u>—</u>	<u>—</u>
Other liabilities — others transferred from long-term investment .	<u>—</u>	<u>—</u>	<u>\$ 255,142</u>	<u>\$ 7,290</u>
Assets leased to others transferred from fixed assets	<u>—</u>	<u>—</u>	<u>\$ 50,770</u>	<u>\$ 1,451</u>
Idle assets transferred from fixed assets	<u>\$ 8,499</u>	<u>—</u>	<u>—</u>	<u>—</u>
Fixed assets transferred from deferred expenses	<u>\$ 27,234</u>	<u>—</u>	<u>—</u>	<u>—</u>

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1999, 2000 AND 2001

(Unless otherwise stated, all amounts expressed in Thousand Dollars)

1. ORGANIZATION AND OPERATION

Orient Semiconductor Electronics Limited (the Company) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China in June 1971. The principal activity of the Company is to engage in the manufacture, assembly, processing and sale of integrated circuits, parts for semiconductors, computer motherboards and related products. The shares of the Company commenced trading in the Taiwan stock exchange market in April 1994.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

(1) Parent company: Orient Semiconductor Electronics Limited (the Company)

(2) Subsidiaries that are included in the Consolidated Financial Statements:

<u>Name of Subsidiaries</u>	<u>Relationship</u>	<u>Principal Activities</u>	<u>Percentage of shareholding</u> <u>Dec. 31, 1999</u>	<u>Percentage of shareholding</u> <u>Dec. 31, 2000</u>	<u>Percentage of shareholding</u> <u>Dec. 31, 2001</u>
ORIENT SEMICONDUCTOR ELECTRONICS PHILIPPINES, INC. (OSE PHILIPPINES, INC.).	The Company and its subsidiaries own equity interest exceed 50%	Manufacture and export of integrated circuits and computers.	99.99%	99.99%	99.99%
OSE INTERNATIONAL LTD.	The Company and its subsidiaries own equity interest exceed 50%	Investments of various manufacturing businesses	100.00%	100.00%	100.00%
ATP ELECTRONICS, INC.	The Company and its subsidiaries own equity interest exceed 50%	Designs and sales of high technology memory modules used in communication equipment	—	60.00% (Note)	60.00% (Note)

(Note) In 2000, the Company and its wholly owned subsidiary, OSE INTERNATIONAL LTD. jointly invested in 60% of the equity interest of ATP ELECTRONICS, INC. (ATP).

(3) Subsidiaries that are not included in the Consolidated Financial Statements

Name of Subsidiaries	Percentage of shareholding			Reason for exclusion in consolidation
	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 2001	
SPARQTRON CORP.	65.04%	65.04%	59.35%	(Note)
OSE USA, INC. (formerly IPAC)	62.93%	62.93%	75.34%	(Note)
SCS HIGHTECH INC. (SCS)	59.09%	33.37%	18.17%	(Note)

Note: The percentage of total assets and sales of the investee company to the Company are less than 10%, or less than 30% for all non-consolidated subsidiaries.

(4) Difference in accounting period: Nil.

(5) Characteristic risk of overseas subsidiaries: Fluctuation in foreign exchange rates.

(6) Difference in accounting policies:

(1) OSE PHILIPPINES, INC.

Due to the financial crisis, the local regulations allowed the subsidiary to capitalize the foreign exchange loss arising from purchase of fixed assets. This accounting treatment was not allowed in the R.O.C. and adjustment was made to transfer these losses to current year income statement.

(2) OSE PHILIPPINES, INC.

The operating expenses were included in preliminary expenses account. This was inconsistent with the R.O.C. requirement and adjustment was made to transfer these expenses to current year income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Foreign-currency transactions

(1) 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 different foreign exchange rates applied when cash in foreign currency receivables or payables are settled, are credited or charged to income at the time of actual conversion or settlement. At the balance sheet date, assets and liabilities denominated in foreign currencies are translated at the rates of exchange in effect at that date; any resulting gains or losses are credited or charged to current income. Gains and losses on contracts designated as hedges of existing assets and liabilities are recognized in income statement of current year.

(2) Basis of translation of subsidiary's financial statements

The Subsidiary's assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Except for beginning retained earnings, which is brought forward from last year's ending balance, all other items in the stockholders' equity section are translated using historical rate. All items in income statement are translated at average rate of exchange during the year. The resulting differences arising from the above translation are recorded in accumulated translation adjustment account which is included in the stockholders' equity.

b. Cash equivalents

These represents all highly liquid debt instruments with a maturity of three months or less.

c. Short-term investments

Short-term investments are stated at the lower of acquisition cost or market value.

d. Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the collectibility of receivables.

e. Inventories

Inventories are stated at the lower of cost and market value. Cost is computed on the weighted average method. Market value is determined based on replacement cost of raw materials, supplies and work in progress, or net realizable value of finished goods.

f. Long-term Investments

- (1) According to R.O.C. GAAP, long-term equity investments with interest greater 20%, or with interest less than 20% but having significant influence, should be accounted for under equity method to record the share of the operating results of the investee company. However, when preparing quarterly financial statements, for those investee companies with equity interest of less 50%, the Company is allowed not to use the equity method to record the share of the operating results of the investee company. Cash dividends received are accounted for as return of equity investment. Any difference arising from change of equity method, or difference between cost of investment and equity share, is amortized over five years. When investee company issues new shares, and the Company's equity shareholding percentage is changed resulting from the fact that stockholders subscribed in a different ratio, the effects of changes are required to be recorded in the accounts of long-term investments, capital reserve and retained earnings. Long-term equity investments with interest greater 50%, but the percentage of total assets and sales of the investee company to the Company are less than 10%, or less than 30% for all non-consolidated subsidiaries, are allowed to be excluded in preparing the Company's consolidated financial statements.
- (2) Long-term equity investments not qualified for using equity method are accounted for using cost method. When the accounting method is changed from equity method to cost method resulting from decrease in shareholding percentage or other reason, the carrying amount of the investment account at time of change is treated as the cost when cost method is applied.

g. Property, plant and equipment and idle assets

(1) *Purchased assets*

Property, plant and equipment are stated at cost except for land and certain equipments which are stated at valuation, and the idle assets, which are stated at realizable value. Depreciation is calculated by straight-line method, with rates based on guidelines on service lives prescribed by the government or lease period. Major additions, replacements and betterments are capitalized while maintenance and repairs are expensed as incurred. When assets are retired or disposed off, the costs and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in income statement, the resulting gain after income tax is then transferred to capital surplus account from retained earnings. However, gains on disposal of fixed assets were no longer transferred to capital reserve since 2001 according to the new R.O.C. regulation. Items, which have reached their full estimated useful lives, but are still in use, and have residual value, are depreciated using the same method over the new period. Items not in current use are transferred to idle asset account at net realizable value. Assets not used for operating purpose are separated and recorded as idle assets based on net realizable value. Assets for rental purpose are also separated and recorded as "Assets leased to others".

(2) *Leased assets*

If the lease is a capital lease, the lease payments will be capitalized as leased assets and stated at the lower of: (a) the present value of all future installment payments plus residual payment; or (b) the fair market value at beginning of the lease period. Depreciation is provided by straight-line method, with rates determined: (a) if residual payment is required, on estimated useful lives; (b) if no residual payment is required, on lease period. Interest on lease payable is amortized based on lease period.

If the lease is an operating lease, the lease payment will be recorded as rental expense when payment is made.

h. Deferred expenses

Deferred expenses included the cost of issued convertible bonds, software, power line cost and the book value of old plant, to be demolished, etc. The cost of issued convertible bonds is amortized based on the straight-line basis over outstanding period, while the other two are amortized on the straight-line basis over 3–10 years. If the bonds are converted or bought back, the related amortization will be written off on prorata basis.

i. Retirement fund

- (1) As required by the Labor Standards Law, the Company makes regular contributions to a Retirement Fund which was established in 1986 to meet employees' retirement and termination benefits. The Fund is administered by a committee and is deposited in the committee's name with a government approved financial institution, which acts as the trustee.
- (2) The fund is fully separated from the Company, and was not included in the financial statements.
- (3) Effective from 1995, the Company adopted the R.O.C. SFAS NO. 18 "Accounting for Pension Plan" and the measurement date was December 31, 1995. At balance sheet date the pension liability was accrued when the accumulated benefit obligation is greater than the fair value of the plan assets. Also net periodic pension cost was recognized effective from January 1, 1996. Unrecognized transitional net assets and obligations are amortized on straight-line basis over 15 years. The prior period service cost and gains or losses on pension are amortized on straight-line basis over average remaining service lives of employees.

j. Income taxes

- (1) The Company adopted the R.O.C. SFAS NO. 22 "Accounting for income taxes" for interperiod and intraperiod income tax allocation. Tax effects on taxable temporary differences are recognized as deferred tax liabilities. Tax effects on deductible temporary differences, operating loss carryforwards and investment tax credits are recognized as deferred tax assets. Valuation allowance for deferred tax assets is set up for their reliability.
- (2) Adjustments for overstatement or understatement of tax liabilities in the prior years are included in the tax provision of the current year.
- (3) Investment credits qualifying under related regulations are recognized in the current year and shown as a deduction of tax expense.
- (4) The income tax payable on prior year undistributed retained earning is recorded as income tax expense in the current year upon the date when stockholders' resolution is made.

k. Earnings per share

Earnings per share is calculated based on the weighted average common shares outstanding. If there is capital increase from cash injection, the weighted average share is computed based on the period of share issue. Earnings per share of prior years are retrospectively adjusted when there is capitalization from retained earnings or capital surplus. Preferred dividends are excluded when earnings per share is calculated.

l. Treasury stock

Treasury stock is recorded at cost and shown as a deduction from stockholders' equity. When treasury stock is disposed, the resulting gain will be credited to the "capital surplus-treasury stock" account; if it is a loss, it will be set off against the "capital surplus-treasury stock" account first and any excess will be debited to the retained earnings.

4. THE REASONS AND EFFECTS FOR CHANGING ACCOUNTING PRINCIPLES

As mentioned in Note 3.g, gains on disposal of fixed assets originally should be treated as current non-operating income and the net amount after tax should be transferred to capital reserve. However, such gains were no longer transferred to capital reserve since 2001 according to the new R.O.C. regulation. This change did not affect 2001 current net income, but decreased capital reserve by NT\$7,254 and increased retain earnings by NT\$7,254 as of December 31, 2001.

5. CASH AND CASH EQUIVALENTS

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Petty cash	\$ 123	\$ 150	\$ 711	\$ 20
Cash in banks	749,033	772,098	653,957	18,684
Time deposits	2,380,050	334,860	301	9
Other-Liquid reserves fund	628,867	11,400	59,437	1,698
Total	<u>\$3,758,073</u>	<u>\$1,118,508</u>	<u>\$714,406</u>	<u>\$20,411</u>

6. SHORT-TERM INVESTMENTS

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Quoted shares	\$—	\$420,928	\$82,772	\$2,365
Beneficiary certificates	—	—	10,000	286
Stock options	—	92,195	—	—
Less: Allowance for investment loss	(—)	(5,010)	(—)	(—)
Net	<u>\$—</u>	<u>\$508,113</u>	<u>\$92,772</u>	<u>\$2,651</u>

7. NOTES RECEIVABLE — NON AFFILIATES

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Notes receivable	\$62,237	\$57,071	\$12,126	\$346
Less: Allowance for bad debts	(—)	(—)	(—)	(—)
Net	<u>\$62,237</u>	<u>\$57,071</u>	<u>\$12,126</u>	<u>\$346</u>

8. NOTES RECEIVABLE — AFFILIATES

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Notes receivable	\$46,680	\$36,707	\$84,862	\$2,425
Less: Allowance for bad debts	(—)	(—)	(—)	(—)
Net	<u>\$46,680</u>	<u>\$36,707</u>	<u>\$84,862</u>	<u>\$2,425</u>

9. ACCOUNTS RECEIVABLE — NON AFFILIATES

(1)

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Accounts receivable	\$2,143,195	\$2,164,809	\$1,492,902	\$42,654
Add: Accounts receivable to be factored	—	—	129,006	3,686
Less: Factored accounts receivable	(—)	(—)	(123,871)	(3,539)
Less: Allowance for bad debts	(71,964)	(62,818)	(84,607)	(2,417)
Net	<u>\$2,071,231</u>	<u>\$2,101,991</u>	<u>\$1,413,430</u>	<u>\$40,384</u>

(2) In September 2001, the Company signed a loan agreement with a bank (with a banking facility of NT\$300,000). Under the terms of the agreement, certain of the Company's accounts receivable need to be factored to the bank.

10. ACCOUNTS RECEIVABLE — AFFILIATES

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Accounts receivable	\$536,730	\$558,670	\$232,349	\$6,639
Less: Allowance for bad debts	(13,346)	(15,461)	(47,766)	(1,365)
Net	<u>\$523,384</u>	<u>\$543,209</u>	<u>\$184,583</u>	<u>\$5,274</u>

11. FORWARD CONTRACT RECEIVABLE — NET

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Forward contract receivable — Foreign Currency	\$—	\$329,500	\$—	\$—
Less: Payable on purchase of forward contracts	(—)	(324,370)	(—)	(—)
	—	5,130	—	—
Less: Premium	(—)	(359)	(—)	(—)
Net	<u>\$—</u>	<u>\$ 4,771</u>	<u>\$—</u>	<u>\$—</u>

As at December 31, 2000, the forward contracts signed by the Company amounted to US\$10,000 and it was for hedging purpose. The above contracts are due within one year.

12. INVENTORIES

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Raw materials	\$ 837,815	\$1,271,445	\$ 759,783	\$21,708
Supplies	160,009	260,420	175,486	5,014
Work in progress	170,479	215,685	148,514	4,243
Finished goods	<u>108,396</u>	<u>230,361</u>	<u>153,737</u>	<u>4,393</u>
Total	1,276,699	1,977,911	1,237,520	35,358
Less: Allowance for inventories decline	<u>(74,811)</u>	<u>(107,492)</u>	<u>(131,737)</u>	<u>(3,764)</u>
Net	<u>\$1,201,888</u>	<u>\$1,870,419</u>	<u>\$1,105,783</u>	<u>\$31,594</u>

As at December 31, 1999, 2000 and 2001, inventories were insured for NT\$1,706,112, NT\$2,648,954 and NT\$3,181,698, respectively.

13. PREPAYMENTS

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Advanced to suppliers	\$ 3,285	\$ 5,220	\$ 2,006	\$ 57
Prepaid expenses	12,817	12,951	63,504	1,814
Prepaid staff expenses	1,434	1,375	351	10
Prepaid taxes	—	3,186	4,154	119
Others	<u>7,225</u>	<u>11,515</u>	<u>3,801</u>	<u>109</u>
Total	<u>\$24,761</u>	<u>\$34,247</u>	<u>\$73,816</u>	<u>\$2,109</u>

14. LONG-TERM INVESTMENTS

Investee	Type of stock	December 31, 1999			December 31, 2000			December 31, 2001		
		Amount		Evaluation	Amount		Evaluation	Amount		Evaluation
		NTD	%	Method	NTD	%	Method	NTD	%	Method
STRATEDGE	Preferred stock	\$ 1,322	2.44%	Cost method	\$ 1,322	1.58%	Cost method	\$ 1,322 (US\$38)	1.55%	Cost method
ACTIONTEC	Common stock	13,175	13.05%	Cost method	13,175	13.30%	Cost method	13,175 (US\$377)	11.53%	Cost method
ACTIONTEC	Preferred stock	27,307	13.77%	Cost method	27,307	14.79%	Cost method	27,307 (US\$780)	14.79%	Cost method
SPINERGY	Preferred stock	82,283	10.62%	Cost method	82,283	8.52%	Cost method	82,283 (US\$2,351)	7.56%	Cost method
OSE PROPERTIES, INC.	Common stock	6,729	39.99%	Equity method	6,421	39.99%	Equity method	0 (US\$0)	39.99%	Equity method
@ Road	Common stock	16,957	6.70%	Cost method	16,957	4.82%	Cost method	16,957 (US\$484)	4.84%	Cost method
AUCTOR CORP.	Preferred stock	45,806	7.59%	Cost method	46,815	8.10%	Cost method	46,815 (US\$1,338)	8.10%	Cost method
OSE USA, INC. (Formerly IPAC)	Common stock	35,868	34.83%	Equity method	(20,350)	35.84%	Equity method	0 (US\$0)	44.93%	Equity method
OSE USA, INC. (Formerly IPAC)	Preferred stock	58,993	100.00%	Equity method	27,015	100.00%	Equity method	0 (US\$0)	100.00%	Equity method
SPARQTRON CORP.	Preferred stock	108,245	65.04%	Equity method	90,241	65.04%	Equity method	116,486 (US\$3,328)	59.35%	Equity method

Investee	Type of stock	December 31, 1999			December 31, 2000			December 31, 2001		
		Amount	Ownership	Evaluation Method	Amount	Ownership	Evaluation Method	Amount	Ownership	Evaluation Method
		NTD	%		NTD	%		NTD	%	
NEXFLASH	Preferred stock	\$62,780	13.10%	Cost method	\$81,239	12.74%	Cost method	\$47,907 (US\$1,369)	5.66%	Cost method
GLOBITECH INCORPORATED.	Preferred stock	—	—	—	161,490	17.83%	Cost method	161,490 (US\$4,614)	9.94%	Cost method
SILICON INTEGRATED SYSTEMS CORP.	Common stock	15	0.00%	Cost method	15	0.00%	Cost method	15 (US\$0)	0.00%	Cost method
CHIA FU ELECTRONICS CO., LTD.	Common stock	143,186	8.45%	Cost method	143,186	8.45%	Cost method	143,186 (US\$4,091)	8.45%	Cost method
ARDENTEC CORPORATION	Common stock	250,000	14.25%	Cost method	237,500	11.85%	Cost method	237,500 (US\$6,786)	11.78%	Cost method
SCS HIGHTECH INC.	Common stock	82,418	59.09%	Equity method	322,556	33.37%	Equity method	238,595 (US\$6,817)	18.17%	Equity method
INTEGRATED SILICON SOLUTION INC.	Common stock	47,896	1.73%	Cost method	47,896	1.70%	Cost method	6,332 (US\$181)	0.21%	Cost method
MEICER SEMICONDUCTOR INC.	Common stock	—	—	—	216,000	8.57%	Cost method	86,640 (US\$2,475)	8.57%	Cost method
RTECH TECHNOLOGY CO., LTD.	Common stock	—	—	—	184,000	5.33%	Cost method	184,000 (US\$5,257)	3.33%	Cost method
UNIMICRON TAIWAN CORP.	Common stock	191,250	7.39%	Cost method	220,575	7.29%	Cost method	—	—	—
Intelligent Epitaxy Technology, Inc.	Preferred stock	—	—	—	98,998	6.36%	Cost method	105,000 (US\$3,000)	5.56%	Cost method
VANGUARD INTERNATIONAL SEMICONDUCTOR.	Common stock	577,385	2.60%	Cost method	—	—	—	—	—	—
Subtotal		1,751,615			2,004,641			1,515,010 (US\$43,286)		
Prepayment for long-term investment		—			4,500			9,000 (US\$257)		
Total		\$1,751,615			\$2,009,141			\$1,524,010 (US\$43,543)		

- (1) Integrated Packaging Assembly Corporation (IPAC), the Company's investee company, changed its name to "OSE USA, INC." on June 5, 2001.
- (2) As of December 31, 1999, 2000 and 2001, even though the equity interest was exceeding 50%, the financial statements of Dec. 31, 2000 and 2001 of SPARQTRON CORP. and OSE USA, INC. and Dec. 31, 1999 of SCS, SPARQTRON CORP. and OSE USA, INC. were not consolidated because the respective percentage of total assets and sales did not exceed 10% (single subsidiary), or 30% (all subsidiaries) of the Company.
- (3) The Company's new investment in OSE USA, INC. (4,877,193 shares) was made on October 28, 1999 by exchange of the Company's old investment in OSE INC. (16,000 shares). The unrealized gain of NT\$25,771 was booked in the deferred credit account.

- (4) As of December 31, 2000 and 2001, the guarantee given by the Company for securing OSE USA, INC.'s bank loan amounted to US\$18,000 and US\$15,000. Accordingly, share of the investment loss was made using the equity method. As of December 31, 2001, total loss accounted for exceeded the book value of long-term investment by NT\$255,142 (US\$7,290) and the net amount was transferred to other liabilities account.
- (5) Meicer Semiconductor Inc. was approved to be re-organized by the Court on December 24, 2001 and provision for investment loss of NT\$129,360 (US\$3,696) was made based on net book value of the investee company.
- (6) The details of share of operating profit (loss) under equity method are as follows:

Investee Companies	1999 NTD	2000 NTD	2001 NTD	2001 USD
OSE PROPERTIES, INC.	\$ (730)	\$ 131	\$ (7,696)	\$ (220)
OSE USA, INC.(formerly IPAC)	(160,148)	(271,942)	(245,991)	(7,029)
SPARQTRON CORP.	(17,964)	(18,060)	16,194	463
SCS HIGHTECH INC.	(9,321)	(7,074)	(20,380)	(582)
Total	<u>\$(188,163)</u>	<u>\$(296,945)</u>	<u>\$(257,873)</u>	<u>\$(7,368)</u>

The financial statements of December 31, 1999, 2000 and 2001 of OSE USA, INC. (formerly IPAC), SPARQTRON CORP. and the financial statement of December 31, 2001 of SCS HIGHTECH INC. were audited by other auditors.

15. PROPERTY, PLANT AND EQUIPMENT

- (1) The amounts of capitalized interests in 1999, 2000 and 2001, were NT\$106,955, NT\$289,794 and NT\$158,641 (US\$4,533), respectively, and are recorded separately under the accounts of prepayment for purchase of fixed assets, and related equipment. The amount of interest expenses before capitalization in 2001 amounted to NT\$736,476 (2000: NT\$740,751, 1999: NT\$360,065) and interest rates was 3.19%–7.045% (2000: 6.973%–7.786%, 1999: 6.665%–6.814%).
- (2) As at December 31, 1999, 2000 and 2001, fixed assets were insured for NT\$12,441,815, NT\$17,736,946 and NT\$20,686,975 (US\$591,056), respectively.
- (3) The details of accumulated depreciation are as follows:

Item	Dec. 31, 1999 NTD	Dec. 31, 2000 NTD	Dec. 31, 2001 NTD	Dec. 31, 2001 USD
Building and equipment	\$ 427,220	\$ 538,637	\$ 807,930	\$ 23,084
Machinery and equipment.	3,592,046	5,028,772	6,886,903	196,769
Transportation equipment	8,409	9,499	14,005	400
Furniture and fixtures	4,777	3,275	10,494	300
Leasehold improvements	2,670	3,590	5,152	147
Leased assets	—	—	44,744	1,278
Other equipment	<u>61,232</u>	<u>85,957</u>	<u>116,717</u>	<u>3,335</u>
Total Accumulated Depreciation	<u>\$4,096,354</u>	<u>\$5,669,730</u>	<u>\$7,885,945</u>	<u>\$225,313</u>

(4) Details of leased assets:

Lessor	Assets	Dec. 31, 2001		Lease period	Residual payment NTD
		Amount	Amount		
		NTD	USD		
CHAILEASE FINANCE CO., LTD.	Machinery and equipment	\$ 217,444	\$ 6,213	April 27, 2001 — April 27, 2003	67,444 (US\$1,927)
YA I INTERNATIONAL LEASING CO.,	Machinery and equipment	142,321	4,066	Dec. 27, 2001 — June 27, 2003	Nil
CENTRAL LEASING CO., (K.H).	Machinery and equipment	817,106	23,346	Dec. 31, 2001 — Jan. 31, 2005	Nil
		<u>\$1,176,871</u>	<u>\$33,625</u>		

16. PENSION

- (1) Effective from 1995, the Company adopted R.O.C. Statement of Financial Accounting Standard #18 "Pension Accounting". Pension cost of the Company for 1999, 2000 and 2001 are shown as follows:

Item	1999	2000	2001	2001
	NTD	NTD	NTD	USD
Service Cost	\$45,502	\$47,476	\$56,125	\$1,604
Interest Cost	24,451	28,632	27,767	793
Expected return on plan assets	(10,340)	(12,989)	(16,230)	(464)
Amortization of net transitional obligation	9,856	9,856	9,856	282
Net periodic pension cost	<u>\$69,469</u>	<u>\$72,975</u>	<u>\$77,518</u>	<u>\$2,215</u>

- (2) The reconciliation between the funding status of the pension plan and accrued pension cost as at December 31, 1999, 2000 and 2001 are as follows:

	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2001
	NTD	NTD	NTD	USD
Benefit Obligation				
Vested Benefit Obligation	\$(123,368)	\$(132,590)	\$(115,998)	\$(3,314)
Non-vested Benefit Obligation	(122,787)	(152,196)	(233,654)	(6,676)
Accumulated Benefit Obligation	(264,155)	(284,786)	(349,652)	(9,990)
Effect of projected future salary increase	(194,336)	(177,996)	(145,024)	(4,144)
Projected Benefit Obligation	(440,491)	(462,782)	(494,676)	(14,134)
Fair value of plan assets	199,834	270,497	295,709	8,449
Funded status of pension plan	(240,657)	(192,285)	(198,967)	(5,685)
Unrecognized net transitional obligations	108,413	98,557	88,701	2,534
Unrecognized prior service cost	—	—	—	—
Unrecognized gains or losses	31,688	(18,628)	(21,512)	(614)
Additional liabilities	—	—	—	—
Accrued pension liabilities	<u>\$(100,556)</u>	<u>\$(112,356)</u>	<u>\$(131,778)</u>	<u>\$(3,765)</u>

- (3) As at December 31, 1999, 2000 and 2001, the vested benefit obligation of the Company was NT\$123,368, NT\$132,590 and NT\$115,998 (US\$3,314), respectively.

(4) Actuarial assumptions:

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>
Discount rate	6.50%	6.50%	4.50%
Rate of increase in compensation	5.00%	4.00%	2.50%
Expected long-term rate of return on plan assets	6.50%	6.00%	4.50%

17. ASSETS LEASED TO OTHERS

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Machinery and equipment.	\$5,684	\$17,346	\$117,272	\$3,350
Building and equipment	—	11,364	—	—
Total	5,684	28,710	117,272	3,350
Less: Accumulated depreciation	(247)	(3,871)	(56,677)	(1,619)
Net	<u>\$5,437</u>	<u>\$24,839</u>	<u>\$60,595</u>	<u>\$1,731</u>

18. IDLE ASSETS

<u>Item</u>	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Machinery and equipment.	\$12,352	\$12,612	\$12,612	\$360
Less: Accumulated depreciation	(5,145)	(6,771)	(8,206)	(234)
Allowance for loss on decline in market value	(7,206)	(5,841)	(4,406)	(126)
Net	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

19. LONG-TERM RECEIVABLE

It represented balance due by OSE PROPERTIES, INC. to OSE PHILIPPINES, INC. (Peso 137,200). The interest rate is in the range of 7.38% to 7.99% and the repayment period is 10 years.

20. SHORT-TERM LOANS

<u>Nature</u>	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Usance L/C loan	\$ 466,190	\$ 723,538	\$1,357,366	\$ 38,782
Credit loan	—	604,000	1,268,000	36,228
Mortgage loan on machine and equipment	1,324,213	2,084,049	256,157	7,319
Other.	—	1,353,766	1,208,934	34,541
Total	<u>\$1,790,403</u>	<u>\$4,765,353</u>	<u>\$4,090,457</u>	<u>\$116,870</u>

- (1) The ranges of interest rates were 1.10%–8.75%, 0.61%–9.50% and 0.62%–9.50% for 1999, 2000 and 2001, respectively.
- (2) As of December 31, 1999, 2000 and 2001, the due dates of short-term loans were March 12, 2000–March 31, 2001, January 15, 2001–October 24, 2001 and January 11, 2002–October 24, 2002, respectively.

21. SHORT-TERM NOTES PAYABLE

<u>Nature</u>	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>	<u>Remarks</u>
	<u>NTD</u>	<u>NTD</u>	<u>NTD</u>	<u>USD</u>	
Short-term notes payable	\$300,000	\$580,000	\$430,000	\$12,286	Commercial papers
Less: Discount for short-term notes payable	(4,546)	(6,536)	(2,614)	(75)	
Net	<u>\$295,454</u>	<u>\$573,464</u>	<u>\$427,386</u>	<u>\$12,211</u>	

22. CONVERTIBLE BONDS PAYABLE

- (1) The detail of convertible bonds were as follows:

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	<u>NTD</u>	<u>NTD</u>	<u>NTD</u>	<u>USD</u>
Overseas convertible bonds-2nd issued	\$2,779,296	\$2,267,560	\$3,500	\$100
Accrued interest on convertible bonds	276,711	450,891	571	16
Less: Current portion	(—)	(678,417)	(—)	(—)
Total	<u>\$3,056,007</u>	<u>\$2,040,034</u>	<u>\$4,071</u>	<u>\$116</u>

- (2) (1) On February 26, 1998, the Company issued overseas convertible bonds for US\$97,750. The details are as follows:

<u>Item</u>	<u>Trustee</u>	<u>Issued Place</u>	<u>Issued period</u>	<u>Total issued amount</u>	<u>Security</u>
Unsecured bonds . .	The Bank of New York	Luxembourg	February 26, 1998 — February 26, 2003	USD 97.75 million	none

- (2) Convertible conditions:

<u>Conversion Period</u>	<u>Conversion Price</u>	<u>Method of accounting for Bonds' Conversion Rights</u>
30 days after the date of issuance, except that no conversion is allowed during the close period when registration of common stockholders and conversion right holders is stopped by law.	NT\$33.90	Book Value method

- (3) Call option and put option:

<u>Issued company call option</u>	<u>Bonds investors put option</u>
Callable in whole, or in part, on or after two years after the date of issuance, if (1) the closing market price of the Company's common stock, adjusted for parity, is exceeding 140% of the conversion price for each of 30 consecutive TSE trading days, or (2) 90% of the Company's bonds are converted, called or bought back, or cancelled.	Entitled to request the Company to redeem all or part of the bonds held by him on or, after three years after the date of issuance, at a price with interest rate of 6.75%.

- (4) The interest rate was 1.5% per annum, payable in annual installment in arrears on February 26 in each year. The bonds were issued at face value so that there was no premium or discount.
- (5) As of Dec. 31, 2001, part of the Company's overseas convertible bonds (US\$20,140) was converted into bonds conversion rights (face value NT\$160,685). The total amounts of the premium for the conversion and its accrued interest (NT\$536,500) were recorded under the capital surplus account.

- (6) As of Dec. 31, 2001, the amount of overseas convertible bonds bought back and redeemed by the Company in the open market was US\$13,750 and US\$63,760.

23. LONG-TERM LOANS

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	<u>NTD</u>	<u>NTD</u>	<u>NTD</u>	<u>USD</u>
Mortgage loans on machinery and equipment	\$1,555,554	\$5,014,261	\$5,638,257	\$161,093
Less: due within one year.	<u>(325,020)</u>	<u>(282,736)</u>	<u>(1,480,790)</u>	<u>(42,308)</u>
Net	<u>\$1,230,534</u>	<u>\$4,731,525</u>	<u>\$4,157,467</u>	<u>\$118,785</u>

- (1) The loans borne interest at rates ranging 5.50%–8.25%, 5.50%–7.60% and 4.2072%–8.50% for 1999, 2000 and 2001, respectively.
- (2) As at December 31, 1999, 2000 and 2001, the due dates of long-term loans were August 25, 2000–November 17, 2004, January 11, 2001–October 27, 2010 and October 7, 2002–December 28, 2010, respectively.
- (3) On May 30, 2000, the Company signed a syndicated loan contract with 20 banks. The contract period is 5 years and the loan facility is 3,500,000. As at December 31, 2000, unused facility amounted to 0. Within the contract period and before the full repayment of the loan, the Company is required to maintain the following financial ratios:
- (1) Current ratio: not less than 100%
- (2) Owners' equity: not less than 45%
- (3) Interest coverage: not less than 300%
- (4) Long-term investment to equity ratio: not more than 50%

For the calculation of the above ratios, the Company's financial statements should be audited and related to unconsolidated half-yearly financial statements and consolidated yearly financial statements.

- (4) In April 2001, the Company obtained permission from the banks to release itself from the above requirements for maintaining the liquidity and owners' equity ratio. In compensation for that, the Company agreed to pay NT\$4,200 (US\$120) (0.12% of the total loan amount) to the banks.

24. LONG-TERM NOTES PAYABLE

- (1)

<u>Guarantor</u>	<u>Period</u>	<u>Interest Rates</u>	<u>Dec. 31, 1999</u>
			<u>NTD</u>
ABN and other eleven	April 9, 1999 to April 9, 2004	3.345% to 4.968%	\$2,000,000
Less: Discount			<u>(25,408)</u>
Net present value			1,974,592
Less: Current portion			<u>(—)</u>
Net			<u>\$1,974,592</u>

<u>Guarantor</u>	<u>Period</u>	<u>Interest Rates</u>	<u>Dec. 31, 2000</u>	
			<u>NTD</u>	
ABN and other twenty-seven	April 9, 2004 to May 30, 2005	3.74% to 5.83%	\$4,000,000	
Less: Discount			(51,302)	
Net present value			3,948,698	
Less: Current portion			(—)	
Net			<u>\$3,948,698</u>	
<u>Guarantor</u>	<u>Period</u>	<u>Interest Rates</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
			<u>NTD</u>	<u>USD</u>
ABN and other twenty-seven . . .	April 9, 2004 to May 30, 2005	2.15% to 3.28%	\$4,000,000	\$114,286
Less: Discount			(24,261)	(693)
Net present value			3,975,739	113,593
Less: Current portion			(—)	(—)
Net			<u>\$3,975,739</u>	<u>\$113,593</u>

(2) Within the contract period and before the full repayment of the notes payable, the company is required to maintain the following financial ratios:

- (1) Current ratio: not less than 100%
- (2) Owners' equity: not less than 45%
- (3) Interest coverage: not less than 300%
- (4) Long-term investment to equity ratio: not more than 50%
- (5) Without the prior consent of majority of bankers in writing, the amount of any of the Company's single long-term investment, except for the investment in Orient Semiconductor Electronics Philippines, Inc. cannot exceed NT\$500,000 (US\$14,286).

For the calculation of the above ratios, the Company's financial statements should be audited and related to unconsolidated half-yearly financial statements and consolidated yearly financial statements.

(3) In April 2001, the Company obtained permission from the banks to release itself from the above requirements for maintaining the liquidity and owners' equity ratio. In compensation for that, the Company agreed to pay NT\$4,800 (US\$137) (0.12% of the total loan amount) to the banks.

25. LEASE LIABILITIES

(1) The details are as follows:

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	<u>NTD</u>	<u>NTD</u>	<u>NTD</u>	<u>USD</u>
CHAILEASE FINANCE CO., LTD.				
— Payable by 9 installments with last payment on April 27, 2003.	\$—	\$—	\$ 68,644	\$ 1,961
YA I INTERNATIONAL LEASING CO.,				
— payable by 18 installments with last payment on June 27, 2003	—	—	100,924	2,884
CENTRAL LEASING CO., (K.H)				
— payable by 37 installments with last payment on Jan. 31, 2005.	—	—	800,600	22,874
Less: Due within one year	(—)	(—)	(290,803)	(8,309)
Net	<u>\$—</u>	<u>\$—</u>	<u>\$679,365</u>	<u>\$19,410</u>

- (2) The details of future lease payments are as follows:

Year	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2001
	NTD	NTD	NTD	USD
2002	\$—	\$—	\$ 362,603	\$10,360
2003	—	—	372,064	10,630
2004	—	—	360,000	10,286
Total	<u>\$—</u>	<u>\$—</u>	<u>\$1,094,667</u>	<u>\$31,276</u>

26. CAPITAL STOCK

(1) Common stock

At Jan. 1, 1999, the authorized capital was NT\$10,000,000 of which the publicly issued capital was NT\$5,868,671 divided into 586,867,085 shares with par value NT\$10 each. Subsequently the capital was increased by NT\$5,045,155 by way of cash, capitalization from retained earnings, capital surplus, employee bonus and bonds payable (see below). The capital increases were all approved by the Government authority. As of December 31, 1999, 2000 and 2001, the authorized capital were NT\$10,000,000, NT\$14,000,000 and NT\$14,000,000 (US\$400,000), which the publicly issued capital was NT\$8,105,324, \$9,931,428 and \$10,913,826 (US\$311,824) divided into 810,532,407 shares, 993,142,807 shares and 1,091,382,588 shares, respectively.

Effective date of capital increase	Share issue for cash	Transferred from retained earnings	Transferred from capital surplus	Transferred from employee bonus	Transferred from bonds payable	Total
	NTD	NTD	NTD	NTD	NTD	NTD
July 7, 1999 . . .	—	\$ 586,867	\$ 586,867	\$ 52,815	\$ 10,104	\$1,236,653
Oct. 11, 1999 . .	\$1,000,000	—	—	—	—	1,000,000
Jan. 10, 2000 . .	—	—	—	—	2,564	2,564
Feb. 29, 2000 . .	—	—	—	—	79,777	79,777
August 7, 2000 .	—	777,828	818,766	68,825	78,344	1,743,763
Sep. 21 2001 . .	—	—	982,398	—	—	982,398
Total	<u>\$1,000,000</u>	<u>\$1,364,695</u>	<u>\$2,388,031</u>	<u>\$121,640</u>	<u>\$170,789</u>	<u>\$5,045,155</u>

(2) Preferred stock

On September 21, 2001, the Company issued preferred stock (cannot be issued to the public) in the amount of NT\$1,500,000 (US\$42,857), divided into 150,000,000 shares at per value of NT\$10 each and the details are as follows:

- (1) Preferred stock dividend is set at 5.6% and paid once per year. It will be paid after the approval by the Board of Directors in the following year.
- (2) If the Company' distributable reserve is not sufficient, the preferred stock dividends will be in arrears and they will be paid once the Company has distributable reserve. However, if the preferred stock is converted into common stock, the preferred stock dividends in arrears should be fully paid.
- (3) Except for fixed dividend, preferred stockholders are not entitled to other distributions for retained earnings and capital reserve.
- (4) In the case of liquidation, the preferred stockholders are in preference to common stockholders in distribution of remaining assets, but the amount is limited to the original issue amount.
- (5) The preferred stockholders do not have voting rights in the common stockholders' meeting. However, they are eligible for being election as directors or supervisors and have voting rights in preferred stockholders meeting.

- (6) In case of new capital issued by cash, both preferred stockholders and common stockholders have same privilege to subscribe.
- (7) The preferred stocks must be converted into the common stocks by the end of a three-year period on one-to-one basis.
- (8) When the premium of preferred stocks are capitalized or all the preferred stocks are converted into common stocks, it must be approved by the preferred stockholders meeting (it requires that over 50% of preferred stockholders must attend and over two-third of the attendance must approve).

27. TREASURY STOCK (COMMON STOCK)

In order to encourage the employees' working spirit and efficiency, the Company bought back the treasury stock in the open market, which is reserved for employees. As of December 31, 2001, total of 10,745 thousand shares was bought at a cost of NT\$96,931 (US\$2,769).

According to the Securities Trading Law, the following restrictions are imposed on the treasury stock bought back by a company:

- (i) It cannot exceed 10% of its issued shares;
- (ii) The amount of shares bought back cannot exceed the total amount of retained earnings, premium on capital stock and realized capital surplus;
- (iii) It cannot be pledged.

As of December 31, 2001, maximum number of treasury stock on hand was 10,745 thousand shares (cost: NT\$96,931), which was in compliance with the above regulations.

28. CAPITAL SURPLUS

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Premium on capital stock	\$2,442,473	\$2,400,000	\$1,881,535	\$53,758
Premium on preferred stock	—	—	223,770	6,393
Premium on convertible bonds	1,183,767	859,040	395,107	11,289
Asset revaluation surplus	63	63	63	2
Gain on disposal of fixed assets, net of income tax . . .	16,496	45,284	45,284	1,294
Long-term investment	—	21,547	26,140	747
Accrued interest on convertible bonds	84,072	159,401	159,401	4,554
Total	<u>\$3,726,871</u>	<u>\$3,485,335</u>	<u>\$2,731,300</u>	<u>\$78,037</u>

- (1) According to the revised Company Law in 2001, the capital reserve can only be used to set off loss. If the Company does not have loss, the capital reserve arising from premium on issuance of common stock or from donation can be used to increase capital.
- (2) According to the prevailing law and regulations, if a company is using the capital reserve arising from assets revaluation to set off the Company's loss, the capital reserve must be replenished before dividends are declared. As at Dec. 31, 1999, 2000 and 2001, no capital reserve was used for such purpose.
- (3) According to the prevailing law and regulations, each year, the amount of capital increase transferred from capital reserve arising from premium on issuance of capital stock and donation cannot exceed 10% of the Company's total issued capital.

29. LEGAL RESERVE

Under the provisions of the Company's Articles of Incorporation and in accordance with the Company Law, 10% of net income each year, after offsetting any accumulated deficit, must be transferred to a legal reserve, until such time as the reserve is equal to the capital. When the reserve is equal to 50% of the capital, 50% of the reserve may be capitalized.

30. SPECIAL RESERVE

1. In the Annual General meeting of 1998 and 1997, the stockholders resolved to transfer the 1997 and 1996 investment income accounted for under the equity method into special reserve.
2. As required by the SEC, if the Company has unrealized loss on long-term investment or debit balance of accumulated translation adjustment in the stockholders' equity account as at end of year, it cannot declare dividends unless special reserve is properly made so enough as to cover the following amounts:
 - (1) For those debit amounts occurred for the year the amount of special reserve to be made should not exceed the total amount of net income for the year plus prior year retained earnings.
 - (2) For those debit amounts occurred in prior years, the amount of special reserve to be made should not exceed the net amount of prior year retained earnings less the amount as made in (1) above.

After the special reserve is made, if the debit amounts of the above stockholders equity account are reversed, then the amount of reversal can be declared as dividends.

31. RETAINED EARNINGS

The Company's dividend policy is decided after considering the following factors: Change of industry environment, growth of enterprise life cycle, company's future demand in working capital and long-term financial planning, and satisfaction of stockholders' needs for cash inflow. Accordingly, pursuant to the amended Articles of Incorporation, each year net income, after set off any prior loss, if any, should be allocated as follows:

- (1) Gain on disposal of fixed assets, net of tax transferred to capital surplus.
- (2) 10% of net income transferred to legal reserve.
- (3) Transferred to or reversal of special reserve according to SEC regulation.
- (4) After(1)–(3), 1% of the remainder distributed as bonuses to directors and supervisors.
- (5) After(1)–(3), 10% of the remainder distributed as employee bonus.
- (6) Preferred stock dividend at 5.6% paid once per year.
- (7) The balance, after (1)–(6) and setting aside for working capital, can be distributed as dividends in the proportion to the shares held by each of the stockholders.

(cash dividend must not be lower than 10% of total dividends available, but it should not exceed 50% neither)

32. SALES

Product	1999	2000	2001	2001
	NTD	NTD	NTD	USD
Plastic integrated circuit.	\$5,855,386	\$ 9,345,999	\$ 5,435,335	\$155,295
Motherboard — PC	911,681	1,567,894	1,014,672	28,991
Telecommunication products.	1,210,492	1,720,650	2,921,163	83,462
Testing income	850,095	1,370,906	717,526	20,501
Computer peripheral products	885,649	1,060,255	975,017	27,857
Other.	80,923	875,039	981,610	28,046
Total	<u>\$9,794,226</u>	<u>\$15,940,743</u>	<u>\$12,045,323</u>	<u>\$344,152</u>

33. INCOME TAX

- (1) Based on “Statute for Upgrading Industries” and other related regulations, income tax credit from investment in production automation equipment, pollution control machinery and equipment, research and development, employee training and main technology business are as follows:

Year	1999	2000	2001	2001	Expired Year
	NTD	NTD	NTD	USD	
1996	\$ 12,613	\$ 12,613	—	—	2000
1997	262,069	262,069	\$ 262,069	\$ 7,488	2001
1998	234,551	234,091	193,662	5,533	2002
1999	510,730	523,475	496,243	14,178	2003
2000	—	960,506	934,052	26,687	2004
2001	—	—	89,004	2,543	2005
Total income tax credit before utilization.	1,019,963	1,992,754	1,975,030	56,429	
Less: Utilized for the year . . .	(1,736)	(45,700)	(30,407)	(869)	
Less: Expired for the year . . .	(—)	(—)	(246,866)	(7,053)	
Unutilized and not yet expired income tax credit, end of year.	<u>\$1,018,227</u>	<u>\$1,947,054</u>	<u>\$1,697,757</u>	<u>\$48,507</u>	

- (2) The Company’s tax loss of NT\$35,370 for the year ended December 31, 1999 was approved, and the tax loss of NT\$3,630,000 for the year ended December 31, 2001 has not yet been approved. According to the tax law, they can be used to set off its future taxable income for next 5 years.
- (3) During the year of 1996, the Company expanded its investment in integrated circuit package and testing through capital increase. The above investment was approved by the Government authority and a tax credit was granted for five years. The exemption period was from January 1, 1998 to December 31, 2002.
- (4) During 1999, 2000 and 2001, the estimated tax exempted income was 0, NT\$6,513 and 0 respectively.
- (5) The income tax returns through 1999 have been approved by tax authority.
- (6) As at December 31, 1999, 2000 and 2001, the account balance of stockholders’ Imputation Credit Account (ICA) amounted to NT\$768, NT\$4 and NT\$64 (US\$2), respectively and the details are as follows:

	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2001
	NTD	NTD	NTD	USD
Withholding tax on interest income	<u>\$768</u>	<u>\$4</u>	<u>\$64</u>	<u>\$2</u>

- (7) The yearend balance of the Company's undistributed retained earnings are allocated as follows:

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Belongs to 1997 and before	\$ 11,732	\$11,732	\$ 11,732	\$ 335
Belongs to 1998 and after	<u>1,056,831</u>	<u>55,961</u>	<u>(3,037,627)</u>	<u>(86,789)</u>
Total	<u>\$1,068,563</u>	<u>\$67,693</u>	<u>\$(3,025,895)</u>	<u>\$(86,454)</u>

- (8) For 1999, 2000 and 2001, the tax-deductible rate for retained earnings to be distributed to stockholders was 3.85%, 0.04% and 0.00%, respectively.

- (9) The details of deferred income tax for 1999, 2000 and 2001 are as follows:

1999

	NTD
(1) Deferred income tax assets	\$1,296,539
(2) Allowance for deferred income tax assets	—
(3) Deferred income tax liabilities.	\$ 12,762

- (4) Significant temporary differences resulting in deferred income tax assets or liabilities:

<u>Item</u>	<u>Amount</u>	<u>Income</u>
	NTD	Tax Effect
Unrealized exchange gain.	\$(51,049)	\$ (12,762)
Unrealized exchange loss	43,829	10,957
Allowance for bad debts.	57,898	14,474
Allowance for inventory loss	74,811	18,703
Loss on idle asset	7,275	1,819
Unrealized pension expense	98,408	24,602
Unrealized expense and sales return.	4,164	1,041
Demolition cost of old building.	15,780	3,945
Accrued interest on convertible bonds	140,204	35,051
Unrealized investment loss	607,804	151,951
Unrealized gain on disposal of long-term investment	25,772	6,443
Unrealized intercompany profit	2,207	552
Loss carryforward	35,096	8,774
Income tax credit	—	1,018,227

2000

	NTD
(1) Deferred income tax assets	\$2,528,943
(2) Allowance for deferred income tax assets	403,451
(3) Deferred income tax liabilities.	\$ 15,050

(4) Significant temporary differences resulting in deferred income tax assets or liabilities:

Item	Amount	Income Tax Effect
	NTD	NTD
Unrealized exchange gain	\$(60,201)	\$ (15,050)
Unrealized exchange loss	205,652	51,413
Allowance for bad debts	49,212	12,303
Allowance for inventory loss	106,502	26,626
Loss on idle asset	5,841	1,460
Unrealized pension expense	110,209	27,552
Demolition cost of old building	29,304	7,326
Accrued interest on convertible bonds	450,891	112,723
Unrealized investment loss	1,170,544	292,636
Unrealized gain on disposal of long-term investment	25,772	6,443
Unrealized intercompany profit	53,240	13,310
Loss carryforward	35,096	8,774
Other items	—	21,323
Income tax credit	—	1,947,054

2001

	NTD
(1) Deferred income tax assets	\$3,196,679 (US\$91,334)
(2) Allowance for deferred income tax assets	1,068,436 (US\$30,527)
(3) Deferred income tax liabilities	\$ 27,132 (US\$ 775)

(4) Significant temporary differences resulting in deferred income tax assets or liabilities:

Item	Amount		Income Tax Effect	
	NTD	NTD	USD	USD
Unrealized exchange gain	\$ (90,928)	\$ (2,598)	\$ (27,132)	\$ (775)
Unrealized exchange loss	6,375	182	1,594	46
Allowance for bad debts	104,388	2,983	26,097	746
Allowance for inventory loss	101,077	2,888	25,269	722
Loss on idle asset	4,406	126	1,102	31
Unrealized pension expense	129,630	3,704	32,407	926
Demolition cost of old building	40,806	1,166	10,202	291
Accrued interest on convertible bonds	572	16	143	4
Unrealized investment loss	1,934,614	55,275	483,653	13,819
Unrealized gain on disposal of long-term investment	25,772	736	6,443	184
Unrealized intercompany profit	13,579	388	3,395	97
Loss carryforward	3,515,370	100,439	878,842	25,110
Other items	—	—	29,775	851
Income tax credit	—	—	1,697,757	48,507

(10)

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Deferred income tax assets-current	\$231,611	\$447,778	\$261,738	\$7,478
Allowance for deferred income tax assets — current	(—)	(265,520)	(208,345)	(5,953)
Net deferred income tax assets-current	231,611	182,258	53,393	1,525
(Less): Deferred income tax liabilities — current	(—)	(15,050)	(22,732)	(649)
Net	<u>\$231,611</u>	<u>\$167,208</u>	<u>\$ 30,661</u>	<u>\$ 876</u>

(11)

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Deferred income tax assets-non-current	\$1,064,928	\$2,081,165	\$2,934,941	\$83,855
Allowance for deferred income tax assets — non-current	(—)	(137,931)	(860,091)	(24,574)
Net deferred income tax assets — non-current. .	1,064,928	1,943,234	2,074,850	59,281
(Less): Deferred income tax liabilities — non- current	(12,762)	(—)	(4,401)	(125)
Net	<u>\$1,052,166</u>	<u>\$1,943,234</u>	<u>\$2,070,449</u>	<u>\$59,156</u>

(12) Income tax credits (expenses)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2001</u>
	NTD	NTD	NTD	USD
Income tax receivable (payable)	\$ 2,305	\$ 3,186	\$ 4,099	\$ 117
Income tax on undistributed retained earnings. .	(1,736)	—	—	—
Prepaid income tax	(2,305)	(3,186)	(4,099)	(117)
Prior year over (under) provision.	<u>587</u>	<u>1,736</u>	<u>—</u>	<u>—</u>
Income tax credits (expense) of current year. . .	(1,149)	1,736	—	—
Deferred income tax credit	159,662	269,642	15,951	456
Income tax credit on loss carryforward.	8,774	—	870,069	24,859
Income tax credit	511,705	928,827	(249,298)	(7,123)
Allowance for income tax credit	(—)	(390,857)	(647,805)	(18,508)
Net income (expense) tax credit per income statement	<u>\$678,992</u>	<u>\$809,348</u>	<u>\$ (11,083)</u>	<u>\$ (316)</u>

34. EARNINGS PER SHARE

	1999	2000	2001	2001
	NTD	NTD	NTD	USD
Average outstanding shares as of December 31 of 1999, 2000 and 2001	971,433,910 Shares	1,091,988,211 Shares	1,080,644,819 Shares	1,080,644,819 Shares
Loss before income tax	\$ 367,524	\$(707,090)	\$(3,243,364)	\$(92,668)
Less: Preferred stock dividend	(—)	(—)	(26,976)	(770)
Income (Loss) borne by common stockholders. . . .	367,524	(707,090)	(3,270,340)	(93,438)
Income tax credit (expense) .	678,992	809,348	(11,083)	(317)
Minority interest	26	1,575	64,410	1,840
Net income (loss)	\$1,046,542	\$ 103,833	\$(3,217,013)	\$(91,915)
Earnings per share (expressed in dollars)				
Primary earnings per share				
Income (Loss) before income tax	\$ 0.38	\$ (0.65)	\$ (3.03)	\$ (0.09)
Income tax credit (expense)	0.70	0.74	(0.01)	(0.00)
Minority interest	0.00	0.00	0.06	0.00
Net income (loss)	\$ 1.08	\$ 0.09	\$ (2.98)	\$ (0.09)
Fully diluted earnings per share				
Income (Loss) before income tax	\$ 0.38	\$ (0.65)	\$ (3.03)	\$ (0.09)
Income tax credit (expense)	0.70	0.74	(0.01)	(0.00)
Minority interest	0.00	0.00	0.06	0.00
Net income (loss)	\$ 1.08	\$ 0.09	\$ (2.98)	\$ (0.09)

35. RELATED PARTY TRANSACTIONS

- a. The details of related parties are as follows:

Related parties	Relationship
CONSOLIDATED MARKETING CORP. (CMC).	President is the spouse of the company's chairman
SILICON INTEGRATED SYSTEMS CORP. (SISC) . . .	Chairman is the spouse of the Company's chairman
ACTIONTEC ELECTRONICS, INC. (ACTIONTEC) . . .	Board of directors is under common control
ACTIONTEC ELECTRONICS, TAIWAN INC. (ACTIONTEC TAIWAN).	The subsidiary of ACTIONTEC (the Company's investee company)
ATP ELECTRONICS, INC.(ATP)	The subsidiary of ACTIONTEC (the Company's investee company)
SCS HIGHTECH INC. (SCS)	Investee company accounted for under equity method
OSE, INC. (OSI).	The subsidiary of OSE USA, INC. (the Company's investee company)
OSE USA, INC. (Formerly IPAC)	Investee company accounted for under equity method
SPARQTRON CORP.	Investee company accounted for under equity method
YUAN JEN INVESTMENT CORP. (YUAN JEN)	YUAN JEN's chairman is the relative of the Company's Chairman
CHING SHING INVESTMENT CORP. (CHING SHING)	CHING SHING's chairman is the relative of the Company's Chairman

b. Significant transactions with related parties:

(1) *Purchases*

The Company's purchases from related parties during 1999, 2000 and 2001 were as follows:

	1999		2000		2001		
	Amount	Percentage of total	Amount	Percentage of total	Amount	Amount	Percentage of total
	NTD	%	NTD	%	NTD	USD	%
ACTIONTEC . . .	\$666,951	11.25%	\$688,227	8.66%	\$1,532,524	\$43,786	24.05%
ACTIONTEC							
TAIWAN	17,916	0.30%	47,073	0.60%	70,466	2,014	1.11%
OTHERS	260	0.00%	55,356	0.69%	31,773	908	0.50%
Total	<u>\$685,127</u>	<u>11.55%</u>	<u>\$790,656</u>	<u>9.95%</u>	<u>\$1,634,763</u>	<u>\$46,708</u>	<u>25.66%</u>

The terms for the above-mentioned purchases were similar to the Company's vendors. The details of credit period are as follows:

	Days
ACTIONTEC	30
ACTIONTEC TAIWAN	30
OSI	30
SPARQTRON CORP.	30
SISC	30
CMC	30

(2) *Sales:*

The Company's sales to related parties during 1999, 2000 and 2001 were as follows:

	1999		2000		2001		
	Amount	Percentage of total	Amount	Percentage of total	Amount	Amount	Percentage of total
	NTD	%	NTD	%	NTD	USD	%
SISC	\$1,202,042	12.34%	\$842,207	5.32%	\$1,301,837	\$37,195	10.87%
ACTIONTEC . . .	653,793	6.71%	1,370,761	8.66%	2,603,695	74,391	21.73%
ACTIONTEC							
TAIWAN	479,369	4.92%	456,445	2.88%	407,263	11,636	3.40%
OTHERS	194,908	2.00%	40,025	0.25%	29,205	835	0.29%
Total	<u>\$2,530,112</u>	<u>25.97%</u>	<u>\$2,709,438</u>	<u>17.11%</u>	<u>\$4,342,000</u>	<u>\$124,057</u>	<u>36.29%</u>

The terms for the above-mentioned sales were similar to the Company's customers. The details of credit period are as follows:

	Days
CMC	7
SISC	60
ACTIONTEC	60
ACTIONTEC TAIWAN	60
ATP	45
SPARQTRON CORP.	60
OSE USA, INC.	30

Except for CMC all customers were granted the same credit period.

(3) *Sales of fixed assets*

The details of sales of fixed assets to related parties during 1999, 2000 and 2001 were as follows:

1999

	<u>Asset Item</u>	<u>Amount</u>	<u>Unrealized gain of sales fixed assets</u>	<u>Unrealized loss of sales fixed assets</u>
		NTD	NTD	NTD
Sales				
SPARQTRON CORP.	Machinery and equipment	\$ 1,906	\$ 619	\$—
OSE USA, INC. (formerly IPAC)	Long-term investment	\$29,877	\$25,771	\$—

2000

	<u>Asset Item</u>	<u>Amount</u>	<u>Unrealized gain of sales fixed assets</u>	<u>Unrealized loss of sales fixed assets</u>
		NTD	NTD	NTD
Purchases				
ACTIONTEC	Stock — ATP (1,831,000 shares)	\$185,220	\$—	\$—

2001

	<u>Asset Item</u>	<u>Amount</u>	<u>Unrealized gain of sales fixed assets</u>	<u>Unrealized loss of sales fixed assets</u>
		NTD	NTD	NTD
Sales				
YUAN JEN	Stock — SCS HIGHTECH INC. (7,400,000 shares)	\$129,111 (US\$3,689)	\$—	\$60,252 (US\$1,721)

(4) *Intercompany receivables and payables*

	Dec. 31, 1999		Dec. 31, 2000		Dec. 31, 2001		
	Amount	Percentage of total	Amount	Percentage of total	Amount	Amount	Percentage of total
	NTD	%	NTD	%	NTD	USD	%
Notes Receivable							
ACTIONTEC TAIWAN .	\$ 46,680	42.86%	\$36,707	39.14%	\$84,862	\$2,425	87.50%
Accounts Receivable							
CMC	—	—	\$ 1,452	0.05%	\$ 1,506	\$ 43	0.08%
SISC	\$166,612	6.22%	186,230	6.84%	82,598	2,360	4.45%
ACTIONTEC	261,102	9.74%	324,949	11.93%	110,179	3,148	5.94%
ACTIONTEC TAIWAN .	50,576	1.89%	26,232	0.96%	30,538	873	1.65%
SPARQTRON CORP. . .	360	0.01%	17,725	0.65%	1,614	46	0.09%
OSE USA, INC.	—	—	2,082	0.08%	5,914	169	0.32%
ATP	58,080	2.17%	—	—	—	—	—
Total	\$536,730	20.03%	\$558,670	20.51%	\$232,349	\$6,639	12.53%
Other receivable							
ACTIONTEC	—	—	\$ 1,915	62.62%	\$ 962	\$ 27	0.13%
OSE USA, INC.	—	—	1,143	37.38%	1,638	47	0.22%
OTHERS	—	—	—	—	498	14	0.07%
Total	—	—	\$ 3,058	100.00%	\$ 3,098	\$ 88	0.42%
Accounts Payable							
ATIONTEC	\$ 74,903	4.21%	\$ 99,964	5.26%	\$127,153	\$3,633	6.85%
ACTIONTEC TAIWAN .	938	0.05%	10,768	0.57%	7,612	217	0.41%
OSI	—	—	360	0.02%	261	7	0.01%
SPARQTRON CORP. . .	—	—	4,081	0.21%	1,274	37	0.07%
Total	\$ 75,841	4.26%	\$115,173	6.06%	\$136,300	\$3,894	7.34%

(5) *Others*

- (1) As of December 31, 2001, the guarantee given by the Company for OSE USA, INC.'s bank loan amounted to US\$15,000 (2000: US\$18,000).
- (2) The Company has engaged OSI as its sales and collection agent in the America. For the year ended December 31, 2001, total commission expenses amounted to NT\$134,215 (US\$3,835) (1999: NT\$92,396, 2000: NT\$223,437) and the amount remained unpaid as at December 31, 2001 was NT\$40,365 (US\$1,153) (1999: NT\$44,349, 2000: NT\$34,937) which was included in accrued expenses accounts.
- (3) As at December 31, 2001, the receipt by the Company on behalf of OSI amounted to NT\$1,852 (US\$53).
- (4) For the year ended December 31, 2001, the Company rented out its machinery and equipment to OSE USA, INC. and total rental income was NT\$1,517 (US\$43) (2000: NT\$1,176). As at December 31, 2001, all amounts were settled.
- (5) As at December 31, 2001, the Company received in advance an amount of NT\$98,993 (US\$2,828) for proposed sales of investment in the Preferred Stock of GlobiTech to CHING SHING INVESTMENT CORP. and this amount was recorded in other current liabilities accounts. In January 2002, this transaction was cancelled so that the money received in advance was returned to CHING SHING INVESTMENT CORP. in January and February 2002.

36. PLEDGED ASSETS

As at Dec. 31, 1999, 2000 and 2001, pledged asset of the Company were as follows:

Item	Book value			
	Dec. 31, 1999 NTD	Dec. 31, 2000 NTD	Dec. 31, 2001 NTD	Dec. 31, 2001 USD
1. Inventory and account receivable — ATP . . .	—	\$ 198,000	\$ 111,738	\$ 3,193
2. Building and equipment	\$1,093,588	1,353,888	3,332,286	95,208
3. Machinery and equipment	4,287,295	8,081,702	11,968,912	341,969
4. Other equipment	1,372	808	1,011	29
5. Refundable deposits	33,664	34,611	125,451	3,584
6. Restricted assets	253,854	—	63,866	1,825
Total	<u>\$5,669,773</u>	<u>\$9,669,009</u>	<u>\$15,603,264</u>	<u>\$445,808</u>

37. SIGNIFICANT CONTINGENT LIABILITIES AND COMMITMENTS

As at December 31, 2001, the details of contingent liabilities and commitments of the Company are as follows:

- a. The Company has acted as a sub-contractor for processing electronic product and the unfinished consigned inventory amounted to NT\$2,209,550 (US\$63,130).
- b. The Company issued promissory notes of NT\$16,482,324 (US\$470,924) as guarantee for bank loans.
- c. Guarantee given by bank for payment of input tax imposed for sales from tax free zone to non-tax free zone amounted to NT\$20,000 (US\$571).
- d. The input tax amounted to NT\$1,209 (US\$35) for import of raw materials.
- e. Unutilized letters of credit:

	<u>L/C Amount</u>	<u>L/C Margin Deposit</u>
USD	5,118	—
JPY	64,526	—
EUR	1,754	—
NTD	2,106	—

- f. Post-dated checks issued for the payment of leased assets amounted to NT\$1,072,447 (US\$30,641).
- g. The Company issued promissory notes of NT\$10,000 (US\$286) to a bank as guarantee for the employment of foreign workers.

38. DISASTROUS EVENTS

None

39. SUBSEQUENT EVENTS

None

40. OTHERS

(1) The fair value of financial instruments

December 31, 1999		
	Book value	Fair value
	NTD	NTD
Assets		
Cash and cash equivalents	\$3,758,073	\$3,758,073
Notes and accounts receivable	2,703,532	2,703,532
Long-term investment	1,751,615	(Note)
Refundable deposits	50,530	50,530
Liabilities		
Short-term loans	1,790,403	1,790,403
Short-term notes payable	295,454	295,454
Notes and accounts payable	1,977,999	1,977,999
Convertible bonds payable	3,056,007	3,056,007
Long-term loans (including of Current portion)	1,555,554	1,555,554
Long-term notes payable	3,398	3,398
Deposits received	\$1,974,592	\$1,974,592
December 31, 2000		
	Book value	Fair value
	NTD	NTD
Assets		
Cash and cash equivalents	\$1,118,508	\$1,118,508
Short-term investment	508,113	735,259
Notes and accounts receivable	2,738,978	2,738,978
Long-term investment	2,009,141	(Note)
Refundable deposits	71,134	71,134
Liabilities		
Short-term loans	4,765,353	4,765,353
Short-term notes payable	573,464	573,464
Notes and accounts payable	2,013,130	2,013,130
Convertible bonds payable (including of current portion)	2,718,451	2,718,451
Long-term loans (including of current portion)	5,014,261	5,014,261
Long-term notes payable	3,948,698	3,948,698
Deposits received	\$ 3,598	\$ 3,598
December 31, 2001		
	Book value	Fair value
	NTD	NTD
Assets		
Cash and cash equivalents	\$ 714,406	\$ 714,406
Short-term investments	92,772	108,187
Notes and accounts receivable	1,695,001	1,695,001
Long-term investment	1,524,010	(Note)
Refundable deposits	153,850	153,850
Liabilities		
Short-term loans	4,090,457	4,090,457
Short-term notes payable	427,386	427,386
Notes and accounts payable	1,945,700	1,945,700
Convertible bonds payable	4,071	4,071
Long-term loans (inclusive of current portion)	5,638,257	5,638,257
Long-term notes payable	3,975,739	3,975,739
Long-term lease liabilities (inclusive of current portion)	970,168	970,168
Long-term accounts payable	17,513	17,513
Deposits received	\$ 35,918	\$ 35,918

Note: Due to the elimination information it is not executable to estimate the fair value of the financial instruments in practice

(2) Long-term Rental Agreement

The Company has entered into a land rental agreement with the government which will expire on Jan. 31, 2002 — Feb. 28, 2010. The Company is required to apply to the government for renewal 3 months prior to the expiry date. If the Company failed to do so, the land will be returned to the government and the building on the land will be sold to another approved exporting enterprise within 6 months after the expiry date. If the Company failed to complete all the above-mentioned procedures within 6 months, the government has the right to dispose the property on the land on the behalf of the Company. The government has the right to adjust the rent based on the publicly announced land value. The government also has the right to terminate the contract if the Company is in breach of the contract or failed to pay the rent over 4 months or violates the civil law or the land law. During 1999, 2000 and 2001 the rental expense amounted to NT\$7,794, NT\$10,758 and NT\$13,725 (US\$392), respectively.

(3) Details of transactions eliminated between the Company and subsidiary

Dec. 31, 1999

Nature of Transactions	The Company		Subsidiary	
	Accounts	Amount	Accounts	Amount
		NTD		NTD
1. Elimination of long-term investment and stockholder's equity . . .	Long-term investment	\$(1,167,996)	Capital stock	\$ 377,941
	Prepayment for long-term investment	(626,226)	Capital Receive in advance	1,977,033
			Retained earnings	(107,222)
			Net income	(265,743)
			Translation adjustment	(187,579)
			Minority interest	(150)
			Consolidation reserve	(58)
2. Elimination of intercompany receivables and payables	Temporary receipt	678	Accounts payable-affiliates	36,183
	Other receivable-affiliates	(33,222)	Accounts receivable-affiliates	(678)
	Short-term receivable-affiliates	(1,467)		
	Accounts receivable-affiliates	(1,494)		
3. Elimination of intercompany profit and loss	Sales	5,074	Inventory	\$ (468)
	Cost of goods sold	\$ (4,606)		

Dec. 31, 2000

Nature of Transactions	The Company		Subsidiary	
	Accounts	Amount	Accounts	Amount
		NTD		NTD
1. Elimination of long-term investment and stockholder's equity . . .	Long-term investments	\$(2,964,666)	Capital stock	\$1,133,920
			Capital receive in advance	1,799,355
			Retained earnings	(311,754)
			Net income	(271,025)
			Translation adjustment	201,718
			Minority interest	(78,196)
			Consolidation reserve	490,648
2. Elimination of intercompany receivables and payables	Temporary payment	(300)	Accounts payable-affiliates	560,677
	Other receivable-affiliates	(264,815)	Accounts receivable-affiliates	(23,045)
	Short-term receivable-affiliates	(1,348)		
	Accounts receivable-affiliates	(294,214)		
	Accounts payable-affiliates	23,045		

Nature of Transactions	The Company		Subsidiary	
	Accounts	Amount	Accounts	Amount
		NTD		NTD
3. Elimination of intercompany sales in fixed assets.	Retained earnings	\$960	Machinery and equipment	\$ (18,387)
	Gain on disposal of fixed assets	1,766		
	Loss on disposal of fixed assets	(395)		
	Deferred Credit	16,056		
4. Elimination of intercompany sales. . . .	Sales	552,405	Inventory	(36,688)
	Cost of goods sold	(67,808)	Cost of goods sold	(552,873)
	Deferred credit-intercompany profit	36,688	Sales	104,496
	Realized intercompany profit	468		
	Unrealized intercompany profit	(36,688)		
5. Net losses from recognition of current minority interest and translation adjustment . .	Translation adjustment	32		
	Minority interest	1,543		
	Minority interest in net loss for the year	\$ (1,575)		
6. Elimination of intercompany charges. . .			Interest income	148
			Interest expense	(148)
7. Adjustment of the subsidiary's depreciation.			Machinery and equipment	98,595
			Accumulated depreciation	(96,904)
			Depreciation expense	(1,611)
			Retained earnings	\$ (80)

Dec. 31, 2001

Nature of Transactions	The Company		Subsidiary	
	Accounts	Amount	Accounts	Amount
		NTD		NTD
1. Elimination of long-term investments and stockholder's equity. . . .	Long-term investments	\$(2,869,246)	Capital stock	\$1,233,159
			Additional paid-in capital	23,119
			Capital receive in advance	2,067,575
			Retained earnings	(583,715)
			Net loss	(630,377)
			Translation adjustment	346,528
			Minority interest	(69,189)
			Consolidation reserve	482,146
2. Elimination of intercompany receivables and payables.	Temporary payment	(98)	Accounts payable-affiliates	251,225
	Other receivable-affiliates	(153,108)	Accounts receivable-affiliates	(7,379)
	Accounts receivable-affiliates	(98,019)	Refundable deposits	(88)
	Accounts payable-affiliates	6,035	Notes payable	\$ 45
	Other payable-affiliates	1,260		
	Other current liabilities	592		
	Prepayments-affiliates	(593)		
	Temporary receipt	85		
	Deposits received	88		
	Notes receivable	\$ (45)		

Nature of Transactions	The Company		Subsidiary	
	Accounts	Amount	Accounts	Amount
		NTD		NTD
3. Elimination of intercompany sales in fixed assets.	Retained earnings	\$ 1,691	Machinery and equipment	\$216,332
	Gain on disposal of fixed assets	5,597	Accumulated depreciation	(234,080)
	Loss on disposal of fixed assets	(1,978)		
	Deferred Credit	12,902		
	Machinery and equipment	9,146		
	Accumulated depreciation	(9,610)		
4. Elimination of intercompany sales. . . .	Sales	107,477	Cost of goods sold	(107,042)
	Cost of goods sold	(99,601)	Sales	62,478
	Realized intercompany profit	36,688		
5. Net losses from recognition of current minority interest and translation adjustment . .	Translation adjustment	1,585		
	Minority interest	62,825		
	Minority interest in net loss for the year	(64,410)		
6. Elimination of intercompany charges. . .	Rental income	\$ 992	Rental expense	(992)
7. Adjustment of the subsidiary's depreciation.			Accumulated depreciation	5,310
			Depreciation expense	(3,619)
			Retained earnings	\$ (1,691)

41. DISCLOSURE OF DERIVATIVE FINANCIAL INSTRUMENT

(1) The details contracts of the Company's foreign currency options were as follows:

(1) Contract amount or nominal principal and credit risk.

	Dec. 31, 1999		Dec. 31, 2000		Dec. 31, 2001	
	Nominal principle	Credit Risk	Nominal principle	Credit Risk	Nominal principle	Credit Risk
	USD	USD	USD	USD	USD	USD
Sell USD Call. .	\$8,000	—	\$7,000	—	\$13,750	—
Buy USD Call .	—	—	\$20,000	—	—	—
Sell USD Put . .	\$8,000	—	\$280,000	—	—	—
Buy USD Put . .	—	—	—	—	\$7,000	—

The Company's trading parties were banks with good credit, and it expected that the banks would not breach the contracts. Therefore, the credit risk is minimum.

(2) Market price risk

The characteristics of the transactions are to hedge risk. The gains and losses due to the fluctuation of market exchange rates are offset against the gains and losses of the hedged items. As a result, the market price risk is not significant.

- (3) The amount, period and uncertainty of liquidity risk, cash flow risk and future cash demands:

A. The Company enters into contracts of financial instrument options for the purpose of hedging risk and the Company's working capital is sufficient for those options. Therefore, liquidation risk and cash flow risk are insignificant.

B. Amounts & timing of the future cash demands:

The settlements of the transactions mentioned above depend on whether they are beneficial to the company or the trading party. The amounts and timing of the future cash demands depend on the fluctuation of exchange rates in the future. If the both parties of the options decide to settle the options, the company will have NT\$68,340 and JPY2,347,875 cash inflow and US\$20,750 cash outflow. If such settlement is not occurred, no cash flow will be incurred.

- (4) A. The kinds and transaction terms of the derivative financial instruments.

December 31, 1999

<u>Contracts</u>	<u>Trade Date</u>	<u>Settlement Date</u>	<u>Settlement exchange rate</u> (USD: JPY)
Sell USD Call/JPY Put.	1999.12.6.	2000.1.17.	105.8
	1999.12.6.	2000.2.4.	107
	1999.12.10.	2000.1.17.	105.8
	1999.12.10.	2000.2.9.	107.1
	1999.12.15.	2000.2.15.	108
	1999.12.28.	2000.2.25.	107
	1999.12.28.	2000.3.29.	108.8
(USD: NTD)			
Sell USD Put/NTD Call	2000.12.6.	2000.1.17.	31.565
	2000.12.10.	2000.1.17.	31.55
	1999.12.15.	2000.1.13.	31.58
	1999.12.28.	2000.1.17.	31.48

December 31, 2000

<u>Contracts</u>	<u>Trade Date</u>	<u>Settlement Date</u>	<u>Settlement exchange rate</u> (USD: JPY)
Sell USD Call/JPY Put.	2000.10.16.	2001.4.16.	110.00
	2000.10.16.	2001.4.16.	115.00
(USD: NTD)			
Sell USD Call/NTD Put	2000.10.13.	2001.10.15.	33.00
	2000.10.16.	2001.11.15.	33.00
	2000.11.20.	2001.5.18.	34.00
(USD: JPY)			
Buy USD Call/JPY Put	2000.7.12.	2001.1.12.	108.50
	2000.9.14.	2001.1.16.	108.50
	2000.9.14.	2001.2.16.	108.50
	2000.9.14.	2001.3.15.	108.50
	2000.11.12.	2001.3.20.	110.00
	2000.11.12.	2001.4.19.	110.00
	2000.11.12.	2001.5.18.	110.00
	2000.11.12.	2001.6.20.	110.00
	2000.11.12.	2001.7.18.	110.00
	2000.10.4.	2001.3.2.	109.55
	2000.10.4.	2001.4.4.	109.55

<u>Contracts</u>	<u>Trade Date</u>	<u>Settlement Date</u>	<u>Settlement exchange rate (USD: JPY)</u>
	2000.10.4.	2001.5.1.	109.55
	2000.10.4.	2001.6.4.	109.55
	2000.10.4.	2001.7.3.	109.55
	2000.10.4.	2001.8.2.	109.55
	2000.10.4.	2001.9.4.	109.55
	2000.9.13.	2001.1.16.	109.00
	2000.9.13.	2001.2.16.	109.00
	2000.9.13.	2001.3.15.	109.00
	2000.9.13.	2001.4.16.	109.00
			(USD: JPY)
Sell USD Put/JPY Call.	2000.7.12.	2001.1.12.	108.50
	2000.9.14.	2001.1.16.	108.50
	2000.9.14.	2001.2.16.	108.50
	2000.9.14.	2001.3.15.	108.50
	2000.11.21.	2001.3.20.	108.50
	2000.11.21.	2001.4.19.	108.50
	2000.11.21.	2001.5.18.	108.50
	2000.11.21.	2001.6.20.	108.50
	2000.11.21.	2001.7.18.	108.50
	2000.10.4.	2001.3.2.	109.55
	2000.10.4.	2001.4.4.	109.55
	2000.10.4.	2001.5.1.	109.55
	2000.10.4.	2001.6.4.	109.55
	2000.10.4.	2001.7.3.	109.55
	2000.10.4.	2001.8.2.	109.55
	2000.10.4.	2001.9.4.	109.55
	2000.9.13.	2001.1.16.	109.00
	2000.9.13.	2001.2.16.	109.00
	2000.9.13.	2001.3.15.	109.00
	2000.9.13.	2001.3.15.	109.00
	2000.9.13.	2001.4.16.	109.00
			(USD: NTD)
Sell USD Put/NTD Call	2000.11.16.	2001.2.22.	31.80
	2000.11.15.	2001.2.22.	31.79

December 31, 2001

<u>Contracts</u>	<u>Trade Date</u>	<u>Settlement Date</u>	<u>Settlement exchange rate (USD: JPY)</u>
Sell USD Call/JPY Put.	2001.10.17.	2002.4.16.	124.50
	2001.11.16.	2002.5.16.	120.50
	2001.12.4.	2002.2.22.	125.50
	2001.12.4.	2002.1.9.	125.50
	2001.12.17.	2002.1.24.	131.00
	2001.12.17.	2002.2.22.	131.00
	2001.12.17.	2002.3.22.	131.00
	2001.12.7.	2002.3.7.	121.00
	2001.10.2.	2002.1.31.	118.00
			(USD: NTD)
Buy USD Put/NTD Call.	2001.6.21.	2002.2.22.	34.17
			(USD: JPY)
Buy USD Put/JPY Call	2001.12.4.	2002.2.22.	125.50
	2001.12.4.	2002.1.9.	125.50
	2001.12.17.	2002.1.24.	131.00
	2001.12.17.	2002.2.22.	131.00
	2001.12.17.	2002.3.22.	131.00

- B. The purpose of foreign currency options is to hedge the risk resulted from the exchange rate for the foreign currency receivable and payable. The Company's hedging policy is to hedge the major market price risk. The Company uses the derivative financial instruments, which had highly negative correlation with the fair values of the hedged items as hedging instruments. The Company evaluated those instruments periodically.

(2) Forward Contract Purchased in Advance

Dec. 31, 2000

<u>Category</u>	<u>Contract Amount Expiring Date</u>	<u>Credit Risk</u>	<u>Market Risk</u>	<u>Cash Requirement</u>	<u>Fair Market</u>
Forward Contract Purchased in Advance.	US\$10,000 February 23, 2001	No Credit risk because the contract was signed with banks with good credit and amount of transactions was within facility limit.	No market risk because the contract was made for hedging purpose.	No extra cash was required	US\$10,000

REPORT OF INDEPENDENT AUDITORS
English Translation of a Report Originally Issued in Chinese

The Board of Directors and stockholders
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

We have audited the accompanying balance sheets of Orient Semiconductor Electronics Limited at December 31, 1999, 2000 and 2001 and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. As of December 31, 1999, 2000 and 2001 the Company's long-term investments, which are accounted for under equity method, included OSE PROPERTIES INC., OSE USA, INC (Formerly IPAC), SPARTRON CORP. in 1999, ATP, OSE USA, INC., SPARQTRON CORP. in 2000 and ATP, OSE USA, INC., SPARQTRON CORP., SCS HIGHTECH INC. in 2001, and the total year end balances were NTD209,835 thousands (0.90% of total assets), NTD288,634 thousands (0.90% of total assets), and NTD252,582 thousands (0.86% of total assets), respectively. Under the equity method, the share of the operating losses of the above investments as of December 31, 1999, 2000 and 2001 amounted to and NTD178,842 thousands (48.66% of total income before tax), NTD299,211 thousands (41.80% of total loss before tax) and NTD294,219 thousands (9.22% of total loss before tax), respectively and was based on the financial statements of the investee companies which were audited by other auditors.

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

In our opinion, based on our audits and the report of other auditors, the financial statements mentioned above present fairly the financial position of Orient Semiconductor Electronics Limited as at December 31, 1999, 2000 and 2001 and the results of its operations and its cash flows for the years then ended, in conformity with "Regulations Governing the Preparation of Financial Statements of Security Issuers" and accounting principles generally accepted in the Republic of China on Taiwan.

The accompanying consolidated financial statements for 1999, 2000 and 2001 have been prepared by the Company and audited by us and an unqualified report with explanatory language added has been issued.

The financial statements of Orient Semiconductor Electronics Limited for the year ended December 31, 2001 expressed in US dollars, has been translated from the New Taiwan dollars financial statements using the exchange prevailing at December 31, 2001. The basis of translation is not in accordance with generally accepted accounting principles in the Republic of China, accordingly, we do not express an opinion thereon.

Diwan, Ernst & Young

February 26, 2002
Kaohsiung, Taiwan
Republic of China on Taiwan

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

BALANCE SHEETS

December 31, 1999, 2000 and 2001

(Unless otherwise stated, all amounts expressed in Thousand Dollars)

		December 31						
		1999		2000		2001	2001	
	Notes	Amount		Amount		Amount	Amount	
		NTD	%	NTD	%	NTD	USD	%
ASSETS								
Current assets								
Cash and cash equivalents . .	2.b, 4	\$ 3,114,297	13.34	\$ 1,032,495	3.21	\$ 555,889	\$ 15,883	1.90
Short-term investments.	2.c, 5	—	—	420,928	1.31	92,772	2,651	0.32
Notes receivable								
— Non Affiliates	2.d, 6	62,237	0.27	57,071	0.18	12,126	346	0.04
Notes receivable — Affiliates	2.d, 7, 33	46,680	0.20	36,707	0.11	84,907	2,426	0.29
Accounts receivable								
— Non Affiliates	2.d, 8	2,022,353	8.66	1,649,658	5.12	1,207,169	34,491	4.12
Accounts receivable								
— Affiliates	2.d, 9, 33	524,878	2.25	829,658	2.58	282,602	8,074	0.96
Forward contract								
receivable — net.	10	—	—	4,771	0.01	—	—	—
Other receivable — Non								
Affiliates		—	—	—	—	736,655	21,047	2.51
Other receivable — Affiliates		33,222	0.14	267,784	0.83	156,207	4,463	0.53
Inventories	2.e, 11	1,150,853	4.93	1,448,344	4.50	901,896	25,768	3.07
Prepayments	12	5,811	0.02	22,732	0.07	25,537	730	0.09
Deferred income tax assets								
— current	2.j, 31	231,611	0.99	158,479	0.49	30,661	876	0.10
Restricted assets	34	253,854	1.09	—	—	63,866	1,825	0.22
Other current assets		82,903	0.35	68,871	0.21	157,689	4,505	0.54
Total current assets		7,528,699	32.24	5,997,498	18.62	4,307,976	123,085	14.69
Long-term investments								
Long-term investments.	2.f, 13	2,919,611	12.50	4,302,929	13.36	3,772,114	107,775	12.87
Prepayment for long-term investment		626,226	2.68	4,500	0.02	9,000	257	0.03
Total long-term investments .		3,545,837	15.18	4,307,429	13.38	3,781,114	108,032	12.90
Property, plant, and equipment .		2.g, 14, 34						
Cost								
Building and equipment . .		1,627,891	6.97	2,375,863	7.38	5,101,737	145,764	17.40
Machinery and equipment.		10,075,409	43.14	17,437,338	54.16	17,616,909	503,340	60.09
Transportation equipment .		12,130	0.05	13,901	0.04	13,901	397	0.05
Furniture and fixtures . .		491	0.00	491	0.00	50,790	1,451	0.17
Leased assets		—	—	—	—	1,176,871	33,625	4.01
Leasehold improvements .		2,865	0.01	2,865	0.01	2,865	82	0.01
Other equipment		150,951	0.65	208,290	0.65	234,908	6,712	0.80
Revaluation surplus		10,900	0.05	10,900	0.03	10,900	311	0.04
Cost and Revaluation.		11,880,637	50.87	20,049,648	62.27	24,208,881	691,682	82.57
Less: Accumulated depreciation		(4,048,324)	(17.34)	(5,373,828)	(16.69)	(7,209,063)	(205,973)	(24.59)
Property, plant and equipment — net. . .		7,832,313	33.53	14,675,820	45.58	16,999,818	485,709	57.98
Construction in progress. . . .		418,761	1.80	2,158,114	6.70	680,363	19,439	2.32
Prepayment for purchase of fixed assets		2,561,976	10.97	2,663,938	8.27	984,156	28,119	3.36
Total property, plant, and equipment		10,813,050	46.30	19,497,872	60.55	18,664,337	533,267	63.66

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

BALANCE SHEETS — (Continued)
December 31, 1999, 2000 and 2001
(Unless otherwise stated, all amounts expressed in Thousand Dollars)

		December 31						
		1999		2000		2001	2001	
Notes		Amount		Amount		Amount	Amount	
		NTD	%	NTD	%	NTD	USD	%
Other assets								
Assets leased to others	2.g, 16	5,435	0.03	24,839	0.08	60,595	1,731	0.21
Idle assets	2.g, 17	1	0.00	0	0.00	0	0	0.00
Refundable deposits	34	36,132	0.15	44,488	0.14	125,451	3,584	0.43
Deferred expenses	2.h	286,989	1.23	375,267	1.17	281,146	8,033	0.96
Deferred income tax assets								
— non current	2.j, 31	1,052,166	4.51	1,943,234	6.03	2,070,449	59,156	7.06
Other assets		84,453	0.36	8,337	0.03	26,256	750	0.09
Total other assets		1,465,176	6.28	2,396,165	7.45	2,563,897	73,254	8.75
Total assets		\$23,352,762	100.00	\$32,198,964	100.00	\$29,317,324	\$837,638	100.00

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

BALANCE SHEETS — (Continued)
December 31, 1999, 2000 and 2001
(Unless otherwise stated, all amounts expressed in Thousand Dollars)

		December 31						
		1999		2000		2001	2001	
Notes		Amount		Amount		Amount	Amount	
		NTD	%	NTD	%	NTD	USD	%
LIABILITIES AND STOCKHOLDERS' EQUITY								
Current liabilities								
Short-term loans	18	\$ 1,006,605	4.31	\$ 3,411,587	10.60	\$ 2,881,523	\$ 82,329	9.83
Short-term notes payable . . .	19	295,454	1.27	573,464	1.78	427,386	12,211	1.46
Notes payable								
— Non Affiliates		44,217	0.19	40,390	0.13	25,574	731	0.09
Other notes payable								
— Non Affiliates		155,543	0.67	72,630	0.23	62,661	1,790	0.21
Accounts payable								
— Non Affiliates		1,633,977	6.99	1,587,162	4.93	1,552,454	44,356	5.29
Accounts payable								
— Affiliates	33	75,841	0.32	137,307	0.43	142,335	4,067	0.49
Income tax payable		1,736	2.01	—	—	—	—	—
Accrued expenses		470,072	0.01	490,241	1.52	365,651	10,447	1.25
Current portion of long-term loans	21	302,448	1.30	205,033	0.64	1,444,766	41,279	4.93
Current portion of convertible bonds payable	20	—	—	678,417	2.10	—	—	—
Current portion of long-term lease liabilities	23	—	—	—	—	290,803	8,309	0.99
Other current liabilities . . .	33	20,838	0.09	62,745	0.19	139,720	3,992	0.47
Total current liabilities. . .		4,006,731	17.16	7,258,976	22.55	7,332,873	209,511	25.01
Long-term liabilities								
Convertible bonds payable								
— Net of current portion .	20	3,056,007	13.08	2,040,034	6.34	4,071	116	0.01
Long-term loans								
— Net of current portion .	21	1,059,569	4.54	4,613,966	14.33	4,002,160	114,347	13.65
Long-term notes payable . . .	22	1,974,592	8.46	3,948,698	12.26	3,975,739	113,593	13.56
Long-term accounts payable .		—	—	—	—	17,513	500	0.06
Long-term lease liabilities								
— Net of current portion .	23	—	—	—	—	679,365	19,410	2.32
Total long-term liabilities.		6,090,168	26.08	10,602,698	32.93	8,678,848	247,966	29.60
Other liabilities								
Accrued pension liabilities . .	2.i, 15	100,556	0.43	112,356	0.35	131,778	3,765	0.45
Deposits received		3,398	0.01	3,598	0.01	36,005	1,029	0.12
Deferred credit-intercompany profit		27,511	0.12	42,324	0.13	39,045	1,116	0.14
Other liabilities — other . . .		—	—	—	—	255,142	7,290	0.87
Total other liabilities		131,465	0.56	158,278	0.49	461,970	13,200	1.58
Total liabilities		10,228,364	43.80	18,019,952	55.97	16,473,691	470,677	56.19

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

BALANCE SHEETS — (Continued)
December 31, 1999, 2000 and 2001
(Unless otherwise stated, all amounts expressed in Thousand Dollars)

		December 31						
Notes		1999		2000		2001	2001	
		Amount		Amount		Amount	Amount	
		NTD	%	NTD	%	NTD	USD	%
Stockholders' equity								
Capital Stock	24							
Common stock		8,105,324	34.71	9,931,428	30.84	10,913,826	311,824	37.23
Preferred stock		—	—	—	—	1,500,000	42,857	5.12
Bonds conversion right . .		2,564	0.01	—	—	—	—	—
Capital surplus	26							
Premium on common stock		2,442,473	10.46	2,400,000	7.45	1,881,535	53,758	6.42
Premium on preferred stock		—	—	—	—	223,770	6,393	0.76
Premium on convertible								
bonds payable		1,183,767	5.07	859,040	2.67	395,107	11,289	1.35
Asset revaluation surplus .		63	0.00	63	0.00	63	2	0.00
Gain on disposal of fixed								
assets		16,496	0.07	45,284	0.14	45,284	1,294	0.15
Long-term investment . . .		—	—	21,547	0.07	26,140	747	0.09
Accrued interest on								
convertible bond		84,072	0.36	159,401	0.50	159,401	4,554	0.54
Legal reserve	27	409,089	1.75	513,382	1.59	520,886	14,882	1.78
Special reserve	28	6,964	0.03	110,917	0.35	6,964	199	0.02
Retained earnings	29	1,068,563	4.58	67,693	0.21	(3,025,895)	(86,454)	(10.32)
Accumulated translation								
adjustment		(194,977)	(0.84)	155,926	0.48	293,483	8,385	1.00
Treasury stock	2.1, 25	—	—	(85,669)	(0.27)	(96,931)	(2,769)	(0.33)
Total stockholders' equity		<u>13,124,398</u>	<u>56.20</u>	<u>14,179,012</u>	<u>44.03</u>	<u>12,843,633</u>	<u>366,961</u>	<u>43.81</u>
Total liabilities and stockholders' equity		<u>\$23,352,762</u>	<u>100.00</u>	<u>\$32,198,964</u>	<u>100.00</u>	<u>\$29,317,324</u>	<u>\$837,638</u>	<u>100.00</u>

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

STATEMENTS OF INCOME
For the years ended December 31, 1999, 2000 and 2001
(Unless otherwise stated, all amounts expressed in Thousand Dollars)

Item	Notes	December 31						
		1999		2000		2001	2001	
		Amount		Amount		Amount	Amount	
		NTD	%	NTD	%	NTD	USD	%
Gross sales	30	\$9,742,998	100.51	\$14,342,313	100.75	\$10,751,261	\$307,179	100.65
Less: Sales return and allowance		(49,222)	(0.51)	(106,089)	(0.75)	(69,511)	(1,986)	(0.65)
Net sales		9,693,776	100.00	14,236,224	100.00	10,681,750	305,193	100.00
Cost of goods sold		(8,692,864)	(89.67)	(12,617,165)	(88.63)	(12,084,210)	(345,263)	(113.13)
Gross profit (loss)		1,000,912	10.33	1,619,059	11.37	(1,402,460)	(40,070)	(13.13)
Unrealized intercompany (profit) loss		(468)	(0.01)	(36,688)	(0.25)	661	19	0.01
Realized intercompany profit		—	—	468	0.00	36,027	1,029	0.34
Net gross profit (loss)		1,000,444	10.32	1,582,839	11.12	(1,365,772)	(39,022)	(12.78)
Selling and administration expenses		(1,043,110)	(10.76)	(1,419,447)	(9.97)	(1,165,597)	(33,303)	(10.91)
Operating income (loss)		(42,666)	(0.44)	163,392	1.15	(2,531,369)	(72,325)	(23.69)
Non-operating income								
Interest income		30,358	0.31	25,071	0.18	9,114	260	0.09
Investment income		1,134	0.01	15,227	0.10	16,194	463	0.15
Dividend income		—	—	1,040	0.01	718	21	0.01
Gain on disposal of fixed assets		3,616	0.04	38,382	0.27	9,672	276	0.09
Gain on disposal of investment		1,127,843	11.63	157,885	1.11	831,119	23,746	7.78
Gain on physical inventories		539	0.01	832	0.01	1,779	51	0.02
Gain on foreign exchange	2.a	186,989	1.93	333,902	2.34	326,430	9,327	3.06
Rental income		7,745	0.08	3,411	0.02	3,299	94	0.03
Gain on reversal of loss on decline in value of inventories		—	—	—	—	5,425	155	0.05
Other income		40,411	0.42	54,018	0.38	35,567	1,016	0.33
Subtotal		1,398,635	14.43	629,768	4.42	1,239,317	35,409	11.61
Non-operating expenses								
Interest expenses		(253,110)	(2.61)	(450,957)	(3.16)	(577,835)	(16,510)	(5.41)
Investment loss		(455,041)	(4.70)	(585,041)	(4.11)	(947,431)	(27,069)	(8.87)
Loss on disposal of fixed assets		(27,742)	(0.29)	(13,747)	(0.10)	(5,959)	(170)	(0.06)
Loss on physical inventories		(1,052)	(0.01)	(1,348)	(0.01)	(1,561)	(45)	(0.01)
Loss on foreign exchange	2.a	(193,384)	(2.00)	(398,228)	(2.80)	(229,485)	(6,557)	(2.15)
Loss on decline in value of inventories	2.e	(18,705)	(0.19)	(31,691)	(0.22)	—	—	—
Loss on idle assets		(9,819)	(0.10)	(1,435)	(0.01)	(1,435)	(41)	(0.01)
Other loss		(29,566)	(0.30)	(26,552)	(0.19)	(133,676)	(3,819)	(1.25)
Subtotal		(988,419)	(10.20)	(1,508,999)	(10.60)	(1,897,382)	(54,211)	(17.76)
Pretax loss from continuing operations		367,550	3.79	(715,839)	(5.03)	(3,189,434)	(91,127)	(29.84)
Income tax	2.j, 31	678,992	7.01	819,672	5.76	(603)	(17)	(0.01)
Net income (loss)		<u>\$1,046,542</u>	<u>10.80</u>	<u>\$ 103,833</u>	<u>0.73</u>	<u>(\$3,190,037)</u>	<u>(\$ 91,144)</u>	<u>(29.85)</u>
Earnings per share								
(Expressed in Dollars)	2.k, 32							
Primary earnings per share		<u>\$ 1.08</u>		<u>\$ 0.09</u>		<u>(\$ 2.98)</u>	<u>(\$ 0.09)</u>	
Fully diluted earnings per share		<u>\$ 1.08</u>		<u>\$ 0.09</u>		<u>(\$ 2.98)</u>	<u>(\$ 0.09)</u>	

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the years ended December 31, 1999, 2000 and 2001
(Unless otherwise stated, all amounts expressed in Thousand Dollars)

	Capital stock of Common stock	Capital stock of Preferred stock	Bonds Conversion Right	Capital Surplus	Legal Reserve	Special Reserve	Retained Earnings	Accumulated Translation Adjustment	Treasury Stock	Total
	NTD	NTD	NTD	NTD	NTD	NTD	NTD	NTD	NTD	NTD
Balance at January 1, 1999	\$5,868,671	\$—	\$	—	\$335,734	\$6,964	\$745,276	(\$116,661)	\$	\$8,722,494
Proceeds from issue of capital stock	1,000,000			2,400,000						3,400,000
Appropriation for legal reserve										
Bonus distribution for directors and supervisors					73,355		(73,355)			—
Employee bonus transferred to capital	52,815						(6,602)			(6,602)
Convertible bonds transferred to bonds conversion rights			12,668				(52,815)			—
Premium on convertible bonds transferred to capital surplus				27,612						12,668
Bonds conversion rights transferred to capital	10,104		(10,104)							27,612
Capital surplus and retained earnings transferred to capital	1,173,734			(586,867)			(586,867)			—
Gain on disposal of fixed assets, net of income tax, transferred to capital surplus				3,616			(3,616)			—
Net income of 1999							1,046,542			1,046,542
Accumulated translation adjustment								(78,316)		(78,316)
Balance at December 31, 1999	8,105,324	—	2,564	3,726,871	409,089	6,964	1,068,563	(194,977)	—	13,124,398
Appropriation for legal reserve					104,293		(104,293)			—
Appropriation for special reserve						103,953	(103,953)			—
Bonus distribution for directors and supervisors							(8,603)			(8,603)
Employee bonus transferred to capital	68,825						(68,825)			—
Convertible bonds transferred to bonds conversion rights			144,977							144,977
Premium on convertible bonds transferred to capital surplus				540,040						540,040
Capital surplus transferred to bonds conversion rights			13,144	(13,144)						—
Bonds conversion rights transferred to capital	160,685		(160,685)							—
Capital surplus and retained earnings transferred to capital	1,596,594			(818,766)			(777,828)			—
The difference in equity for not proportionately purchasing new shares issued by the investee company				21,547			(12,414)			9,133
Redemption of treasury stocks							(85,669)			(85,669)
Gain on disposal of fixed assets, net of income tax, transferred to capital surplus				28,787			(28,787)			—
Net income of 2000							103,833			103,833
Accumulated translation adjustment								350,903		350,903

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001
(UNLESS OTHERWISE STATED, ALL AMOUNTS EXPRESSED IN THOUSAND DOLLARS)

	Capital stock of Common stock	Capital stock of Preferred stock	Bonds Conversion Right	Capital Surplus	Legal Reserve	Special Reserve	Retained Earnings	Accumulated Translation Adjustment	Treasury Stock	Total
	NTD	NTD	NTD	NTD	NTD	NTD	NTD	NTD	NTD	NTD
Balance at December 31, 2000	9,931,428	—	\$—	3,485,335	513,382	110,917	67,693	155,926	(85,669)	14,179,012
Cash issuance of preferred stock		1,500,000		223,770						1,723,770
Appropriation for legal reserve					7,504		(7,504)			—
Increase of net worth for change of long-term investment ratio ..				4,593						4,593
Reversal of special reserve				(982,398)		(103,953)	103,953			—
Capital surplus transferred to capital	982,398								(11,262)	(11,262)
Redemption of treasury stocks							(3,190,037)			(3,190,037)
Net loss of 2001								137,557		137,557
Accumulated translation adjustment										
Balance at December 31, 2001	<u>\$10,913,826</u>	<u>\$1,500,000</u>	<u>\$—</u>	<u>\$2,731,300</u>	<u>\$520,886</u>	<u>\$6,964</u>	<u>(\$3,025,895)</u>	<u>\$293,483</u>	<u>(\$96,931)</u>	<u>\$12,843,633</u>
Balance at December 31, 2000	US\$283,755	—	—	US\$99,581	US\$14,668	US\$3,169	US\$1,934	US\$4,455	(US\$2,447)	US\$405,115
Cash issuance of preferred stock		US\$42,857		6,394			(214)			49,251
Appropriation for legal reserve					214					—
Increase of net worth for change of long-term investment ratio ..				131						131
Reversal of special reserve				(28,069)		(2,970)	2,970			—
Capital surplus transferred to capital	28,069								(322)	(322)
Redemption of treasury stocks							(91,144)			(91,144)
Net loss of 2001								3,930		3,930
Accumulated translation adjustment										
Balance at December 31, 2001	<u>US\$311,824</u>	<u>US\$42,857</u>	<u>—</u>	<u>US\$78,037</u>	<u>US\$14,882</u>	<u>US\$199</u>	<u>(US\$86,454)</u>	<u>US\$8,385</u>	<u>(US\$2,769)</u>	<u>US\$366,961</u>

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

STATEMENTS OF CASH FLOWS
For the years ended December 31, 1999, 2000 and 2001
(Unless otherwise stated, all amounts expressed in Thousand Dollars)

Item	1999 NTD	2000 NTD	2001 NTD	2001 USD
Cash flows from operating activities:				
Net income (loss)	\$1,046,542	\$ 103,833	\$(3,190,037)	\$(91,144)
Adjustments to reconcile net income to net cash provided by operating activities:				
Bad debts	60,803	—	47,022	1,344
Gain on reversal of bad debts	—	(9,610)	—	—
Depreciation	1,278,669	1,954,245	2,786,599	79,617
Loss on decline in value of inventories	18,705	31,691	—	—
Gain on reversal of loss on decline in value of inventories	—	—	(5,425)	(155)
Amortization	99,512	149,800	157,361	4,496
Investment loss	455,041	585,041	947,431	27,069
Investment income	(1,134)	(15,227)	(16,194)	(463)
Gain on disposal of investment	(1,127,843)	(157,885)	(831,119)	(23,746)
Gain on disposal of fixed assets	(3,616)	(38,382)	(9,672)	(276)
Loss on disposal of fixed assets	27,742	13,747	5,959	170
Depreciation expense of idle assets	1,320	1,435	1,435	41
Reversal of loss on decline in value of idle assets	8,499	—	—	—
Reversal of loss on decline in value of idle assets	(1,319)	(1,434)	(1,435)	(41)
Disposal of short-term investments	2,667,382	2,886,598	1,561,345	44,610
Increase in short-term investments	(2,647,400)	(2,663,600)	(975,000)	(27,857)
Decrease (Increase) in notes receivable — Non affiliates	(13,786)	5,166	44,945	1,284
Decrease (Increase) in notes receivable — Affiliates	53,771	9,973	(48,200)	(1,377)
Decrease (Increase) in account receivable — Non affiliates	(746,095)	384,420	427,772	12,222
Decrease (Increase) in account receivable — Affiliates	(197,209)	(306,895)	514,751	14,707
Decrease (Increase) in forward contract receivable — net	—	(4,771)	4,771	136
Decrease (Increase) in other receivable — Non Affiliates	—	—	(736,655)	(21,047)
Decrease (Increase) in other receivable — Affiliates	(26,763)	(234,652)	111,667	3,190
Decrease (Increase) in inventories	(534,948)	(329,182)	551,873	15,768
Decrease (Increase) in prepayments	(39)	(16,921)	(2,805)	(80)
Decrease (Increase) in deferred income tax assets — current	(184,639)	73,132	127,818	3,652
Decrease (Increase) in other current assets	(21,648)	14,122	(88,908)	(2,540)
Decrease (Increase) in deferred income tax assets — non current	(495,503)	(891,068)	(127,215)	(3,635)
Increase (Decrease) in notes payable — Non affiliates	(1,648)	(3,827)	(14,816)	(423)
Increase (Decrease) in other notes payable — Non Affiliates	110,269	(82,913)	(9,969)	(285)
Increase (Decrease) in accounts payable — Non affiliates	864,071	(46,815)	(34,708)	(992)
Increase (Decrease) in accounts payable — Affiliates	44,062	61,466	5,028	144
Increase (Decrease) in income tax payable	(20,566)	(1,736)	—	—
Increase (Decrease) in accrued expenses	175,753	68,256	(124,590)	(3,560)
Increase (Decrease) in other current liabilities	(2,949)	40,724	26,012	743
Increase (Decrease) in accrued pension liabilities	29,689	11,800	19,422	555
Foreign currency translation adjustment	2,464	2,433	(785)	(22)
Net cash provided by operating activities	917,189	1,592,964	1,123,678	32,105
Cash flows from investing activities:				
Decrease (Increase) in other current assets — restricted assets	(221,694)	253,854	(63,866)	(1,825)
Disposal of fixed assets	99,706	346,485	1,267,756	36,222
Purchase of fixed assets	(4,782,485)	(10,965,508)	(2,011,290)	(57,465)
Disposal of long-term investments	1,432,311	103,844	937,260	26,779
Decrease (Increase) in long-term investments	(760,421)	(1,556,754)	(367,460)	(10,499)
Decrease (Increase) in prepayment for long-term investments	(630,918)	(4,500)	(4,500)	(129)
Decrease (Increase) in deferred expenses	(67,346)	(238,078)	(63,240)	(1,807)
Decrease (Increase) in refundable deposits	(6,435)	(8,356)	(80,963)	(2,313)
Decrease (Increase) in other assets	(67,173)	76,116	(17,919)	(512)
Net cash used in investing activities	\$(5,004,455)	\$(11,992,897)	\$ (404,222)	\$(11,549)

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

STATEMENTS OF CASH FLOWS — (Continued)
For the years ended December 31, 1999, 2000 and 2001
(Unless otherwise stated, all amounts expressed in Thousand Dollars)

Item	1999 NTD	2000 NTD	2001 NTD	2001 USD
Cash flows from financing activities:				
Increase (Decrease) in short-term loans	\$ 744,956	\$2,404,982	\$ (530,064)	\$(15,145)
Increase (Decrease) in short-term notes payable	(70,048)	278,010	(146,078)	(4,174)
Proceeds from issue of capital stock	3,400,000	—	1,723,770	49,251
Increase in long-term notes payable	1,974,592	1,974,106	27,041	773
Increase (Decrease) in bonds payable	30,419	299,373	(2,714,380)	(77,554)
Repayment of long-term loans	(330,064)	(302,448)	(205,033)	(5,858)
Increase in long-term loans	862,410	3,759,430	832,960	23,799
Payment of long-term lease liabilities	—	—	(206,703)	(5,906)
Increase (Decrease) in deposits received	172	200	32,407	926
Increase (Decrease) in other current liabilities	2,609	1,183	495	14
Redemption of treasury stocks	—	(85,669)	(11,262)	(322)
Bonus distribution for directors and supervisors	(6,602)	(8,603)	—	—
Net cash provided by financing activities	6,608,444	8,320,564	(1,196,847)	(34,196)
Foreign currency translation adjustment	(2,464)	(2,433)	785	23
Net Increase (Decrease) in cash	2,518,714	(2,081,802)	(476,606)	(13,617)
Cash, Beginning of Year	595,583	3,114,297	1,032,495	29,500
Cash, End of Year	<u>\$3,114,297</u>	<u>\$1,032,495</u>	<u>\$ 555,889</u>	<u>\$15,883</u>
Supplemental disclosure of cash flows information:				
Cash paid for interest during the year	<u>\$ 252,024</u>	<u>\$ 437,037</u>	<u>\$ 632,052</u>	<u>\$18,059</u>
Cash paid for income tax during the year	<u>\$ 21,716</u>	<u>—</u>	<u>—</u>	<u>—</u>
Supplemental disclosure of non-cash investing and financing activities:				
Current portion of long-term loans transferred from long-term loans	<u>\$ 302,448</u>	<u>\$ 205,033</u>	<u>\$1,444,766</u>	<u>\$41,279</u>
Current portion of bonds payable transferred from convertible bonds payable	<u>—</u>	<u>\$ 678,417</u>	<u>—</u>	<u>—</u>
Current portion of long-term lease liabilities transferred from long-term lease liabilities	<u>—</u>	<u>—</u>	<u>\$ 290,803</u>	<u>\$ 8,309</u>
Sale and lease back of fixed assets under capital lease	<u>—</u>	<u>—</u>	<u>\$1,176,871</u>	<u>\$33,625</u>
Sale and buy back of fixed assets	<u>—</u>	<u>—</u>	<u>\$ 67,981</u>	<u>\$ 1,942</u>
Convertible bonds payable and interest payable transferred to capital surplus	<u>\$ 27,612</u>	<u>\$ 526,896</u>	<u>—</u>	<u>—</u>
Convertible bonds payable transferred to capital of common stocks	<u>\$ 12,668</u>	<u>\$ 158,121</u>	<u>—</u>	<u>—</u>
Short-term investment transferred from long-term investment	<u>—</u>	<u>\$ 562,244</u>	<u>—</u>	<u>—</u>
Long-term investment transferred from prepayment for long-term investment	<u>—</u>	<u>\$ 626,226</u>	<u>—</u>	<u>—</u>
Other liabilities-others transferred from long-term investment	<u>—</u>	<u>—</u>	<u>\$ 255,142</u>	<u>\$ 7,290</u>
Assets leased to others transferred from fixed assets	<u>—</u>	<u>—</u>	<u>\$ 50,770</u>	<u>\$ 1,451</u>
Idle assets transferred from fix assets	<u>\$ 8,499</u>	<u>—</u>	<u>—</u>	<u>—</u>
Fixed assets transferred from deferred expenses	<u>\$ 27,234</u>	<u>—</u>	<u>—</u>	<u>—</u>

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999, 2000 AND 2001

(Unless otherwise stated, all amounts expressed in Thousand Dollars)

1. ORGANIZATION AND OPERATION

Orient Semiconductor Electronics Limited (the Company) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China in June 1971. The principal activity of the Company is to engage in the manufacture, assembly, processing and sale of integrated circuits, parts for semiconductors, computer motherboards and related products. The shares of the Company commenced trading in the Taiwan stock exchange market in April 1994.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. 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 different foreign exchange rates applied when cash in foreign currency receivables or payables are settled, are credited or charged to income at the time of actual conversion or settlement. At the balance sheet date, assets and liabilities denominated in foreign currencies are translated at the rates of exchange in effect at that date, any resulting gains or losses are credited or charged to current income. Gains and losses on contracts designated as hedges of existing assets and liabilities are recognized in income statement of current year.

b. Cash equivalents

These represents all highly liquid debt instruments with a maturity of three months or less.

c. Short-term investments

Short-term investments are stated at the lower of acquisition cost or market value.

d. Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the collectibility of receivables.

e. Inventories

Inventories are stated at the lower of cost and market value. Cost is computed on the weighted average method. Market value is determined based on replacement cost of raw materials, supplies and work in progress, or net realizable value of finished goods.

f. Long-term Investments

- (1) According to R.O.C. GAAP, long-term equity investments with interest greater 20%, or with interest less than 20% but having significant influence, should be accounted for under equity method to record the share of the operating results of the investee company. However, when preparing quarterly financial statements, for those investee companies with equity interest of less 50%, the Company is allowed not to use the equity method to record the share of the operating results of the investee company. Cash dividends received are accounted for as return of equity investment. Any difference arising from change of equity method, or difference between cost of investment and equity share, is amortized over five years. When investee company issues new shares, and the Company's equity shareholding percentage is changed resulting from the fact that stockholders subscribed in a different ratio, the effects of changes are required to be recorded in the accounts of long-term investments, capital reserve and retained earnings.

- (2) Long-term equity investments not qualified for using equity method are accounted for using cost method. When the accounting method is changed from equity method to cost method resulting from decrease in shareholding percentage or other reason, the carrying amount of the investment account at time of change is treated as the cost when cost method is applied.

g. Property, plant and equipment and idle assets

(1) *Purchased assets*

Property, plant and equipment are stated at cost except for land and certain equipments which are stated at valuation, and the idle assets, which are stated at realizable value. Depreciation is calculated by straight-line method, with rates based on guidelines on service lives prescribed by the government or lease period. Major additions, replacements and betterments are capitalized while maintenance and repairs are expensed as incurred. When assets are retired or disposed off, the costs and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in income statement, the resulting gain after income tax is then transferred to capital surplus account from retained earnings. However, gains on disposal of fixed assets were no longer transferred to capital reserve since 2001 according to the new R.O.C. regulation. Items, which have reached their full estimated useful lives, but are still in use, and have residual value, are depreciated using the same method over the new period. Items not in current use are transferred to idle asset account at net realizable value. Assets not used for operating purpose are separated and recorded as idle assets based on net realizable value. Assets for rental purpose are also separated and recorded as “Assets leased to others”.

(2) *Leased assets*

If the lease is a capital lease, the lease payments will be capitalized as leased assets and stated at the lower of: (a) the present value of all future installment payments plus residual payment; or (b) the fair market value at beginning of the lease period. Depreciation is provided by straight-line method, with rates determined: (a) if residual payment is required, on estimated useful lives; (b) if no residual payment is required, on lease period. Interest on lease payable is amortized based on lease period.

If the lease is an operating lease, the lease payment will be recorded as rental expense when payment is made.

h. Deferred expenses

Deferred expenses included the cost of issued convertible bonds, software power line cost and the book value of old plants to be demolished, etc. The cost of issued convertible bonds is amortized based on the straight-line basis over outstanding period, while the other two are amortized on the straight-line basis over 3–10 years. If the bonds are converted or bought back, the related amortization will be written off on prorate basis.

i. Retirement fund

- (1) As required by the Labor Standards Law, the Company makes regular contributions to a Retirement Fund which was established in 1986 to meet employees’ retirement and termination benefits. The Fund is administered by a committee and is deposited in the committee’s name with a government approved financial institution, which acts as the trustee.
- (2) The fund is fully separated from the Company, and was not included in the financial statements.
- (3) Effective from 1995, the Company adopted the R.O.C. SFAS NO. 18 “Accounting for Pension Plan” and the measurement date was December 31, 1995. At balance sheet date the pension liability was accrued when the accumulated benefit obligation is greater than the fair value of the plan assets. Also net periodic pension cost was recognized effective

from January 1, 1996. Unrecognized transitional net assets and obligations are amortized on straight-line basis over 15 years. The prior period service cost and gain or loss on pension is amortized on straight-line basis over average remaining service lives of employees.

j. Income taxes

- (1) The Company adopted the R.O.C. SFAS NO. 22 “Accounting for income taxes” for interperiod and intraperiod income tax allocation. Tax effects on taxable temporary differences are recognized as deferred tax liabilities. Tax effects on deductible temporary differences, operating loss carryforwards and investment tax credits are recognized as deferred tax assets. Valuation allowance for deferred tax assets is set up for their realizability.
- (2) Adjustments for overstatement or understatement of tax liabilities in the prior periods are included in the tax provision of the current period.
- (3) Investment credits qualifying under related regulations are recognized in the current period and shown as a deduction of tax expense.
- (4) The income tax payable on prior period undistributed retained earning is recorded as income tax expense in the current period upon the date when stockholders’ resolution is made.

k. Earnings per share

Earnings per share are calculated based on the weighted average common shares outstanding. If there is capital increase from cash injection, the weighted average share is computed based on the period of share issue. Earnings per share of prior years are retrospectively adjusted when there is capitalization from retained earnings or capital surplus. Preferred dividends are excluded when earnings per share calculated.

l. Treasury stock

Treasury stock is recorded at cost and shown as a deduction from stockholders’ equity. When treasury stock is disposed, the resulting gain will be credited to the “capital surplus — treasury stock” account; if it is a loss, it will be set off against the “capital surplus — treasury stock” account first and any excess will be debited to the retained earnings.

3. THE REASONS AND EFFECTS FOR CHANGE IN ACCOUNTING PRINCIPLES

As mentioned in Note 2.g, gains on disposal of fixed assets originally should be treated as current non-operating income and the net amount after tax should be transferred to capital reserve. However, such gains were no longer transferred to capital reserve since 2001 according to the new R.O.C. regulation. This change did not affect 2001 current net income, but decreased capital reserve by NT\$7,254 thousands and increased retain earnings by NT\$7,254 thousands as of December 31, 2001.

4. CASH AND CASH EQUIVALENTS

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Petty cash	\$ 100	\$ 100	\$ 655	\$ 19
Cash in banks	735,177	735,686	555,234	15,864
Time deposits	2,379,020	286,665	—	—
Redeemable bond	—	10,044	—	—
Total	<u>\$3,114,297</u>	<u>\$1,032,495</u>	<u>\$555,889</u>	<u>\$15,883</u>

5. SHORT-TERM INVESTMENTS

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Quoted shares	\$—	\$420,928	\$82,772	\$2,365
Beneficiary certificates	—	—	10,000	286
Less: Allowance for investment loss	(—)	(—)	(—)	(—)
Net	<u>\$—</u>	<u>\$420,928</u>	<u>\$92,772</u>	<u>\$2,651</u>

6. NOTES RECEIVABLE — NON AFFILIATES

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Notes receivable	\$62,237	\$57,071	\$12,126	\$346
Less: allowance for bad debts	(—)	(—)	(—)	(—)
Net	<u>\$62,237</u>	<u>\$57,071</u>	<u>\$12,126</u>	<u>\$346</u>

7. NOTES RECEIVABLE — AFFILIATES

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Notes receivable	\$46,680	\$36,707	\$84,907	\$2,426
Less: allowance for bad debts	(—)	(—)	(—)	(—)
Net	<u>\$46,680</u>	<u>\$36,707</u>	<u>\$84,907</u>	<u>\$2,426</u>

8. ACCOUNTS RECEIVABLE — NON AFFILIATES

(1)

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Accounts receivable	\$2,094,317	\$1,709,897	\$1,276,990	\$36,486
Add : Accounts receivable to be factored	—	—	129,006	3,686
Less : Factored accounts receivable	(—)	(—)	(123,871)	(3,539)
Less : Allowance for bad debts	(71,964)	(60,239)	(74,956)	(2,142)
Net	<u>\$2,022,353</u>	<u>\$1,649,658</u>	<u>\$1,207,169</u>	<u>\$34,491</u>

(2) In September 2001, the Company signed a loan agreement with a bank (with a banking facility of NT\$300,000). Under the terms of the agreement, certain of the Company's accounts receivable need to be factored to the bank.

9. ACCOUNTS RECEIVABLE — AFFILIATES

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Accounts receivable	\$538,224	\$845,119	\$330,368	\$9,439
Less: allowance for bad debts	(13,346)	(15,461)	(47,766)	(1,365)
Net	<u>\$524,878</u>	<u>\$829,658</u>	<u>\$282,602</u>	<u>\$8,074</u>

10. FORWARD CONTRACT RECEIVABLE — NET

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Forward contract receivable — Foreign Currency	—	\$329,500	—	—
Less: Payable on purchase of forward contracts	<u>(—)</u>	<u>(324,370)</u>	<u>(—)</u>	<u>(—)</u>
	—	5,130	—	—
Less: Premium	<u>(—)</u>	<u>(359)</u>	<u>(—)</u>	<u>(—)</u>
Net	<u>—</u>	<u>\$4,771</u>	<u>—</u>	<u>—</u>

As at December 31, 2000, the forward contracts signed by the Company amounted to US\$10,000 and it was for hedging purpose. The above contracts are due within one year.

11. INVENTORIES

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Raw materials	\$803,962	\$1,054,282	\$672,938	\$19,227
Supplies	149,951	190,944	116,048	3,316
Work in progress	165,024	209,074	135,329	3,866
Finished goods	<u>106,727</u>	<u>100,546</u>	<u>78,658</u>	<u>2,247</u>
Total	1,225,664	1,554,846	1,002,973	28,656
Less: Allowance for inventories decline	<u>(74,811)</u>	<u>(106,502)</u>	<u>(101,077)</u>	<u>(2,888)</u>
Net	<u>\$1,150,853</u>	<u>\$1,448,344</u>	<u>\$901,896</u>	<u>\$25,768</u>

As at December 31, 1999, 2000 and 2001, inventories were insured for NT\$1,700,000, NT\$2,618,000 and NT\$2,978,000 (US\$85,086), respectively.

12. PREPAYMENTS

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Advanced to suppliers	\$3,285	\$5,220	\$2,006	\$58
Prepaid expenses	1,092	12,951	18,945	541
Prepaid income tax	—	3,186	4,100	117
Prepaid insurance	—	—	277	8
Prepaid staff expenses	<u>1,434</u>	<u>1,375</u>	<u>209</u>	<u>6</u>
Total	<u>\$5,811</u>	<u>\$22,732</u>	<u>\$25,537</u>	<u>\$730</u>

13. LONG-TERM INVESTMENTS

Investee	Type of stock	December 31, 1999			December 31, 2000			December 31, 2001		
		Amount	Owner–ship	Evaluation Method	Amount	Owner–ship	Evaluation Method	Amount	Owner–ship	Evaluation Method
		NTD	%		NTD	%		NTD	%	
STRATEDGE	Preferred stock	\$1,322	2.44%	Cost method	\$1,322	1.58%	Cost method	\$1,322 (US\$38)	1.55%	Cost method
ACTIONTEC	Common stock	13,175	13.05%	Cost method	13,175	13.30%	Cost method	13,175 (US\$377)	11.53%	Cost method
ACTIONTEC	Preferred stock	27,307	13.77%	Cost method	27,307	14.79%	Cost method	27,307 (US\$780)	14.79%	Cost method
SPINERGY	Preferred stock	82,283	10.62%	Cost method	82,283	8.52%	Cost method	82,283 (US\$2,351)	7.56%	Cost method
ORIENT SEMICONDUCTOR ELECTRONICS PHILIPPINES, INC. (OSE PHILIPPINES, INC.)	Common stock	1,165,293	99.99%	Equity method	1,414,445	89.92%	Equity method	1,490,548 (US\$42,587)	91.78%	Equity method
OSE PROPERTIES, INC.	Common stock	6,729	39.99%	Equity method	6,421	39.99%	Equity method	0 (US\$0)	39.99%	Equity method
@ Road	Common stock	16,957	6.70%	Cost method	16,957	4.82%	Cost method	16,957 (US\$484)	4.84%	Cost method
AUCTOR CORP.	Preferred stock	45,806	7.59%	Cost method	46,815	8.10%	Cost method	46,815 (US\$1,338)	8.10%	Cost method
OSE USA, INC. (Formerly IPAC)	Common stock	35,868	34.83%	Equity method	(20,350)	35.84%	Equity method	0 (US\$0)	44.93%	Equity method
OSE USA, INC. (Formerly IPAC)	Preferred stock	58,993	100.00%	Equity method	27,015	100.00%	Equity method	0 (US\$0)	100.00%	Equity method
SPARQTRON CORP.	Preferred stock	108,245	65.04%	Equity method	90,241	65.04%	Equity method	116,486 (US\$3,328)	59.35%	Equity method
NEXFLASH	Preferred stock	62,780	13.10%	Cost method	81,239	12.74%	Cost method	47,907 (US\$1,369)	5.66%	Cost method
OSE INTERNATIONAL LTD.	Common stock	2,704	100.00%	Equity method	791,113	100.00%	Equity method	718,913 (US\$20,540)	100.00%	Equity method
GLOBITECH INCORPORATED.	Preferred stock	—	—	—	161,490	17.83%	Cost method	161,490 (US\$4,614)	9.94%	Cost method
ATP	Common stock	—	—	—	191,728	22.50%	Equity method	152,643 (US\$4,361)	22.50%	Equity method
SILICON INTEGRATED SYSTEMS CORP.	Common stock	15	0.00%	Cost method	15	0.00%	Cost method	15 (US\$0)	0.00%	Cost method
CHIA FU ELECTRONICS CO., LTD.	Common stock	143,186	8.45%	Cost method	143,186	8.45%	Cost method	143,186 (US\$4,091)	8.45%	Cost method
ARDENTEC CORPORATION	Common stock	250,000	14.25%	Cost method	237,500	11.85%	Cost method	237,500 (US\$6,786)	11.78%	Cost method
VANGUARD INTERNATIONAL SEMICONDUCTOR.	Common stock	577,385	2.06%	Cost method	—	—	—	—	—	—
SCS HIGHTECH INC.	Common stock	82,417	59.09%	Equity method	322,556	33.37%	Equity method	238,595 (US\$6,817)	18.17%	Equity method
INTEGRATED SILICON SOLUTION INC.	Common stock	47,896	1.73%	Cost method	47,896	1.70%	Cost method	6,332 (US\$181)	0.21%	Cost method
MEICER SEMICONDUCTOR INC.	Common stock	—	—	—	216,000	8.57%	Cost method	86,640 (US\$2,476)	8.57%	Cost method
RTECH TECHNOLOGY CO., LTD.	Common stock	—	—	—	184,000	5.33%	Cost method	184,000 (US\$5,257)	3.33%	Cost method
UNIMICRON TAIWAN CORP.	Common stock	191,250	7.39%	Cost method	220,575	7.29%	Cost method	—	—	—
Subtotal		2,919,611			4,302,929			3,772,114 (US\$107,775)		
Prepayment for long-term investment		626,226			4,500			9,000 (US\$257)		
Total		\$3,545,837			\$4,307,429			\$3,781,114 (\$108,032)		

- (1) Integrated Packaging Assembly Corporation (IPAC), the Company's investee company, changed its name to "OSE USA, INC." on June 5, 2001.
- (2) As of December 31, 1999, 2000 and 2001, even though the equity interest was exceeding 50%, the financial statements of Dec. 31, 1999 of SCS, SPARQTRON and OSE USA, INC. and Dec. 31, 2000 and 2001 of SPARQTRON CORP. and OSE USA, INC. were not consolidated because the respective percentage of total assets and sales did not exceed 10% (single subsidiary), or 30% (all subsidiaries) of the Company.
- (3) The Company's new investment in OSE USA, INC. (4,877,193 shares) was made on October 28, 1999 by exchange of the Company's old investment in OSE Inc. (16,000 shares). The unrealized gain of NT\$25,771 was booked in the deferred credit account.
- (4) As of December 31, 2000 and 2001, the guarantee given by the Company for securing OSE USA, INC.'s bank loan amounted to US\$18,000 thousands and US\$15,000 thousands. Accordingly, share of the investment loss was made using the equity method. As of December 31, 2001, total loss accounted for exceeded the book value of long-term investment by NT\$255,142 (US\$7,290) and the net amount was transferred to other liabilities account.
- (1) Meicer Semiconductor Inc. was approved to be re-organized by the Court on December 24, 2001 and provision for investment loss of NT\$129,360 (US\$3,696) was made based on net book value of the investee company.

- (2) The details of share of operating profit (loss) under equity method are as follows:

Investee Companies	1999 NTD	2000 NTD	2001 NTD	2001 USD
OSE PHILIPPINES, INC.....	(\$266,877)	(\$278,756)	(\$360,953)	(\$10,313)
OSE PROPERTIES, INC.....	(730)	131	(7,696)	(220)
ATP	—	(9,209)	(44,042)	(1,259)
OSE USA, INC.	(160,148)	(271,942)	(245,991)	(7,028)
SPARQTRON CORP.	(17,964)	(18,060)	16,194	463
SCS HIGHTECH INC.....	(9,322)	(7,074)	(20,380)	(582)
OSE INTERNATIONAL LTD.	1,134	15,096	(139,009)	(3,972)
Total	<u>(\$453,907)</u>	<u>(\$569,814)</u>	<u>(\$801,877)</u>	<u>(\$22,911)</u>

The financial statements of December 31, 1999, 2000 and 2001 of ATP, OSE USA, INC., SPARQTRON CORP. and the financial statement of December 31, 2001 of SCS HIGHTECH INC. were audited by other auditors.

14. PROPERTY, PLANT AND EQUIPMENT

- (1) The amounts of capitalized interests in 1999, 2000 and 2001, were NT\$106,955, NT\$289,794 and NT\$158,641 (US\$4,533), respectively, and are recorded separately under the accounts of prepayment for purchase of fixed assets, and related equipment. The amount of interest expenses before capitalization in 2001 amounted to NT\$736,476 (2000: NT\$740,751, 1999: NT\$360,065) and interest rates was 3.19%–7.045% (2000: 6.973%–7.786%, 1999: 6.665%–6.814%).
- (2) As at December 31, 1999, 2000 and 2001, fixed assets were insured for NT\$10,600,000, NT\$17,560,000 and NT\$18,366,072 (US\$524,745), respectively.

- (3) The details of accumulated depreciation are as follows:

Item	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2000
	NTD	NTD	NTD	USD
Building and equipment	\$ 416,390	\$ 509,658	\$ 735,895	\$ 21,025
Machinery and equipment.	3,564,575	4,769,364	6,296,388	179,897
Transportation equipment	7,379	8,774	10,147	290
Furniture and fixtures	257	320	2,307	66
Leased assets	—	—	44,744	1,278
Leasehold improvements	2,029	2,865	2,865	82
Other equipment	57,694	82,847	116,717	3,335
Total Accumulated Depreciation	<u>\$4,048,324</u>	<u>\$5,373,828</u>	<u>\$7,209,063</u>	<u>\$205,973</u>

- (4) Details of leased assets:

Lessor	Assets	Dec. 31, 2001		Lease period	Residual payment
		Amount	Amount		
		NTD	USD		NT\$
CHAILEASE FINANCE CO., LTD.. . .	Machinery and equipment	\$217,444	\$6,213	April 27, 2001 – April 27, 2003	\$67,444 (US\$1,927)
YA I INTERNATIONAL LEASING CO.,	Machinery and equipment	142,321	4,066	Dec. 27, 2001 – June 27, 2003	Nil
CENTRAL LEASING CO., (K.H)	Machinery and equipment	817,106	23,346	Dec. 31, 2001 – Jan. 31, 2005	Nil
		<u>\$1,176,871</u>	<u>\$33,625</u>		

15. PENSION

- (1) Effective from 1995, the Company adopted R.O.C. Statement of Financial Accounting Standard #18 “Pension Accounting”. Pension cost of the Company for 1999, 2000 and 2001 are shown as follows:

Item	1999	2000	2001	2001
	NTD	NTD	NTD	USD
Service Cost	\$45,502	\$47,476	\$56,125	\$1,604
Interest Cost	24,451	28,632	27,767	793
Expected return on plan assets	(10,340)	(12,989)	(16,230)	(464)
Amortization of net transitional obligation	<u>9,856</u>	<u>9,856</u>	<u>9,856</u>	<u>282</u>
Net periodic pension cost	<u>\$69,469</u>	<u>\$72,975</u>	<u>\$77,518</u>	<u>\$2,215</u>

- (2) The reconciliation between the funding status of the pension plan and accrued pension cost as at December 31, 1999, 2000 and 2001 are as follows:

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Benefit Obligation				
Vested Benefit Obligation	(\$123,368)	(\$132,590)	(\$115,998)	(\$3,314)
Non-vested Benefit Obligation	<u>(122,787)</u>	<u>(152,196)</u>	<u>(233,654)</u>	<u>(6,676)</u>
Accumulated Benefit Obligation	(246,155)	(284,786)	(349,652)	(9,990)
Effect of projected future salary increase	<u>(194,336)</u>	<u>(177,996)</u>	<u>(145,024)</u>	<u>(4,143)</u>
Projected Benefit Obligation	(440,491)	(462,782)	(494,676)	(14,133)
Fair value of plan assets	<u>199,834</u>	<u>270,497</u>	<u>295,709</u>	<u>8,449</u>
Funded status of pension plan	(240,657)	(192,285)	(198,967)	(5,684)
Unrecognized net transitional obligations	108,413	98,557	88,701	2,534
Unrecognized prior service cost	—	—	—	—
Unrecognized gains or losses	31,688	(18,628)	(21,512)	(615)
Additional liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Accrued pension liabilities	<u><u>(\$100,556)</u></u>	<u><u>(\$112,356)</u></u>	<u><u>(\$131,778)</u></u>	<u><u>(\$3,765)</u></u>

- (3) As at December 1999, 2000 and 2001, the vested benefit obligation of the Company was NT\$123,368, NT\$132,590 and NT\$115,998 (US\$3,314), respectively.

- (4) Actuarial assumptions:

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>
	%	%	%
Discount rate	6.50%	6.00%	4.50%
Rate of increase in compensation	5.00%	4.00%	2.50%
Expected long-term rate of return on plan assets	6.50%	6.00%	4.50%

16. ASSETS LEASED TO OTHERS

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Machinery and equipment	—	\$17,346	\$117,272	\$3,351
Building and equipment	<u>—</u>	<u>11,364</u>	<u>—</u>	<u>—</u>
Total	—	28,710	117,272	3,351
Less : Accumulated depreciation	<u>(—)</u>	<u>(3,871)</u>	<u>(56,677)</u>	<u>(1,620)</u>
Net	<u><u>—</u></u>	<u><u>\$24,839</u></u>	<u><u>\$60,595</u></u>	<u><u>\$1,731</u></u>

17. IDLE ASSETS

<u>Item</u>	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Machinery and equipment	\$12,352	\$12,612	\$12,612	\$360
Less: accumulated depreciation	(5,145)	(6,771)	(8,206)	(234)
allowance for loss on decline in market value	<u>(7,206)</u>	<u>(5,841)</u>	<u>(4,406)</u>	<u>(126)</u>
Net	<u><u>\$ 1</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

18. SHORT-TERM LOANS

Item	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2001
	NTD	NTD	NTD	USD
Usance L/C loan	\$ 466,190	\$ 723,538	\$1,357,366	\$38,782
Credit loan	—	604,000	1,268,000	36,228
Mortgage loan on machine and equipment	540,415	2,084,049	256,157	7,319
Total	<u>\$1,006,605</u>	<u>\$3,411,587</u>	<u>\$2,881,523</u>	<u>\$82,329</u>

- (1) The ranges of interest rates were 1.10%–7.34%, 0.61%–9.50% and 0.62%–7.50% for 1999, 2000 and 2001, respectively.
- (2) As of December 31, 1999, 2000 and 2001, the due dates of short-term loans were March 12, 2000–December 21, 2000, January 15, 2001–September 19, 2001 and January 11, 2002–June 30, 2002, , respectively.

19. SHORT-TERM NOTES PAYABLE

Nature	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2001	Remarks
	NTD	NTD	NTD	USD	
Short-term notes payable	\$300,000	\$580,000	\$430,000	\$12,286	Commercial papers
Less : Discount for short-term notes payable	(4,546)	(6,536)	(2,614)	(75)	
Net	<u>\$295,454</u>	<u>\$573,464</u>	<u>\$427,386</u>	<u>\$12,211</u>	

20. CONVERTIBLE BONDS PAYABLE

- (1) The detail of convertible bonds were as follows:

	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2001
	NTD	NTD	NTD	USD
Overseas convertible bonds — 2nd issued.	\$2,779,296	\$2,267,560	\$3,500	\$100
Accrued interest on convertible bonds	276,711	450,891	571	16
Less : Current portion	(—)	(678,417)	(—)	(—)
Total	<u>\$3,056,007</u>	<u>\$2,040,034</u>	<u>\$4,071</u>	<u>\$116</u>

- (2) (i) On February 26, 1998, the Company issued overseas convertible bonds for NT\$97,750. The details are as follows:

Item	Trustee	Issued Place	Issued period	Total issued amount	Security
Unsecured bonds	The Bank of New York	Luxembourg	February 26, 1998 – February 26, 2003	USD97.75 million	none

- (ii) Convertible conditions:

Conversion Period	Conversion Price	Method of accounting for Bonds' Conversion Rights
	NTD	
30 days after the date of issuance, except that no conversion is allowed during the close period when registration of common stockholders and conversion right holders is stopped by law.	\$33.90	Book Value method

- (iii) Call option and put option:

<u>Issued company call option</u>	<u>Bonds investors put option</u>
Callable in whole, or in part, on or after two years after the date of issuance, if (1) the closing market price of the Company's common stock, adjusted for parity, is exceeding 140% of the conversion price for each of 30 consecutive TSE trading days, or (2) 90% of the Company's bonds are converted, called or bought back, or cancelled.	Entitled to request the Company to redeem all or part of the bonds held by him on or, after three years after the date of issuance, at a price with interest rate of 6.75%.
(iv) The interest rate was 1.5% per annum, payable in annual installment in arrears on February 26 in each year. The bonds were issued at face value so that there was no premium or discount.	
(v) As of Dec. 31, 2001, part of the Company's overseas convertible bonds (US\$20,140) was converted into bonds conversion rights (face value NT\$160,685). The total amounts of the premium for the conversion and its accrued interest (NT\$536,500) were recorded under the capital surplus account.	
(vi) As of Dec. 31, 2001, the amount of overseas convertible bonds bought back and redeemed by the Company in the open market was US\$13,750 and US\$63,760.	

21. LONG-TERM LOANS

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	<u>NTD</u>	<u>NTD</u>	<u>NTD</u>	<u>USD</u>
Mortgage loans on machinery and equipment	\$1,362,017	\$4,818,999	\$5,446,926	\$155,626
Less : due within one year	<u>(302,448)</u>	<u>(205,033)</u>	<u>(1,444,766)</u>	<u>(41,279)</u>
Net	<u>\$1,059,569</u>	<u>\$4,613,966</u>	<u>\$4,002,160</u>	<u>\$114,347</u>

- (1) The loans borne interest at rates ranging 5.50%–7.60%, 5.50%–7.60% and 4.2072%–7.565% for 1999, 2000 and 2001, respectively.
- (2) As at December 31, 1999, 2000 and 2001, the due dates of long-term loans were August 25, 2000–November 17, 2004, January 11, 2001–October 27, 2010 and October 7, 2002–December 28, 2010, respectively.
- (3) On May 30, 2000, the Company signed a syndicated loan contract with 20 banks. The contract period is 5 years and the loan facility is 3,500,000. As at December 31, 2001, unused facility amounted to 0. Within the contract period and before the full repayment of the loan, the Company is required to maintain the following financial ratios:
- (1) Current ratio : not less than 100%
 - (2) Owners' equity : not less than 45%
 - (3) Interest coverage : not less than 300%
 - (4) Long-term investment to equity ratio : not more than 50 %

For the calculation of the above ratios, the Company's financial statements should be audited and related to unconsolidated half-yearly financial statements and consolidated yearly financial statements.

- (4) In April 2001, the Company obtained permission from the banks to release itself from the above requirements for maintaining the liquidity and owners' equity ratio. In compensation for that, the Company agreed to pay NT\$4,200 (0.12% of the total loan amount) to the banks.

22. LONG-TERM NOTES PAYABLE

(1)

<u>Guarantor</u>	<u>Period</u>	<u>Interest Rates</u>	<u>Dec. 31, 1999</u>	
			<u>NTD</u>	
ABN and other eleven	April 9, 1999 to April 9, 2004	3.345% to 4.968%	\$2,000,000	
Less : Discount			<u>(25,408)</u>	
Net present value			1,974,592	
Less : Current portion			<u>(—)</u>	
Net			<u><u>\$1,974,592</u></u>	
<u>Guarantor</u>	<u>Period</u>	<u>Interest Rates</u>	<u>Dec. 31, 2000</u>	
			<u>NTD</u>	
ABN and other twenty-seven	April 9, 2004 to May 30, 2005	3.74% to 5.83%	\$4,000,000	
Less : Discount			<u>(51,302)</u>	
Net present value			3,948,698	
Less : Current portion			<u>(—)</u>	
Net			<u><u>\$3,948,698</u></u>	
<u>Guarantor</u>	<u>Period</u>	<u>Interest Rates</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
			<u>NTD</u>	<u>USD</u>
ABN and other twenty-seven	April 9, 2004 to May 30, 2005	2.15% to 3.28%	\$4,000,000	\$114,286
Less : Discount			<u>(24,261)</u>	<u>(693)</u>
Net present value			3,975,739	113,593
Less : Current portion			<u>(—)</u>	<u>(—)</u>
Net			<u>\$3,975,739</u>	<u>\$113,593</u>

- (2) On April 9, 1999 and May 30, 2000, the Company signed a loan agreement with ABN for issuing money market instrument and commercial papers respectively. The terms of the loan agreement is for 5 years and the banking facility was NT\$4,000,000. Within the contract period and before the full repayment of the notes payable, the company is required to maintain the following financial ratios:

- (1) Current ratio: not less than 100%
- (2) Owners' equity: not less than 45%
- (3) Interest coverage: not less than 300%
- (4) Long-term investment to equity ratio: not more than 50%
- (5) Without the prior consent of majority of bankers in writing, the amount of any of the Company's single long-term investment, except for the investment in Orient Semiconductor Electronics Philippines, Inc. cannot exceed NT\$500,000 (US\$14,286).

For the calculation of the above ratios, the Company's financial statements should be audited and related to unconsolidated half-yearly financial statements and consolidated yearly financial statements.

- (3) In April 2001, the Company obtained permission from the banks to release itself from the above requirements for maintaining the liquidity and owners' equity ratio. In compensation for that, the Company agreed to pay NT\$4,800 (US\$137) (0.12% of the total loan amount) to the banks.

23. LEASE LIABILITIES

- (1) The details are as follows:

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
CHAILEASE FINANCE CO., LTD.				
— Payable by 9 installments with last payment on April 27, 2003	—	—	\$68,644	\$1,961
YA I INTERNATIONAL LEASING CO.,				
— payable by 18 installments with last payment on June 27, 2003	—	—	100,924	2,884
CENTRAL LEASING CO., (K.H)				
— payable by 37 installments with last payment on Jan. 31, 2005	—	—	800,600	22,874
Less: Due within one year	(—)	(—)	(290,803)	(8,309)
Net	<u>—</u>	<u>—</u>	<u>\$679,365</u>	<u>\$19,410</u>

- (2) The details of future lease payments are as follows:

<u>Year</u>	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2000</u>
	NTD	NTD	NTD	USD
2002	—	—	\$362,603	\$10,360
2003	—	—	372,064	10,630
2004	—	—	360,000	10,286
Total	<u>—</u>	<u>—</u>	<u>\$1,094,667</u>	<u>\$31,276</u>

24. CAPITAL STOCK

- (1) *Common stock*

At Jan. 1, 1999, the authorized capital was NT\$10,000,000 of which the publicly issued capital was NT\$5,868,671 divided into 586,867,085 shares with par value NT\$10 each. Subsequently the capital was increased by NT\$5,045,155 by way of cash, capitalization from retained earnings, capital surplus, employee bonus and bonds payable (see below). The capital increases were all approved by the Government authority. As of December 31, 1999, 2000 and 2001, the authorized capital were NT\$10,000,000, NT\$14,000,000 and NT\$14,000,000 (US\$400,000), which the publicly issued capital was NT\$8,105,324, NT\$9,931,428 and NT\$10,913,826 (US\$311,824) divided into 810,532,407 shares, 993,142,807 shares and 1,091,382,588 shares, respectively.

<u>Effective date of capital increase</u>	<u>Share issue for cash</u>	<u>Transferred from retained earnings</u>	<u>Transferred from capital surplus</u>	<u>Transferred from employee bonus</u>	<u>Transferred from bonds payable</u>	<u>Total</u>
	NTD	NTD	NTD	NTD	NTD	NTD
July 7, 1999	\$ —	\$ 586,867	\$ 586,867	\$ 52,815	\$ 10,104	\$1,236,653
Oct. 11, 1999	1,000,000	—	—	—	—	1,000,000
Jan. 10, 2000	—	—	—	—	2,564	2,564
Feb. 29, 2000	—	—	—	—	79,777	79,777
August 7, 2000	—	777,828	818,766	68,825	78,344	1,743,763
Sep. 21, 2001	—	—	982,398	—	—	982,398
Total	<u>\$1,000,000</u>	<u>\$1,364,695</u>	<u>\$2,388,031</u>	<u>\$121,640</u>	<u>\$170,789</u>	<u>\$5,045,155</u>

(2) *Preferred stock*

On September 21, 2001, the Company issued preferred stock (cannot be issued to the public) in the amount of NT\$1,500,000 (US\$42,857), divided into 150,000,000 shares at per value of NT\$10 each and the details are as follows:

- (1) Preferred stock dividend is set at 5.6% and paid once per year. It will be paid after the approval by the Board of Directors in the following year.
- (2) If the Company' distributable reserve is not sufficient, the preferred stock dividends will be in arrears and they will be paid once the Company has distributable reserve. However, if the preferred stock is converted into common stock, the preferred stock dividends in arrears should be fully paid.
- (3) Except for fixed dividend, preferred stockholders are not entitled to other distributions for retained earnings and capital reserve.
- (4) In the case of liquidation, the preferred stockholders are in preference to common stockholders in distribution of remaining assets, but the amount is limited to the original issue amount.
- (5) The preferred stockholders do not have voting rights in the common stockholders' meeting. However, they are eligible for being election as directors or supervisors and have voting rights in preferred stockholders' meeting.
- (6) In case of new capital issued by cash, both preferred stockholders and common stockholders have same privilege to subscribe.
- (7) The preferred stocks must be converted into the common stocks by the end of a three-year period on one-to-one basis.
- (8) When the premium of preferred stocks are capitalized or all the preferred stocks are converted into common stocks, it must be approved by the preferred stockholders meeting (it requires that over 50% of preferred stockholders must attend and over two-third of the attendance must approve).

25. TREASURY STOCK (COMMON STOCK)

In order to encourage the employees' working spirit and efficiency, the Company bought back the treasury stock in the open market, which is reserved for employees. As of December 31, 2001, total of 10,745 thousand shares was bought at a cost of NT\$96,931 (US\$2,769).

According to the Securities Trading Law, the following restrictions are imposed on the treasury stock bought back by a company:

- (i) It cannot exceed 10% of its issued shares;
- (ii) The amount of shares bought back cannot exceed the total amount of retained earnings, premium on capital stock and realized capital surplus;
- (iii) It cannot be pledged.

As of December 31, 2001, maximum number of treasury stock on hand was 10,745 thousand shares (cost: NT\$96,931), which was in compliance with the above regulations.

26. CAPITAL SURPLUS

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 2000</u>	<u>Dec. 31, 2001</u>	<u>Dec. 31, 2001</u>
	NTD	NTD	NTD	USD
Premium on capital stock	\$2,442,473	\$2,400,000	\$1,881,535	\$53,758
Premium on preferred stock	—	—	223,770	6,393
Premium on convertible bonds	1,183,767	859,040	395,107	11,289
Asset revaluation surplus	63	63	63	2
Gain on disposal of fixed assets, net of income tax . . .	16,496	45,284	45,284	1,294
Long-term investment	—	21,547	26,140	747
Accrued interest on convertible bonds	84,072	159,401	159,401	4,554
Total	<u>\$3,726,871</u>	<u>\$3,485,335</u>	<u>\$2,731,300</u>	<u>\$78,037</u>

- (1) According to the revised Company Law in 2001, the capital reserve can only be used to set off loss. If the Company does not have loss, the capital reserve arising from premium on issuance of common stock or from donation can be used to increase capital.
- (2) According to the prevailing law and regulations, if a company is using the capital reserve arising from assets revaluation to set off the Company's loss, the capital reserve must be replenished before dividends are declared. As at Dec. 31, 1999, 2000 and 2001, no capital reserve was used for such purpose.
- (3) According to the prevailing law and regulations, each year, the amount of capital increase transferred from capital reserve arising from premium on issuance of capital stock and donation cannot exceed 10% of the Company's total issued capital.

27. LEGAL RESERVE

Under the provisions of the Company's Articles of Incorporation and in accordance with the Company Law, 10% of net income each year, after offsetting any accumulated deficit, must be transferred to a legal reserve, until such time as the reserve is equal to the capital. When the reserve is equal to 50% of the capital, 50% of the reserve may be capitalized.

28. SPECIAL RESERVE

1. In the Annual General meeting of 1998 and 1997, the stockholders resolved to transfer the 1997 and 1996 investment income accounted for under the equity method into special reserve.
2. As required by the SEC, if the Company has unrealized loss on long-term investment or debit balance of accumulated translation adjustment in the stockholders' equity account as at end of year, it cannot declare dividends unless special reserve is properly made so enough as to cover the following amounts:
 - (1) For those debit amounts occurred for the year the amount of special reserve to be made should not exceed the total amount of net income for the year plus prior year retained earnings.
 - (2) For those debit amounts occurred in prior years, the amount of special reserve to be made should not exceed the net amount of prior year retained earnings less the amount as made in (1) above.

After the special reserve is made, if the debit amounts of the above stockholders equity account are reversed, then the amount of reversal can be declared as dividends.

29. RETAINED EARNINGS

The Company's dividend policy is decided after considering the following factors : Change of industry environment, growth of enterprise life cycle, company's future demand in working capital and long-term financial planning, and satisfaction of stockholders' needs for cash inflow. Accordingly, pursuant to the amended Articles of Incorporation, each year net income, after set off any prior loss, if any, should be allocated as follows:

- (1) Gain on disposal of fixed assets, net of tax transferred to capital surplus.
- (2) 10% of net income transferred to legal reserve.
- (3) Transferred to or reversal of special reserve according to SEC regulation.
- (4) After (1)–(3), 1% of the remainder distributed as bonuses to directors and supervisors.
- (5) After (1)–(3), 10% of the remainder distributed as employee bonus.
- (6) Preferred stock dividend at 5.6% paid once per year.
- (7) The balance, after (1)–(6) and setting aside for working capital, can be distributed as dividends in the proportion to the shares held by each of the stockholders.

(cash dividend must not be lower than 10% of total dividends available, but it should not exceed 50% neither)

30. SALES

Product	1999	2000	2001	2001
	NTD	NTD	NTD	USD
Plastic integrated circuit.	\$5,855,386	\$7,747,569	\$4,907,802	\$140,223
Motherboard — PC	911,681	1,567,894	1,014,672	28,991
Telecommunication products.	1,210,492	1,720,650	2,921,163	83,462
Testing income	838,804	1,370,906	660,245	18,864
Computer peripheral products	885,649	1,060,255	975,017	27,857
Other.	40,986	875,039	272,362	7,782
Total	<u>\$9,742,998</u>	<u>\$14,342,313</u>	<u>\$10,751,261</u>	<u>\$307,179</u>

31. INCOME TAX

- (1) Based on “Statute for Upgrading Industries” and other related regulations, income tax credit from investment in production automation equipment, pollution control machinery and equipment, research and development, employee training and main technology business are as follows:

Year	1999 NTD	2000 NTD	2001 NTD	2001 USD	Expired Year
1996	\$ 12,613	\$ 12,613	\$ —	\$ —	2000
1997	262,069	262,069	262,069	7,488	2001
1998	234,551	234,091	193,662	5,533	2002
1999	510,730	523,475	496,243	14,178	2003
2000	—	960,506	934,052	26,687	2004
2001	—	—	89,004	2,543	2005
Total income tax credit before utilization.	1,019,963	1,992,754	1,975,030	56,429	
Less: Utilized for the year	(1,736)	(45,700)	(30,407)	(869)	
Less: Expired for the year	(—)	(—)	(246,866)	(7,053)	
Unutilized and not yet expired income tax credit, end of year	<u>\$1,018,227</u>	<u>\$1,947,054</u>	<u>\$1,697,757</u>	<u>\$48,507</u>	

- (2) The Company’s tax loss of NT\$35,370 for the year ended December 31, 1999 was approved, and the tax loss of NT\$3,630,000 for the year ended December 31, 2001 has not yet been approved. According to the tax law, they can be used to set off its future taxable income for next 5 years.
- (3) During the year, the Company expanded its investment in integrated circuit package and testing through capital increase. The above investment was approved by the Government authority and a tax credit was granted for five years. The exemption period was from January 1, 1998 to December 31, 2002.
- (4) During 1999, 2000 and 2001, the estimated tax exempted income was 0, NT\$6,513 and 0, respectively.
- (5) The income tax returns through 1999 have been approved by tax authority.
- (6) As at December 31, 1999, 2000 and 2001, the account balance of stockholders’ Imputation Credit Account (ICA) amounted to NT\$768, NT\$4 and NT\$64 (US\$2), respectively and the details are as follows:

	Dec. 31, 1999 NTD	Dec. 31, 2000 NTD	Dec. 31, 2001 NTD	Dec. 31, 2001 USD
Withholding tax on interest income	<u>\$768</u>	<u>\$4</u>	<u>\$64</u>	<u>\$2</u>

- (7) The yearend balance of the Company’s undistributed retained earnings are allocated as follows:

	Dec. 31, 1999 NTD	Dec. 31, 2000 NTD	Dec. 31, 2001 NTD	Dec. 31, 2001 USD
Belongs to 1997 and before	\$ 11,732	\$11,732	\$ 11,732	\$ 335
Belongs to 1998 and after	<u>1,056,831</u>	<u>55,961</u>	<u>(3,037,627)</u>	<u>(86,789)</u>
Total	<u>\$1,068,563</u>	<u>\$67,693</u>	<u>\$(3,025,895)</u>	<u>\$(86,454)</u>

- (8) For 1999, 2000 and 2001, the tax-deductible rate for retained earnings to be distributed to stockholders was 3.85%, 0.04% and 0.00%, respectively.
- (9) The details of deferred income tax for 1999, 2000 and 2001 are as follows:

1999

- (1) Deferred income tax assets NT\$1,296,539
- (2) Allowance for deferred income tax assets —
- (3) Deferred income tax liabilities NT\$12,762
- (4) Significant temporary differences resulting in deferred income tax assets or liabilities:

Item	Amount NTD	Income Tax Effect NTD
Unrealized exchange gain	\$(51,049)	\$ (12,762)
Unrealized exchange loss	43,829	10,957
Allowance for bad debts	57,898	14,474
Allowance for inventory loss	74,811	18,703
Loss on idle asset	7,275	1,819
Unrealized pension expense	98,408	24,602
Unrealized expense and sales return	4,164	1,041
Demolition cost of old building	15,780	3,945
Accrued interest on convertible bonds	140,204	35,051
Unrealized investment loss	607,804	151,951
Unrealized gain on disposal of long-term investment	25,772	6,443
Unrealized intercompany profit	2,207	552
Loss carryforward	35,096	8,774
Income tax credit	\$ —	\$1,018,227

2000

- (1) Deferred income tax assets NT\$2,507,620
- (2) Allowance for deferred income tax assets NT\$390,857
- (3) Deferred income tax liabilities NT\$15,050
- (4) Significant temporary differences resulting in deferred income tax assets or liabilities:

Item	Amount NTD	Income Tax Effect NTD
Unrealized exchange gain	\$ (60,201)	\$ (15,050)
Unrealized exchange loss	205,652	51,413
Allowance for bad debts	49,212	12,303
Allowance for inventory loss	106,502	26,626
Loss on idle asset	5,841	1,460
Unrealized pension expense	110,209	27,552
Demolition cost of old building	29,304	7,326
Accrued interest on convertible bonds	450,891	112,723
Unrealized investment loss	1,170,544	292,636
Unrealized gain on disposal of long-term investment	25,772	6,443
Unrealized intercompany profit	53,240	13,310
Loss carryforward	35,096	8,774
Income tax credit	\$ —	\$1,947,054

2001

(1) Deferred income tax assets	NT\$3,166,904 (US\$90,483)
(2) Allowance for deferred income tax assets	NT\$1,038,662 (US\$29,676)
(3) Deferred income tax liabilities	NT\$27,132 (US\$775)
(4) Significant temporary differences resulting in deferred income tax assets or liabilities:	

Item	Amount		Income Tax Effect	
	NTD	USD	NTD	USD
Unrealized exchange gain	\$ (90,928)	\$ (2,598)	\$ (27,132)	\$ (775)
Unrealized exchange loss	6,375	182	1,594	46
Allowance for bad debts	104,388	2,983	26,097	746
Allowance for inventory loss	101,077	2,888	25,269	722
Loss on idle asset	4,406	126	1,102	31
Unrealized pension expense	129,630	3,704	32,407	926
Demolition cost of old building	40,806	1,166	10,202	291
Accrued interest on convertible bonds . .	572	16	143	4
Unrealized investment loss	1,934,614	55,275	483,653	13,819
Unrealized gain on disposal of long-term investment	25,772	736	6,443	184
Unrealized intercompany profit	13,579	388	3,395	97
Loss carryforward	3,515,370	100,439	878,842	25,110
Income tax credit	\$ —	\$ —	\$1,697,757	\$48,507

(10)

	Dec.31, 1999	Dec.31, 2000	Dec.31, 2001	Dec.31, 2001
	NTD	NTD	NTD	USD
Deferred income tax assets — current	\$231,611	\$435,598	\$247,055	\$7,059
Allowance for deferred income tax assets — current	(—)	(262,069)	(193,662)	(5,533)
Net deferred income tax assets — current	231,611	173,529	53,393	1,526
(Less): Deferred income tax liabilities — current	(—)	(15,050)	(22,732)	(650)
Net	<u>\$231,611</u>	<u>\$158,479</u>	<u>\$ 30,661</u>	<u>\$ 876</u>

(11)

	Dec.31, 1999	Dec.31, 2000	Dec.31, 2001	Dec.31, 2001
	NTD	NTD	NTD	USD
Deferred income tax assets-non-current	\$1,064,928	\$2,072,021	\$2,919,850	\$83,424
Allowance for deferred income tax assets — non-current	(—)	(128,787)	(845,000)	(24,143)
Net deferred income tax assets-non-current	1,064,928	1,943,234	2,074,850	59,281
(Less): Deferred income tax liabilities — non-current	(12,762)	(—)	(4,401)	(125)
Net	<u>\$1,052,166</u>	<u>\$1,943,234</u>	<u>\$2,070,449</u>	<u>\$59,156</u>

(12) Income tax credits (expenses)

	1999	2000	2001	2001
	NTD	NTD	NTD	USD
Income tax receivable(payable)	\$ 2,305	\$ 3,186	\$ 4,099	\$ 117
Income tax on undistributed retained earnings . .	(1,736)	—	—	—
Prepaid income tax	(2,305)	(3,186)	(4,099)	(117)
Prior year over (under) provision.	<u>587</u>	<u>1,736</u>	<u>—</u>	<u>—</u>
Income tax credits (expense) of current year . .	(1,149)	1,736	—	—
Deferred income tax credit	159,662	279,966	26,431	755
Income tax credit on loss carryforward.	8,774	—	870,069	24,859
Income tax credit	511,705	928,827	(249,298)	(7,123)
Allowance for income tax credit	<u>(—)</u>	<u>(390,857)</u>	<u>(647,805)</u>	<u>(18,508)</u>
Net income (expense) tax credit per income statement	<u>\$678,992</u>	<u>\$819,672</u>	<u>\$ (603)</u>	<u>\$ (17)</u>

32. EARNINGS PER SHARE

	1999	2000	2001	2001
	NTD	NTD	NTD	USD
Average outstanding shares as of December 31 of 1999, 2000 and 2001	<u>971,433,910 Shares</u>	<u>1,091,988,211 Shares</u>	<u>1,080,644,819 Shares</u>	<u>1,080,644,819 Shares</u>
Income (Loss) before income tax	\$ 367,550	\$ (715,839)	\$ (3,189,434)	\$ (91,127)
Less: Preferred stock dividend.	<u>(—)</u>	<u>(—)</u>	<u>(26,976)</u>	<u>(771)</u>
Income (Loss) borne by common stockholders	367,550	(715,839)	(3,216,410)	(91,898)
Income tax credit (expense) . . .	<u>678,992</u>	<u>819,672</u>	<u>(603)</u>	<u>(17)</u>
Net income (loss)	<u>\$1,046,542</u>	<u>\$ 103,833</u>	<u>\$ (3,217,013)</u>	<u>\$ (91,915)</u>
Earnings per share (expressed in dollars)				
Primary earnings per share				
Income (Loss) before income tax	\$ 0.38	\$ (0.66)	\$ (2.98)	\$ (0.09)
Income tax credit (expense) .	<u>0.70</u>	<u>0.75</u>	<u>(0.00)</u>	<u>(0.00)</u>
Net income (loss)	<u>\$ 1.08</u>	<u>\$ 0.09</u>	<u>\$ (2.98)</u>	<u>\$ (0.09)</u>
Fully diluted earnings per share				
Income (Loss) before income tax	\$ 0.38	\$ (0.66)	\$ (2.98)	\$ (0.09)
Income tax credit (expense) .	<u>0.70</u>	<u>0.75</u>	<u>(0.00)</u>	<u>(0.00)</u>
Net income (loss)	<u>\$ 1.08</u>	<u>\$ 0.09</u>	<u>\$ (2.98)</u>	<u>\$ (0.09)</u>

33. RELATED PARTY TRANSACTIONS

- a. The details of related parties are as follows:

Related parties	Relationship
CONSOLIDATED MARKETING CORP.(CMC)	President is the spouse of the company's chairman
SILICON INTEGRATED SYSTEMS CORP. (SISC) . . .	Chairman is the spouse of the company's chairman
ACTIONTEC ELECTRONICS, INC. (ACTIONTEC) . . .	Board of directors is under common control
ORIENT SEMICONDUCTOR ELECTRONICS PHILIPPINES, INC. (OSE PHILIPPINES, INC.)	Investee company accounted for under equity method
ACTIONTEC ELECTRONICS, TAIWAN INC. (ACTIONTEC TAIWAN).	The subsidiary of ACTIONTEC (the Company's investee company)
ATP ELECTRONICS, INC.(ATP)	The subsidiary of ACTIONTEC (the Company's investee company)
ATP ELECTRONICS, TAIWAN INC. (ATP TAIWAN) .	The subsidiary of ATP (the Company's investee company)
SCS HIGHTECH INC. (SCS)	Investee company accounted for under equity method
OSE, INC. (OSI)	The subsidiary of OSE USA, INC. (the Company's investee company)
OSE USA, INC. (Formerly IPAC)	Investee company accounted for under equity method
SPARQTRON CORP.	Investee company accounted for under equity method
OSE INTERNATIONAL LTD.	Investee company accounted for under equity method
YUAN JEN INVESTMENT CORP. (YUAN JEN)	YUAN JEN's chairman is the relative of the Company's Chairman
CHING SHING INVESTMENT CORP. (CHING SHING)	CHING SHING's chairman is the relative of the Company's Chairman

- b. Significant transactions with related parties:

(1) Purchases

The Company's purchases from related parties during 1999, 2000 and 2001 were as follows:

	1999		2000		2001		
	Amount	Percentage of total	Amount	Percentage of total	Amount	Amount	Percentage of total
	NTD	%	NTD	%	NTD	USD	%
ATP	\$ —	—	\$104,496	1.31%	\$ 60,612	\$ 1,732	0.95%
ACTIONTEC . .	666,951	11.45%	688,227	8.66%	1,532,524	43,786	24.05%
ACTIONTEC TAIWAN . . .	17,916	0.31%	47,073	0.60%	70,466	2,013	1.11%
OTHERS	260	0.00%	55,356	0.69%	33,639	961	0.53%
Total	<u>\$685,127</u>	<u>11.76%</u>	<u>\$895,152</u>	<u>11.26%</u>	<u>\$1,697,241</u>	<u>\$48,492</u>	<u>26.64%</u>

The terms for the above-mentioned purchases were similar to the Company's vendors. The details of credit period are as follows:

	Days
ACTIONTEC	30
OSE PHILIPPINES, INC.	30
ACTIONTEC TAIWAN	30
SPARQTRON CORP.	30
OSI	30
ATP TAIWAN	30
ATP	30
SISC	30
CMC	30

(2) Sales:

The Company's sales to related parties during 1999, 2000 and 2001 were as follows:

	1999		2000		2001		
	Amount	Percentage of total	Amount	Percentage of total	Amount	Amount	Percentage of total
	NTD	%	NTD	%	NTD	USD	%
SISC	\$1,202,042	12.40%	\$ 842,207	5.91%	\$1,301,837	\$ 37,196	12.19%
ACTIONTEC . .	653,793	6.74%	1,370,761	9.63%	2,603,695	74,391	24.37%
ATP	186,685	1.93%	564,572	3.97%	101,638	2,904	0.95%
ACTIONTEC TAIWAN . . .	479,369	4.95%	456,445	3.21%	407,263	11,636	3.81%
OTHERS	13,296	0.13%	45,858	0.32%	35,044	1,001	0.33%
Total	<u>\$2,535,185</u>	<u>26.15%</u>	<u>\$3,279,843</u>	<u>23.04%</u>	<u>\$4,449,477</u>	<u>\$127,128</u>	<u>41.65%</u>

The terms for the above-mentioned sales were similar to the Company's customers. The details of credit period are as follows:

	Days
CMC	7
OSE PHILIPPINES, INC.	60
SISC	60
ACTIONTEC	60
ATP	45
ATP TAIWAN	45
ACTIONTEC TAIWAN	60
SPARQTRON CORP.	60
OSE USA, INC.	30

With the exception of CMC, the credit period granted to the above related parties was similar to the Company's customers.

(3) Sales of fixed assets

The details of sales of fixed assets to related parties during 1999, 2000 and 2001 were as follows:

1999

	Asset Item	Amount	Unrealized gain of sales fixed assets	Unrealized loss of sales fixed assets
		NTD	NTD	NTD
Sales				
OSE PHILIPPINES, INC. . . .	Machinery and equipment	\$33,443	\$ 1,120	\$80
SPARQTRON CORP.	Machinery and equipment	\$ 1,906	\$ 619	—
OSE USA, INC.	Long-term investment	\$29,877	\$25,771	—

2000

	<u>Asset Item</u>	<u>Amount</u>	<u>Unrealized gain of sales fixed assets</u>	<u>Unrealized loss of sales fixed assets</u>
		NTD	NTD	NTD
Sales				
OSE PHILIPPINES, INC. . . .	Machinery and equipment	\$231,393	\$21,826	\$(5,278)
ACTIONTEC	Stock — ATP (1,831,000 shares)	\$185,220		

2001

	<u>Asset Item</u>	<u>Amount</u>	<u>Unrealized gain of sales fixed assets</u>	<u>Unrealized loss of sales fixed assets</u>
Sales				
OSE PHILIPPINES, INC. . . .	Machinery and equipment	NT\$5,863 (US\$168)	NT\$395 (US\$11)	NT\$70 (US\$2)
YUAN JEN	Stock — SCS HIGHTECH INC. (7,400,000 shares)	NT\$129,111 (US\$3,689)	—	NT\$60,252 (US\$1,721)
Purchases				
OSE PHILIPPINES, INC. . . .	Machinery and equipment	NT\$97,204 (US\$2,777)	—	—

(4) Intercompany receivables and payables

	1999		2000		2001		
	Amount	Percentage of total	Amount	Percentage of total	Amount	Amount	Percentage of total
	NTD	%	NTD	%	NTD	USD	%
Notes Receivable							
ACTIONTEC TAIWAN	\$ 46,680	42.86%	\$ 36,707	39.14%	\$ 84,862	\$2,425	87.46%
ATP TAIWAN	—	—	—	—	45	1	0.05%
Total	<u>\$ 46,680</u>	<u>42.86%</u>	<u>\$ 36,707</u>	<u>39.14%</u>	<u>\$ 84,907</u>	<u>\$2,426</u>	<u>87.51%</u>
Accounts Receivable							
CMC	\$ —	—	\$ 1,452	0.05%	\$ 1,506	\$ 43	0.09%
SISC	166,612	6.33%	186,230	7.29%	82,598	2,360	5.12%
ACTIONTEC	261,102	9.92%	317,184	12.41%	110,179	3,148	6.83%
ATP	58,080	2.21%	291,448	11.41%	91,645	2,618	5.68%
OSE PHILIPPINES, INC.	1,494	0.06%	2,766	0.11%	6,374	182	0.40%
ACTIONTEC TAIWAN	50,576	1.92%	26,232	1.03%	30,538	873	1.90%
SPARQTRON CORP. .	360	0.01%	17,725	0.69%	1,614	46	0.10%
OSE USA, INC.	—	—	2,082	0.08%	5,914	169	0.37%
Total	<u>\$538,224</u>	<u>20.45%</u>	<u>\$845,119</u>	<u>33.07%</u>	<u>\$330,368</u>	<u>\$9,439</u>	<u>20.49%</u>
Other receivable							
OSE PHILIPPINES, INC.	\$ 33,222	100.00%	\$264,815	98.86%	\$153,109	\$4,375	17.15%
ACTIONTEC	—	—	1,915	0.71%	962	27	0.11%
OSE USA, INC.	—	—	1,144	0.43%	1,638	47	0.18%
OTHERS	—	—	—	—	498	14	0.06%
Total	<u>\$ 33,222</u>	<u>100.00%</u>	<u>\$267,874</u>	<u>100.00%</u>	<u>\$156,207</u>	<u>\$4,463</u>	<u>17.50%</u>
Accounts Payable							
ACTIONTEC	\$ 74,903	4.38%	\$ 99,053	5.74%	\$127,153	\$3,633	7.50%
ACTIONTEC TAIWAN	938	0.05%	10,768	0.62%	7,612	217	0.45%
OSE PHILIPPINES, INC.	—	—	—	—	5,833	167	0.34%
OSI	—	—	360	0.02%	261	8	0.02%
SPARQTRON CORP. .	—	—	4,081	0.24%	1,274	37	0.08%
ATP	—	—	23,045	1.34%	121	3	0.01%
ATP TAIWAN	—	—	—	—	81	2	0.00%
Total	<u>\$ 75,841</u>	<u>4.43%</u>	<u>\$137,307</u>	<u>7.96%</u>	<u>\$142,335</u>	<u>\$4,067</u>	<u>8.40%</u>

(5) Others

- (1) As at December 31, 2001, the Company issued a bank loan guarantee for OSE PHILIPPINES, INC. in the amount of US\$22,750 (1999: US\$21,000, 2000: US\$21,000).
- (2) As of December 31, 2001, the guarantee given by the Company for OSE USA, INC.'s bank loan amounted to US\$15,000. (2000: US\$18,000).
- (3) As of December 31, 2001, the guarantee given by the Company for ATP's bank loan amounted to US\$6,000.
- (4) The Company has engaged OSI as its sales and collection agent in the America. For the year ended December 31, 2001, total commission expenses amounted to NT\$134,215 (US\$3,835) (1999: NT\$92,396, 2000: NT\$223,437) and the amount remained unpaid as at December 31, 2001 was NT\$40,365 (1999: NT\$44,349, 2000: NT\$34,937) which was included in accrued expenses accounts.
- (5) As at December 31, 2001, the receipt by the Company on behalf of OSE, INC. amounted to NT\$1,852 (US\$53).

- (6) For the year ended December 31, 2001, the Company rented out its machinery and equipment to OSE USA, INC. and total rental income was NT\$1,517 (US\$43) (2000: NT\$1,176). As at December 31, 2001, all amounts were settled.
- (7) For the year ended December 31, 2001, the Company rented out its machinery and equipment to OSE PHILIPPINES, INC. and total rental income was NT\$992 (US\$28). As at December 31, 2001, all amounts were settled.
- (8) As at December 31, 2001, the Company received in advance an amount of NT\$98,993 (US\$2,828) for proposed sales of investment in the Preferred Stock of GlobiTech to CHING SHING INVESTMENT CORP. and this amount was recorded in other current liabilities accounts. In January 2002, this transaction was cancelled so that the money received in advance was returned to CHING SHING INVESTMENT CORP. in February 2002.

34. PLEDGED ASSETS

As at Dec. 31, 1999, 2000 and 2001, pledged asset of the Company were as follows:

Item	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2001
	NTD	NTD	NTD	USD
1. Building and equipment	\$ 262,186	\$ 308,142	\$ 2,251,315	\$ 64,323
2. Machinery and equipment	3,217,762	6,604,205	10,314,086	294,688
3. Other equipment	1,372	808	1,011	29
4. Refundable deposits	33,664	34,611	125,451	3,584
5. Restricted assets	253,854	—	63,866	1,825
Total	<u>\$3,768,838</u>	<u>\$6,947,766</u>	<u>\$12,755,729</u>	<u>\$364,449</u>

35. SIGNIFICANT CONTINGENT LIABILITIES AND COMMITMENTS

As at December 31, 2001, the details of contingent liabilities and commitments of the Company are as follows:

- a. The Company has acted as a sub-contractor for processing electronic product and the unfinished consigned inventory amounted to NT\$2,209,550 (US\$63,130).
- b. The Company issued promissory notes of NT\$16,482,324 (US\$470,924) as guarantee for bank loans.
- c. Guarantee given by bank for payment of input tax imposed for sales from tax free zone to non-tax free zone amounted to NT\$20,000 (US\$571).
- d. The input tax amounted to NT\$1,209 (US\$35) for import of raw materials.
- e. Unutilized letters of credit:

	<u>L/C Amount</u>	<u>L/C Margin Deposit</u>
USD	5,118	—
JPY	64,526	—
EUR	1,754	—
NTD	2,106	—

- f. Post-dated checks issued for the payment of leased assets amounted to NT\$1,072,447 (US\$30,641).
- g. The Company issued promissory notes of NT\$10,000 (US\$286) to a bank as guarantee for the employment of foreign workers.

36. DISASTROUS EVENTS

None

37. SUBSEQUENT EVENTS

None

38. OTHERS

(1) The fair value of financial instruments

	December 31, 1999	
	Book value	Fair value
	NTD	NTD
Assets		
Cash and cash equivalents	\$3,114,297	\$3,114,297
Notes and accounts receivable	2,656,148	2,656,148
Long-term investment	3,545,837	(Note)
Refundable deposits	36,132	36,132
Liabilities		
Short-term loans	1,006,605	1,006,605
Short-term notes payable	295,454	295,454
Notes and accounts payable	1,909,577	1,909,577
Convertible bonds payable	3,056,007	3,056,007
Long-term loans (including of Current portion)	1,362,017	1,362,017
Long-term notes payable	1,974,592	1,974,592
Deposits received	\$ 3,398	\$ 3,398

	December 31, 2000	
	Book value	Fair value
	NTD	NTD
Assets		
Cash and cash equivalents	\$1,032,495	\$1,032,495
Short-term investment	420,928	648,074
Notes and accounts receivable	2,573,094	2,573,094
Long-term investment	4,307,429	(Note)
Refundable deposits	44,488	44,488
Liabilities		
Short-term loans	3,411,587	3,411,587
Short-term notes payable	573,464	573,464
Notes and accounts payable	1,837,489	1,837,489
Convertible bonds payable (including of current portion)	2,718,451	2,718,451
Long-term loans (including of current portion)	4,818,999	4,818,999
Long-term notes payable	3,948,698	3,948,698
Deposits received	\$ 3,598	\$ 3,598

	December 31, 2001	
	Book value	Fair value
	NTD	NTD
Assets		
Cash and cash equivalents	\$ 555,889	\$ 555,889
Short-term investments.	92,772	108,187
Notes and accounts receivable.	1,586,804	1,586,804
Long-term investment	3,781,114	(Note)
Refundable deposits.	125,451	125,451
Liabilities		
Short-term loans	2,881,523	2,881,523
Short-term notes payable	427,386	427,386
Notes and accounts payable	1,783,024	1,783,024
Convertible bonds payable	4,071	4,071
Long-term loans (inclusive of current portion).	5,446,926	5,446,926
Long-term notes payable	3,975,739	3,975,739
Long-term lease liabilities (inclusive of current portion).	970,168	970,168
Long-term accounts payable	17,513	17,513
Deposits received	\$ 36,005	\$ 36,005

Note: Due to the elimination information it is not executable to estimate the fair value of the financial instruments in practice

(2) Long-term Rental Agreement

The Company has entered into a land rental agreement with the government which will expire on Jan. 31, 2002 – Feb. 28, 2010. The Company is required to apply to the government for renewal 3 months prior to the expiry date. If the Company failed to do so, the land will be returned to the government and the building on the land will be sold to another approved exporting enterprise within 6 months after the expiry date. If the Company failed to complete all the above-mentioned procedures within 6 months, the government has the right to dispose the property on the land on the behalf of the Company. The government has the right to adjust the rent based on the publicly announced land value. The government also has the right to terminate the contract if the Company is in breach of the contract or failed to pay the rent over 4 months or violates the civil law or the land law. During 1999, 2000 and 2001 the rental expense amounted to NT\$7,794, NT\$10,758 and NT\$13,725 (US\$392), respectively.

39. DISCLOSURE OF DERIVATIVE FINANCIAL INSTRUMENT

(1) The details contracts of the Company's foreign currency options were as follows:

(1) Contract amount or nominal principal and credit risk.

	Dec. 31, 1999		Dec. 31, 2000		Dec. 31, 2001	
	Nominal principle	Credit Risk	Nominal principle	Credit Risk	Nominal principle	Credit Risk
	USD		USD		USD	
Buy USD Call	\$8,000	—	\$ 20,000	—	—	—
Sell USD Call. . . .	—	—	\$7,000	—	\$13,750	—
Sell USD Put	\$8,000	—	\$280,000	—	—	—
Buy USD Put	—	—	—	—	\$ 7,000	—

The Company's trading parties were banks with good credit, and it expected that the banks would not breach the contracts. Therefore, the credit risk is minimum.

(2) Market price risk

The characteristics of the transactions are to hedge risk. The gains and losses due to the fluctuation of market exchange rates are offset against the gains and losses of the hedged items. As a result, the market price risk is not significant.

- (3) The amount, period and uncertainty of liquidity risk, cash flow risk and future cash demands:

A. The Company enters into contracts of financial instrument options for the purpose of hedging risk and the Company's working capital is sufficient for those options. Therefore, liquidation risk and cash flow risk are insignificant.

B. Amounts & timing of the future cash demands:

The settlements of the transactions mentioned above depend on whether they are beneficial to the company or the trading party. The amounts and timing of the future cash demands depend on the fluctuation of exchange rates in the future. If the both parties of the options decide to settle the options, the company will have NT\$68,340 and JPY2,347,875 cash inflow and US\$20,750 cash outflow. If such settlement is not occurred, no cash flow will be incurred.

- (4) A. The kinds and transaction terms of the derivative financial instruments.

December 31, 1999

Contracts	Trade Date	Settlement Date	Settlement exchange rate (USD: JPY)
Sell USD Call/JPY Put.	1999.12. 6.	2000. 1.17.	105.8
	1999.12. 6.	2000. 2. 4.	107
	1999.12.10.	2000. 1.17.	105.8
	1999.12.10.	2000. 2. 9.	107.1
	1999.12.15.	2000. 2.15.	108
	1999.12.28.	2000. 2.25.	107
	1999.12.28.	2000. 3.29.	108.8
(USD: NTD)			
Buy USD Put/NTD Call.	2000.12. 6.	2000. 1.17.	31.565
	2000.12.10.	2000. 1.17.	31.55
	1999.12.15.	2000. 1.13.	31.58
	1999.12.28.	2000. 1.17.	31.48

December 31, 2000

Contracts	Trade Date	Settlement Date	Settlement exchange rate (USD: JPY)
Sell USD Call/JPY Put.	2000.10.16.	2001. 4.16.	110.00
	2000.10.16.	2001. 4.16.	115.00
(USD: NTD)			
Sell USD Call/NTD Put	2000.10.13.	2001.10.15.	33.00
	2000.10.16.	2001.11.15.	33.00
	2000.11.20.	2001. 5.18.	34.00
(USD: JPY)			
Buy USD Call/JPY Put	2000. 7.12.	2001. 1.12.	108.50
	2000. 9.14.	2001. 1.16.	108.50
	2000. 9.14.	2001. 2.16.	108.50
	2000. 9.14.	2001. 3.15.	108.50
	2000.11.21.	2001. 3.20.	110.00
	2000.11.21.	2001. 4.19.	110.00
	2000.11.21.	2001. 5.18.	110.00
	2000.11.21.	2001. 6.20.	110.00
	2000.11.21.	2001. 7.18.	110.00
	2000.10. 4.	2001. 3. 2.	109.55
	2000.10. 4.	2001. 4. 4.	109.55

<u>Contracts</u>	<u>Trade Date</u>	<u>Settlement Date</u>	<u>Settlement exchange rate</u> (USD: JPY)
	2000.10. 4.	2001. 5. 1.	109.55
	2000.10. 4.	2001. 6. 4.	109.55
	2000.10. 4.	2001. 7. 3.	109.55
	2000.10. 4.	2001. 8. 2.	109.55
	2000.10. 4.	2001. 9. 4.	109.55
	2000. 9.13.	2001. 1.16.	109.00
	2000. 9.13.	2001. 2.16.	109.00
	2000. 9.13.	2001. 3.15.	109.00
	2000. 9.13.	2001. 4.16.	109.00
Sell USD Put/JPY Call	2000. 7.12.	2001. 1.12.	108.50
	2000. 9.14.	2001. 1.16.	108.50
	2000. 9.14.	2001. 2.16.	108.50
	2000. 9.14.	2001. 3.15.	108.50
	2000.11.21.	2001. 3.20.	108.50
	2000.11.21.	2001. 4.19.	108.50
	2000.11.21.	2001. 5.18.	108.50
	2000.11.21.	2001. 6.20.	108.50
	2000.11.21.	2001. 7.18.	108.50
	2000.10. 4.	2001. 3. 2.	109.55
	2000.10. 4.	2001. 4. 4.	109.55
	2000.10. 4.	2001. 5. 1.	109.55
	2000.10. 4.	2001. 6. 4.	109.55
	2000.10. 4.	2001. 7. 3.	109.55
	2000.10. 4.	2001. 8. 2.	109.55
	2000.10. 4.	2001. 9. 4.	109.55
	2000. 9.13.	2001. 1.16.	109.00
	2000. 9.13.	2001. 2.16.	109.00
	2000. 9.13.	2001. 3.15.	109.00
	2000. 9.13.	2001. 3.15.	109.00
	2000. 9.13.	2001. 4.16.	109.00
			(USD: NTD)
Sell USD Put/NTD Call	2000.11.16.	2001. 2.22.	31.80
	2000.11.15.	2001. 2.22.	31.79

December 31, 2001

<u>Contracts</u>	<u>Trade Date</u>	<u>Settlement Date</u>	<u>Settlement exchange rate</u> (USD: JPY)
Sell USD Call/ JPY Put	2001.10.17.	2002. 4.16.	124.50
	2001.11.16.	2002. 5.16.	120.50
	2001.12. 4.	2002. 2.22.	125.50
	2001.12. 4.	2002. 1. 9.	125.50
	2001.12.17.	2002. 1.24.	131.00
	2001.12.17.	2002. 2.22.	131.00
	2001.12.17.	2002. 3.22.	131.00
	2001.12. 7.	2002. 3. 7.	121.00
	2001.10. 2.	2002. 1.31.	118.00
			(USD: NTD)
Buy USD Put/ NTD Call	2001. 6.21.	2002. 2.22.	34.17
			(USD: JPY)
Buy USD Put /JPY Call	2001.12. 4.	2002. 2.22.	125.50
	2001.12. 4.	2002. 1. 9.	125.50
	2001.12.17.	2002. 1.24.	131.00
	2001.12.17.	2002. 2.22.	131.00
	2001.12.17.	2002. 3.22.	131.00

- B. The purpose of foreign currency options is to hedge the risk resulted from the exchange rate for the foreign currency receivable and payable. The Company's hedging policy is to hedge the major market price risk. The Company uses the derivative financial instruments, which had highly negative correlation with the fair values of the hedged items as hedging instruments. The Company evaluated those instruments periodically.

(2) Forward Contract Purchased in Advance

Dec. 31, 2000

<u>Category</u>	<u>Contract Amount Expiring Date</u>	<u>Credit Risk</u>	<u>Market Risk</u>	<u>Cash Requirement</u>	<u>Fair Market USD</u>
Forward Contract Purchased in Advance.	US\$10,000 February 23, 2001	No Credit risk because the contract was signed with banks with good credit and amount of transactions was within facility limit.	No market risk because the contract was made for hedging purpose.	No extra cash was required	\$10,000

INDEPENDENT AUDITORS' REVIEW REPORT
English Translation of a Report Originally Issued in Chinese

The Board of Directors and stockholders
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

We have reviewed the accompanying balance sheets of Orient Semiconductor Electronics Limited as of September 30, 2001 and 2002, and the related statements of income, changes in stockholders' equity and cash flows for the nine-month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report on these financial statements based on our review.

Except for the matters mentioned in the third paragraph below, our reviews were made in accordance with No. 36 of Statements of Auditing Standards "Review of Interim Financial Statements" which consist principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such opinion.

As stated in Note 12 to the financial statements, the Company's long-term investments, which are accounted for under equity method, were NT\$2,333,960 thousand and NT\$2,071,489 thousand as of September 30, 2001 and 2002, respectively. Under the equity method, the Company's share of operating losses as of September 30, 2001 and 2002 amounted to NT\$468,594 thousand and NT\$568,815 thousand, respectively, and were based on the investee companies' unaudited financial statements, which have not been subject to the review procedures described in the first paragraph to review the book values of the long-term investments as of September 30, 2001 and 2002, and the share of the operating results of the above investments as at September 30, 2001 and 2002.

Based on our review, we are not aware of any material modifications or adjustments, except for those noted in the third paragraph above, that should be made to the financial statements referred to above in order for them to be in conformity with accounting principles generally accepted in the Republic of China on Taiwan.

The financial statements of Orient Semiconductor Electronics Limited for the nine-month period ended September 30, 2002 expressed in US dollars, have been translated from the New Taiwan dollars financial statements using the exchange rate prevailing at September 30, 2002. The basis of this translation is not in accordance with generally accepted accounting principles in the Republic of China, accordingly, we do not express an opinion thereon.

Diwan, Ernst & Young

October 24, 2002
Kaohsiung, Taiwan
Republic of China on Taiwan

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

BALANCE SHEETS
SEPTEMBER 30, 2001 AND 2002
(Unaudited)

(Unless otherwise stated, all amounts expressed in Thousand Dollars)

		September 30					
		2001		2002		2002 US\$	
	Notes	Amount	%	Amount	Amount	%	
ASSETS							
Current assets							
Cash and cash equivalents	2.b/4	NT\$ 939,548	3.12	NT\$ 154,754	US\$ 4,427	0.56	
Short-term investments.	2.c/5	122,665	0.41	6,276	180	0.02	
Notes receivable — Non-Affiliates . .	2.d/6	34,868	0.12	12,507	358	0.04	
Notes receivable — Affiliates	2.d/7/32	74,639	0.25	1,429	41	0.01	
Accounts receivable — Non-Affiliates	2.d/8	1,157,307	3.85	1,797,355	51,412	6.52	
Accounts receivable — Affiliates . . .	2.d/9/32	578,788	1.92	588,699	16,839	2.14	
Other accounts receivable							
— Non-Affiliates		141,585	0.47	388,672	11,118	1.41	
Other accounts receivable — Affiliates	32	224,911	0.75	125,728	3,596	0.46	
Inventories	2.e/10	1,048,576	3.48	889,140	25,433	3.23	
Prepayments	11	47,909	0.16	46,200	1,321	0.17	
Deferred income tax assets-current . .	2.j/30	76,235	0.25	43,625	1,248	0.16	
Restricted assets	33	11,895	0.04	258,778	7,402	0.94	
Other current assets		52,861	0.17	78,396	2,242	0.28	
Total current assets		4,511,787	14.99	4,391,559	125,617	15.94	
Long-term investments							
Long-term equity investments	2.f/12	3,876,428	12.88	3,586,956	102,602	13.02	
Prepayment for long-term investments		6,000	0.02	9,000	257	0.03	
Total long-term investments		3,882,428	12.90	3,595,956	102,859	13.05	
Property, plant and equipment		2.g/13/33					
Cost							
Building and equipment		5,017,229	16.67	5,286,064	151,203	19.19	
Machinery and equipment.		19,138,750	63.60	18,054,865	516,444	65.55	
Transportation equipment		13,901	0.05	13,901	398	0.05	
Furniture and fixtures		11,870	0.04	50,790	1,453	0.18	
Leased assets		217,444	0.72	1,179,330	33,734	4.28	
Leasehold improvements		2,865	0.01	2,865	82	0.01	
Other equipment		233,901	0.78	234,908	6,719	0.85	
Revaluation surplus		10,900	0.04	10,900	312	0.04	
Cost and Revaluation.		24,646,860	81.91	24,833,623	710,344	90.15	
Less: Accumulated depreciation. . . .		(7,320,066)	(24.33)	(9,369,278)	(268,000)	(34.01)	
Net property, plant and equipment.		17,326,794	57.58	15,464,345	442,344	56.14	
Construction in progress.		679,760	2.26	739,840	21,162	2.69	
Prepayment for purchases of fixed assets.		1,070,694	3.56	625,646	17,896	2.27	
Total property, plant and equipment		19,077,248	63.40	16,829,831	481,402	61.10	
Other assets							
Assets rented out.	2.g/15	18,093	0.06	203,622	5,825	0.74	
Idle assets	2.g/16	0	0.00	0	0	0.00	
Refundable deposits.	33	105,791	0.35	156,826	4,486	0.57	
Deferred expenses	2.h	301,655	1.00	238,302	6,816	0.87	
Deferred income tax assets-non-current	2.j/30	2,176,477	7.23	2,121,941	60,696	7.70	
Other assets		19,731	0.07	7,031	201	0.03	
Total other assets		2,621,747	8.71	2,727,722	78,024	9.91	
Total assets		NT\$30,093,210	100.00	NT\$27,545,068	US\$787,902	100.00	

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

BALANCE SHEETS — (Continued)
SEPTEMBER 30, 2001 AND 2002
(Unaudited)

(Unless otherwise stated, all amounts expressed in Thousand Dollars)

		September 30					
		2001		2002		2002 US\$	
	Notes	Amount	%	Amount	Amount	%	
LIABILITIES AND STOCKHOLDERS' EQUITY							
EQUITY							
Current liabilities							
Short-term loans	17	NT\$ 3,387,893	11.26	NT\$ 3,438,558	US\$ 98,357	12.48	
Short-term notes payable	18	468,012	1.56	368,602	10,544	1.34	
Notes payable — Non-Affiliates		30,260	0.10	21,039	602	0.08	
Other notes payable — Non-Affiliates . .		77,241	0.26	54,897	1,570	0.20	
Accounts payable — Non-Affiliates		1,343,298	4.46	2,688,209	76,894	9.76	
Accounts payable — Affiliates	32	153,162	0.51	183,030	5,235	0.66	
Accrued expenses		345,845	1.15	461,700	13,207	1.68	
Current portion of long-term loans	20	917,558	3.05	1,998,664	57,170	7.26	
Current portion of long-term lease liabilities	22	129,400	0.43	388,911	11,124	1.41	
Other current liabilities		51,460	0.17	557,207	15,938	2.02	
Total current liabilities.		6,904,129	22.95	10,160,817	290,641	36.89	
Long-term liabilities							
Convertible bonds payable	19	3,964	0.01	—	—	—	
Long-term loans-Net of current portion .	20	4,632,174	15.39	4,183,430	119,663	15.19	
Long-term notes payable	21	3,970,326	13.19	1,704,576	48,758	6.19	
Long-term accounts payable		23,856	0.08	—	—	—	
Long-term lease liabilities — Net of current portion	22	68,044	0.23	405,105	11,588	1.47	
Total long-term liabilities.		8,698,364	28.90	6,293,111	180,009	22.85	
Other liabilities							
Accrued pension liabilities	2.i/14	126,459	0.42	147,361	4,215	0.53	
Deposits received		35,902	0.12	8,351	239	0.03	
Deferred intercompany profit		39,971	0.13	36,220	1,036	0.13	
Other liabilities — other	2.f	193,625	0.64	467,924	13,385	1.70	
Total other liabilities		395,957	1.31	659,856	18,875	2.39	
Total liabilities		15,998,450	53.16	17,113,784	489,525	62.13	
Stockholders' equity							
Capital stock	23						
Common stock		10,913,826	36.27	10,913,826	312,180	39.62	
Preferred stock		1,500,000	4.99	1,500,000	42,906	5.45	
Capital surplus	25						
Premium on common stock.		1,881,535	6.25	1,881,535	53,820	6.83	
Premium on preferred stock		223,771	0.74	223,771	6,401	0.81	
Premium on convertible bonds payable . .		395,107	1.31	395,107	11,302	1.43	
Asset revaluation surplus		63	0.00	—	—	—	
Gain on disposal of fixed assets		51,472	0.17	—	—	—	
Long-term investments.		10,628	0.04	7,651	219	0.03	
Accrued interest on convertible bond .		159,401	0.53	159,401	4,559	0.58	
Legal reserve	26	520,887	1.73	—	—	—	
Special reserve	27	6,964	0.02	—	—	—	
Retained earning	28	(1,713,478)	(5.69)	(4,838,903)	(138,413)	(17.57)	
Accumulated translation adjustments . . .		241,515	0.80	285,827	8,176	1.04	
Treasury stock	2.i/24	(96,931)	(0.32)	(96,931)	(2,773)	(0.35)	
Total stockholders' equity		14,094,760	46.84	10,431,284	298,377	37.87	
Total liabilities and stockholders' equity .		NT\$30,093,210	100.00	NT\$27,545,068	US\$787,902	100.00	

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

English Translation of Financial Statements Originally Issued in Chinese

ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

STATEMENTS OF INCOME
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2002
(Unaudited)

(Unless otherwise stated, all amounts expressed in Thousand Dollars)

Item	Notes	January 1, 2001– September 30, 2001		January 1, 2002– September 30, 2002		
		Amount	%	Amount	Amount	%
Gross Sales	29	NT\$7,814,326	100.53	NT\$9,626,731	US\$275,364	101.32
Less: Sales returns and allowances. . . .		(41,012)	(0.53)	(125,714)	(3,596)	(1.32)
Net sales		7,773,314	100.00	9,501,017	271,768	100.00
Cost of goods sold.		(8,862,930)	(114.02)	(10,383,364)	(297,007)	(109.29)
Gross profit (loss)		(1,089,616)	(14.02)	(882,347)	(25,239)	(9.29)
Unrealized intercompany (profit) loss. . .		661	0.01	(485)	(14)	(0.00)
Realized intercompany profit (loss)		35,839	0.46	208	6	0.00
Net gross profit (loss)		(1,053,116)	(13.55)	(882,624)	(25,247)	(9.29)
Selling and administration expenses. . . .		(851,337)	(10.95)	(775,309)	(22,177)	(8.16)
Operating income (loss)		(1,904,453)	(24.50)	(1,657,933)	(47,424)	(17.45)
Non-operating Income						
Interest income		6,328	0.08	5,304	152	0.06
Investment income		10,750	0.14	—	—	—
Dividend income.		718	0.01	—	—	—
Gain on disposal of fixed assets		8,251	0.11	4,454	127	0.05
Gain on disposal of investments		885,638	11.39	346,103	9,900	3.64
Gain on physical inventories.	2.e	1,167	0.02	209	6	0.00
Gain on foreign exchange.	2.a	223,859	2.88	145,143	4,152	1.53
Rental income.		2,188	0.03	3,739	107	0.04
Other income		23,255	0.30	27,919	798	0.29
Subtotal		1,162,154	14.96	532,871	15,242	5.61
Non-operating expenses						
Interest expense		(450,667)	(5.80)	(421,238)	(12,049)	(4.43)
Investment loss		(547,689)	(7.05)	(572,545)	(16,377)	(6.03)
Loss on disposal of fixed assets		(3,062)	(0.04)	(1,483)	(43)	(0.02)
Loss on physical inventories.		(1,213)	(0.02)	(205)	(6)	(0.00)
Loss on foreign exchange.	2.a	(205,566)	(2.64)	(220,300)	(6,302)	(2.32)
Loss on decline in value of inventories	2.e	(38,077)	(0.49)	(17,236)	(493)	(0.18)
Loss on idle assets		(1,076)	(0.01)	(1,075)	(31)	(0.01)
Other loss		(32,780)	(0.42)	(56,366)	(1,612)	(0.59)
Subtotal		(1,280,130)	(16.47)	(1,290,448)	(36,912)	(13.58)
Pretax loss from continuing operations. .		(2,022,429)	(26.01)	(2,415,510)	(69,094)	(25.42)
Income tax credit	2.j/30	150,999	1.94	64,457	1,844	0.68
Net income (loss)		(NT\$1,871,430)	(24.07)	(NT\$2,351,053)	(US\$ 67,250)	(24.74)
Earnings per share (Expressed in Dollars)						
Primary earnings per share	2.k/31	(NT\$ 1.73)		(NT\$ 2.24)	(US\$ 0.06)	
Diluted earnings per share	2.k/31	(NT\$ 1.73)		(NT\$ 2.24)	(US\$ 0.06)	

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE PERIODS FROM JANUARY 1 TO SEPTEMBER 30, 2001 AND JANUARY 1 TO SEPTEMBER 30, 2002
(Unaudited)

(Unless otherwise stated, all amounts expressed in Thousand Dollars)

	Common stock	Preferred stock	Capital Surplus	Legal Reserve	Special Reserve	Retained Earnings	Accumulated Translation Adjustment	Treasury Stock	Total
Balance at January 1, 2001	NT\$ 9,931,428	—	NT\$3,485,335	NT\$513,382	NT\$110,917	NT\$ 67,693	NT\$155,926	(NT\$85,669)	NT\$14,179,012
Cash issuance of preferred stock		NT\$1,500,000	223,771						1,723,771
Appropriation for legal reserve				7,505		(7,505)			—
Decrease of net worth for change of long-term investment ownership			(10,920)						(10,920)
Reversal of special reserve					(103,953)	103,953			—
Capital surplus transferred to capital	982,398		(982,398)					(11,262)	(11,262)
Redemption of treasury stocks									—
Gain on disposal of fixed assets, net of income tax, transferred to capital surplus			6,189			(6,189)			(1,871,430)
Net loss for the period ended September 30, 2001						(1,871,430)	85,589		85,589
Accumulated translation adjustments									
Balance at September 30, 2001	NT\$10,913,826	NT\$1,500,000	NT\$2,721,977	NT\$520,887	NT\$ 6,964	(NT\$1,713,478)	NT\$241,515	(NT\$96,931)	NT\$14,094,760
Balance at January 1, 2002	NT\$10,913,826	NT\$1,500,000	NT\$2,731,300	NT\$520,886	NT\$6,964	(NT\$3,025,895)	NT\$293,483	(NT\$96,931)	NT\$12,843,633
Loss set off by reserves and capital surplus			(71,487)	(520,886)	(6,964)	599,337			—
Decrease of net worth for change of long-term investment ownership			7,652			(61,292)			(53,640)
Net loss for the period ended September 30, 2002						(2,351,053)	(7,656)		(2,351,053)
Accumulated translation adjustments									(7,656)
Balance at September 30, 2002	NT\$10,913,826	NT\$1,500,000	NT\$2,667,465	—	—	(NT\$4,838,903)	NT\$285,827	(NT\$96,931)	NT\$10,431,284
US\$:									
Balance at January 1, 2002	US\$312,180	US\$42,906	US\$78,127	US\$14,899	US\$199	(US\$86,553)	US\$8,395	(US\$2,773)	US\$367,380
Loss set off by reserves and capital surplus			(2,045)	(14,899)	(199)	17,143			—
Decrease of net worth for change of long-term investment ownership			219			(1,753)			(1,534)
Net loss for the period ended September 30, 2002						67,250	(219)		67,250
Accumulated translation adjustments									(219)
Balance at September 30, 2002	US\$312,180	US\$42,906	US\$76,301	—	—	(US\$3,913)	US\$8,176	(US\$2,773)	US\$432,877

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

STATEMENTS OF CASH FLOWS
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2002
(Unaudited)
(Unless otherwise stated, all amounts expressed in Thousand Dollars)

Item	January 1, 2001– September 30, 2001	January 1, 2002– September 30, 2002	US\$
Cash flows from operating activities:			
Net income (loss)	(NT\$1,871,430)	(NT\$2,351,053)	(US\$67,250)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Bad debts	14,824	—	—
Gain on reversal of bad debts	—	(4,873)	(139)
Depreciation	2,044,836	2,249,807	64,354
Loss on decline in value of inventories	38,077	17,236	493
Amortization	126,756	98,270	2,811
Loss on decline in value of short-term investments	52,864	3,730	107
Loss on long-term investments	494,825	568,815	16,270
Investment income	(10,750)	—	—
Gain on disposal of investments	(885,638)	(346,103)	(9,900)
Gain on disposal of fixed assets	(8,252)	(4,454)	(127)
Loss on disposal of fixed assets	3,061	1,483	42
Depreciation of idle assets	1,076	1,075	31
Loss on idle assets written-back	(1,076)	(1,075)	(31)
Disposal of short-term investments	1,420,710	596,068	17,050
Decrease (Increase) in short-term investments	(930,000)	(406,000)	(11,613)
Decrease (Increase) in notes receivable — Non-Affiliates	22,203	(381)	(11)
Decrease (Increase) in notes receivable — Affiliates	(37,932)	83,478	2,388
Decrease (Increase) in accounts receivable — Non-Affiliates	491,569	(624,520)	(17,864)
Decrease (Increase) in accounts receivable — Affiliates	236,828	(356,758)	(10,205)
Decrease (Increase) in receivable of forward contract — net	4,771	—	—
Decrease (Increase) in other accounts receivable — Non-Affiliates	(141,465)	347,983	9,954
Decrease (Increase) in other accounts receivable — Affiliates	42,963	30,479	872
Decrease (Increase) in inventories	361,691	(4,479)	(128)
Decrease (Increase) in prepayments	(25,177)	(20,664)	(591)
Decrease (Increase) in deferred income tax assets — current	82,244	(12,965)	(371)
Decrease (Increase) in other current assets	15,800	79,293	2,268
Decrease (Increase) in deferred income tax assets — non-current	(233,243)	(51,492)	(1,473)
Increase (Decrease) in notes payable — Non-Affiliates	(10,130)	(11,002)	(315)
Increase (Decrease) in other notes payable — Non-Affiliates	4,611	(7,764)	(222)
Increase (Decrease) in accounts payable — Non-Affiliates	(243,864)	1,142,221	32,672
Increase (Decrease) in accounts payable — Affiliates	15,855	40,695	1,164
Increase (Decrease) in accrued expenses	(144,396)	96,050	2,748
Increase (Decrease) in other current liabilities	(43,489)	441,135	12,618
Increase (Decrease) in accrued pension liabilities	14,103	15,583	446
Increase (Decrease) in other accounts payable — Non-Affiliates	(19,917)	(42,182)	(1,207)
Foreign currency translation adjustments	100	(7,338)	(210)
Net cash provided by (used in) operating activities	883,008	1,560,298	44,631
Cash flows from investing activities:			
Disposal of fixed assets	308,329	1,548	44
Purchase of fixed assets	(1,637,532)	(559,729)	(16,011)
Disposal of long-term investments	1,080,389	246,187	7,042
(Increase) in long-term investments	(229,342)	(149,688)	(4,282)
(Increase) in prepayment for long-term investments	(1,500)	—	—
(Increase) in deferred expenses	(53,144)	(55,426)	(1,585)
Decrease (Increase) in refundable deposits	(61,303)	(31,375)	(897)
Decrease (Increase) in other assets — others	(11,394)	19,225	550
Decrease (Increase) in restricted assets	(11,895)	(194,913)	(5,575)
Net cash provided by (used in) investing activities	(617,392)	(724,171)	(20,714)

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

STATEMENTS OF CASH FLOWS — (Continued)
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2002
(Unaudited)
(Unless otherwise stated, all amounts expressed in Thousand Dollars)

Item	January 1, 2001– September 30, 2001	January 1, 2002– September 30, 2002	
Cash flows from financing activities:			
Increase (Decrease) in short-term loans	(23,694)	557,035	15,933
Increase (Decrease) in short-term notes payable	(105,452)	(58,784)	(1,681)
Increase (Decrease) in convertible bonds payable	(2,714,487)	(4,072)	(116)
Payment of long-term loans	(205,033)	(814,832)	(23,308)
Payment of long-term lease liabilities	(20,000)	(176,150)	(5,038)
Increase (Decrease) in long-term loans	935,766	1,550,000	44,336
Increase (Decrease) in long-term notes payable	21,628	(2,271,163)	(64,965)
Increase (Decrease) in deposits received	32,304	(27,655)	(791)
Increase (Decrease) in other current liabilities	7,996	1,021	29
Redemption of treasury stocks	(11,262)	—	—
Increase (Decrease) in capital received in advance	1,723,771	—	—
Net cash provided by (used in) financing activities	(358,463)	(1,244,600)	(35,601)
Foreign currency translation adjustments	(100)	7,338	210
Net increase (decrease) in cash	(92,947)	(401,135)	(11,474)
Cash, beginning of period	1,032,495	555,889	15,901
Cash, end of period	NT\$ 939,548	NT\$ 154,754	US\$ 4,427
Supplemental disclosure of cash flow information:			
Cash paid for interest during the period	NT\$ 499,904	NT\$ 417,743	US\$11,949
Cash paid for income tax during the period	—	—	—
Supplemental disclosure of non-cash investing and financing activities:			
Sale and back lease of fixed assets under capital lease	NT\$ 217,444	—	—
Current portion of long-term loans transferred from long-term loans	NT\$ 917,588	NT\$1,998,664	US\$57,170
Current portion of long-term lease liabilities transferred from long-term lease liabilities	NT\$ 129,400	NT\$ 388,911	US\$11,124
Sale and buy back of fixed assets	NT\$ 67,981	—	—
Other liabilities-others transferred from long-term investment	NT\$ 193,625	NT\$ 467,924	US\$13,385
Assets leased to others transferred from fixed assets	—	NT\$ 218,265	US\$ 6,243
Long-term investment transferred from accounts receivable — Affiliates	—	NT\$ 89,867	US\$ 2,571

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

English Translation of Financial Statements Originally Issued in Chinese
ORIENT SEMICONDUCTOR ELECTRONICS LIMITED

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2001 AND 2002

(Unless otherwise stated, all amounts expressed in Thousand Dollars)

1. ORGANIZATION AND OPERATION

Orient Semiconductor Electronics Limited (the Company) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China in June 1971. The principal activity of the Company is to engage in the manufacture, assembly, processing and sale of integrated circuits, parts for semiconductors, computer motherboards and related products. The shares of the Company commenced trading on the Taiwan stock exchange market in April 1994.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. 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 different foreign exchange rates applied when cash in foreign currency receivables or payables are settled, are credited or charged to income at the time of actual conversion or settlement. At the balance sheet date, assets and liabilities denominated in foreign currencies are translated at the rates of exchange in effect at that date; any resulting gains or losses are credited or charged to current income. Gains and losses on contracts designated as hedges of existing assets and liabilities are recognized in the statement of operations of the current year.

b. Cash equivalents

These represents all highly liquid debt instruments with maturity of three months or less.

c. Short-term investments

Short-term investments are stated at the lower of acquisition cost or market value.

d. Allowance for doubtful accounts

Allowance for doubtful accounts is determined based on the collectibility of receivables.

e. Inventories

Inventories are stated at the lower of cost or market value. Cost is computed using the weighted average method. Market value is determined based on replacement cost of raw materials, supplies and work in progress, or net realizable value of finished goods.

f. Long-term Investments

- (1) According to R.O.C GAAP, long-term equity investments with an equity interest greater than 20%, or the less than 20% but having significant influence, should be accounted for under equity method to record the share of the operating results of the investee company. However, when preparing quarterly financial statements, for those investee companies with equity interest of less than 50%, the Company is allowed not to use the equity method to record the share of the operating results of the investee company. Cash dividends received are accounted for as return on equity investments. Any difference arising from changes using the equity method, or a difference between the cost of the investment and the equity share, is amortized over five years. When a investee company issues new shares, and the Company's equity shareholding percentage is changed resulting from the fact that stockholders subscribed in a different ratio, the effects of changes are required to be recorded in the accounts of long-term investments, capital reserve and retained earnings.

- (2) Long-term equity investments not qualified for using the equity method are accounted for using the cost method. When the accounting method is changed from equity method to the cost method resulting from decreases in the shareholding percentage or for other reasons, the carrying amount of the investment account at the time of change is treated as the new cost base when the cost method is applied.

g. Property, plant and equipment and idle assets

(1) Purchased assets

Property, plant and equipment are stated at cost, except for land and certain equipments which are stated at valuation, and the idle assets are stated at realizable their net value. Depreciation is calculated by using the straight-line method, with rates based on guidelines on service lives prescribed by the government or the lease period. Major additions, replacements and betterments are capitalized while maintenance and repairs are expensed as incurred. When assets are retired or disposed of, the costs and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the statement of operations, the resulting gain after income tax is then transferred to the capital surplus account from retained earnings. However, gains on disposal of fixed assets were no longer transferred to capital reserve since 2001 according to the new R.O.C. regulations. Items, which have reached their full estimated useful lives, but are still in use, and have residual value, are depreciated using the same method over the new period. Assets not used for operating purposes are separated and recorded as idle assets based on their net realizable value. Assets used for rental purposes are also separated and recorded as “Assets leased to others”.

(2) Leased assets

If the lease is a capital lease, the lease payments will be capitalized as leased assets and stated at the lower of: (a) the present value of all future installment payments plus the residual payment; or (b) the fair market value at the beginning of the lease period. Depreciation is provided by using the straight-line method, with rates determined: (a) if a residual payment is required, are the estimated useful lives; (b) if no residual payment is required, are the lease period. Interest on the lease obligation is amortized are the lease period.

If the lease is an operating lease, the lease payment will be recorded as rental expense when the payment is made.

h. Deferred expenses

Deferred expenses included the cost of issued convertible bonds, software, power line cost and the cost of demolishing old plant, etc. The cost of issued convertible bonds is amortized using the straight-line basis over the outstanding period, while the others are amortized using the straight-line basis over 3–10 years. If the bonds are converted or bought back, the related amortization will be written off on prorate basis.

i. Retirement fund

- (1) As required by the Labor Standards Law, the Company makes regular contributions to a Retirement Fund that was established in 1986 to meet the employees’ retirement and termination benefits. The fund is administered by a committee and is deposited in the committee’s name with a government approved financial institution, which acts as the trustee.
- (2) The fund is separated from the Company, and was not included in the financial statements.
- (3) Effective from 1995, the Company adopted the R.O.C. SFAS NO.18 “Accounting for Pension Plans” and the measurement date was December 31, 1995. At the balance sheet date the pension liability is accrued when the accumulated benefit obligation is greater than the fair value of the plan assets. Also the net periodic pension cost was recognized effective from January 1, 1996. Unrecognized transitional net assets and obligations are

amortized using straight-line basis over 15 years. The prior period service cost and gains or losses on pension obligations are amortized using the straight-line basis over the average remaining service lives of the employees.

j. Income taxes

- (1) The Company adopted the R.O.C. SFAS NO.22 "Accounting for income taxes" for interperiod and intraperiod income tax allocation. Tax effects on taxable temporary differences are recognized as deferred tax liabilities. Tax effects on deductible temporary differences, operating loss carryforwards and investment tax credits are recognized as deferred tax assets. Valuation allowance for deferred tax assets are recognized to the extent that they can be realized.
- (2) Adjustments for the overstatement or understatement of tax liabilities in the prior periods are included in the tax provision of the current period.
- (3) Investment credits which the Company qualifies for under related regulations are recognized in the current period and shown as a deduction of tax expense.
- (4) The income tax payable on prior period undistributed retained earning is recorded as an income tax expense in the current period on the date the stockholders' resolution is made.

k. Earnings per share

Earnings per share are calculated based on the weighted average common shares outstanding. If there is a capital increase from cash injections, the weighted average number of shares is computed based on the period of share issue. Earnings per share of prior years are retroactively adjusted when there is capitalization from retained earnings or capital surplus. Preferred dividends are excluded when earnings per share calculations.

l. Treasury stock

Treasury stock is recorded at cost and shown as a deduction from stockholders' equity. When treasury stock is disposed, the resulting gain will be credited to the "capital surplus-treasury stock" account; if a loss is incurred, it will be set off against the "capital surplus-treasury stock" account first and any excess will be debited to the retained earnings.

3. THE REASONS AND EFFECTS FOR CHANGES IN ACCOUNTING PRINCIPLES

There were no major changes in accounting principles during the period.

4. CASH AND CASH EQUIVALENTS

	<u>Sep. 30, 2001</u>	<u>Sep. 30, 2002</u>	<u>Sep. 30, 2002</u>
Petty cash	NT\$ 100	NT\$ 657	US\$ 19
Cash in banks	933,041	150,359	4,301
Time deposits	—	3,738	107
Redeemable bond	<u>6,407</u>	<u>—</u>	<u>—</u>
Total	<u>NT\$939,548</u>	<u>NT\$154,754</u>	<u>US\$4,427</u>

5. SHORT-TERM INVESTMENTS

	<u>Sep. 30, 2001</u>	<u>Sep. 30, 2002</u>	<u>Sep. 30, 2002</u>
Quoted shares	NT\$165,529	NT\$ 6	US\$ 0
Beneficiary certificates	10,000	10,000	286
Less: Allowance for investment losses	<u>(52,864)</u>	<u>(3,730)</u>	<u>(106)</u>
Net	<u>NT\$122,665</u>	<u>NT\$6,276</u>	<u>US\$180</u>

6. NOTES RECEIVABLE — NON-AFFILIATES

	<u>Sep. 30, 2001</u>	<u>Sep. 30, 2002</u>	<u>Sep. 30, 2002</u>
Notes receivable	NT\$34,868	NT\$12,507	US\$358
Less: Allowance for bad debts	<u>(—)</u>	<u>(—)</u>	<u>(—)</u>
Net	<u>NT\$34,868</u>	<u>NT\$12,507</u>	<u>US\$358</u>

7. NOTES RECEIVABLE — AFFILIATES

	<u>Sep. 30, 2001</u>	<u>Sep. 30, 2002</u>	<u>Sep. 30, 2002</u>
Notes receivable	NT\$74,639	NT\$1,429	US\$41
Less: Allowance for bad debts	<u>(—)</u>	<u>(—)</u>	<u>(—)</u>
Net	<u>NT\$74,639</u>	<u>NT\$1,429</u>	<u>US\$41</u>

8. ACCOUNTS RECEIVABLE-NON — AFFILIATES

(1)

	<u>Sep. 30, 2001</u>	<u>Sep. 30, 2002</u>	<u>Sep. 30, 2002</u>
Accounts receivable	NT\$1,209,755	NT\$1,767,321	US\$50,553
Add: Accounts receivable to be factored	56,521	284,523	8,138
Less: Factored accounts receivable	(47,948)	(145,200)	(4,153)
Less: Allowance for bad debts	<u>(61,021)</u>	<u>(109,289)</u>	<u>(3,126)</u>
Net	<u>NT\$1,157,307</u>	<u>NT\$1,797,355</u>	<u>US\$51,412</u>

(2) In May 2001, the Company signed a loan agreement with a bank and used its accounts receivable as security (for a banking facility of NT\$300,000). In September 2001 and August 2002, certain of the Company's accounts receivable were factored to the bank.

(3) In May 2002, the Company signed a loan agreement with another bank and also used its accounts receivable as security (for a banking facility of NT\$80,000). As at September 30, 2002, this loan was fully repaid.

9. ACCOUNTS RECEIVABLE — AFFILIATES

	<u>Sep. 30, 2001</u>	<u>Sep. 30, 2002</u>	<u>Sep. 30, 2002</u>
Accounts receivable	NT\$608,291	NT\$597,259	US\$17,084
Less: Allowance for bad debts	<u>(29,503)</u>	<u>(8,560)</u>	<u>(245)</u>
Net	<u>NT\$578,788</u>	<u>NT\$588,699</u>	<u>US\$16,839</u>

10. INVENTORIES

	<u>Sep. 30, 2001</u>	<u>Sep. 30, 2002</u>	<u>Sep. 30, 2002</u>
Raw materials.	NT\$768,964	NT\$600,543	US\$17,178
Supplies.	173,589	101,916	2,915
Work in progress.	157,678	185,309	5,301
Finished goods	<u>92,924</u>	<u>119,685</u>	<u>3,423</u>
Total	1,193,155	1,007,453	28,817
Less: Allowance for declines in value of inventories	<u>(144,579)</u>	<u>(118,313)</u>	<u>(3,384)</u>
Net	<u><u>NT\$1,048,576</u></u>	<u><u>NT\$889,140</u></u>	<u><u>US\$25,433</u></u>

As at September 30, 2001 and 2002, inventories covered by fire insurance amounted to NT\$2,618,000 and NT\$2,978,000 (US\$85,183), respectively.

11. PREPAYMENTS

	<u>Sep. 30, 2001</u>	<u>Sep. 30, 2002</u>	<u>Sep. 30, 2002</u>
Advanced to suppliers	NT\$1,302	NT\$1,633	US\$ 47
Prepaid expenses.	30,529	26,082	746
Prepaid insurance	10,963	17,140	490
Prepaid income tax	3,799	489	14
Prepaid staff expenses	<u>1,316</u>	<u>856</u>	<u>24</u>
Total	<u><u>NT\$47,909</u></u>	<u><u>NT\$46,200</u></u>	<u><u>US\$1,321</u></u>

12. LONG-TERM INVESTMENTS

Investee Company	Type of stock	Sep. 30, 2001			Sep. 30, 2002		
		Amount	Owner-ship	Accounting Method	Amount	Owner-ship	Accounting Method
STRATEDGE.	Preferred stock	NT\$1,322	1.58%	Cost method	NT\$1,322 (US\$38)	1.50%	Cost method
ACTIONTEC	Common stock	13,175	13.26%	Cost method	13,175 (US\$377)	11.43%	Cost method
ACTIONTEC	Preferred stock	27,307	14.79%	Cost method	27,307 (US\$781)	14.79%	Cost method
SPINERGY	Preferred stock	82,283	7.93%	Cost method	82,283 (US\$2,354)	7.56%	Cost method
OSE PHILIPPINES, INC.	Common stock	1,481,665	91.18%	Equity method	1,358,532 (US\$38,860)	92.35%	Equity method
OSE PROPERTIES, INC.	Common stock	0	39.99%	Equity method	0 (US\$0)	39.99%	Equity method
@ Road	Preferred stock	16,956	4.88%	Cost method	9,571 (US\$274)	2.70%	Cost method
AUCTOR CORP.	Preferred stock	46,814	8.10%	Cost method	46,815 (US\$1,339)	8.10%	Cost method
OSE USA, INC.	Common stock	0	38.56%	Equity method	0 (US\$0)	54.66%	Equity method
OSE USA, INC.	Preferred stock	0	100.00%	Equity method	0 (US\$0)	100.00%	Equity method
SPARQTRON CORP.	Preferred stock	109,621	59.35%	Equity method	98,231 (US\$2,810)	54.45%	Equity method

Investee Company . . .	Type of stock	Sep. 30, 2001			Sep. 30, 2002		
		Amount	Owner-ship	Accounting Method	Amount	Owner-ship	Accounting Method
NEXFLASH	Preferred stock	47,907	5.66%	Cost method	47,907 (US\$1,370)	5.65%	Cost method
OSE INTERNATIONAL LTD.	Common stock	762,544	100.00%	Equity method	684,237 (US\$19,572)	100.00%	Equity method
LOBITECH INCORPORATED. . .	Preferred stock	161,490	12.52%	Cost method	161,490 (US\$4,619)	4.77%	Cost method
ATP	Common stock	173,755	22.50%	Equity method	110,383 (US\$3,158)	22.50%	Equity method
ATP	Preferred stock	—	—	—	74,786 (US\$2,139)	76.25%	Equity method
SILICON INTEGRATED SYSTEMS CORP. . .	Common stock	15	0.00%	Cost method	15 (US\$0)	0.00%	Cost method
CHIA FU ELECTRONICS CO., LTD.	Common stock	143,186	8.45%	Cost method	143,186 (US\$4,096)	7.48%	Cost method
ARDENTEC CORPORATION. . .	Common stock	237,500	11.85%	Cost method	237,500 (US\$6,793)	11.78%	Cost method
SCS HIGHTECH INC..	Common stock	161,696	12.07%	Equity method	213,244 (US\$6,100)	18.17	Cost method
INTEGRATED SILICON SOLUTION INC. . .	Common stock	9,192	0.31%	Cost method	6,332 (US\$181)	0.21%	Cost method
MEICER SEMICONDUCTOR INC.	Common stock	216,000	8.57%	Cost method	86,640 (US\$2,478)	8.57%	Cost method
RTECH TECHNOLOGY CO., LTD.	Common stock	184,000	5.33%	Cost method	184,000 (US\$5,263)	3.33%	Cost method
Subtotal		3,876,428			3,586,956 (US\$102,602)		
Prepayment for long-term investment . . .		6,000			9,000 (US\$257)		
Total		NT\$3,882,428			NT\$3,595,956 (US\$102,859)		

- (1) The Company's investment in OSE USA, INC. (4,877,193 shares) was made on October 28, 1999 by exchange of the Company's old investment in OSE INC. (16,000 shares). An unrealized gain of NT\$25,772 (US\$737) was booked in the deferred credit account.
- (2) As of September 30, 2001 and 2002, the guarantee given by the Company for securing OSE USA, INC.'s bank loan amounted to US\$ 18,000 and US\$15,000, respectively. Accordingly, it share of the investment loss was accounted for using the equity method. As of September 30, 2001 and 2002, total loss accounted for exceeded the book value of long-term investments by NT\$193,625 and NT\$467,924 (US\$13,385) and the net amount was transferred to other liabilities-other account.

- (3) The details of the Company's share of operating profit (loss) using the equity method are as follows:

Investee Companies	Jan. 1–Sep. 30		
	2001	2002	2002
OSE PHILIPPINES, INC.	(NT\$194,450)	(NT\$264,277)	(US\$ 7,559)
OSE PROPERTIES, INC.	(7,899)	0	0
OSE INTERNATIONAL LTD.	(63,464)	(33,535)	(959)
ATP	(24,123)	(9,311)	(266)
OSE USA, INC.	(189,408)	(210,559)	(6,023)
SPARQTRON CORP.	10,750	(25,782)	(738)
SCS HIGHTECH INC.	(15,481)	(25,351)	(725)
Net	<u>(NT\$484,075)</u>	<u>(NT\$568,815)</u>	<u>(US\$16,270)</u>

The above amounts were computed based on the management amounts of the investee companies for the nine month period ended September 30, 2001 and 2002 which have not been audited or reviewed, except that the share of operating losses of SCS HIGHTECH INC. for 2001 was based on the audited financial statements of the investee companies for the six month period ended June 30, 2001.

13. PROPERTY, PLANT AND EQUIPMENT

- (1) The capitalized interest for the periods ended September 30, 2001 and 2002, was NT\$26,436 and NT\$23,573 (US\$674), respectively, and are recorded separately under prepayments for purchases of fixed assets, construction in progress and related equipment. The interest expense before capitalization for the period ended September 30, 2002 amounted to NT\$444,812 (2001: NT\$477,103) and interest rate range was 3.096%–3.21% (2001: 4.766%–7.045%).
- (2) As at September 30, 2001 and 2002, fixed assets were insured for NT\$18,782,302 and NT\$18,366,072 (US\$525,345), respectively.
- (3) The details of accumulated depreciation are as follows:

Item	Sep. 30, 2001	Sep. 30, 2002	Sep. 30, 2002
Building and equipment	NT\$ 669,127	NT\$ 944,213	US\$ 27,008
Machinery and equipment.	6,511,667	8,029,144	229,667
Transportation equipment	9,808	11,116	318
Fixture and furniture	1,276	8,640	247
Leased assets	17,268	232,274	6,644
Leasehold improvements	2,865	2,865	82
Other equipment	108,055	141,026	4,034
Total Accumulated Depreciation	<u>NT\$7,320,066</u>	<u>NT\$9,369,278</u>	<u>US\$268,000</u>

(4) Details of leased assets:

Lessor	Assets	Amount		Lease period	Residual payment
		Sep. 30, 2001	Sep. 30, 2002		
CHAI LEASE FINANCE CO., LTD.	Machinery and equipment	NT\$217,444	NT\$217,444 (US\$6,220)	April 27, 2001– April 27, 2003	NT\$67,444 (US\$1,929)
YA I INTERNATIONAL LEASING CO.,	Machinery and equipment	—	142,321 (US\$4,071)	Dec. 27, 2001– June 27, 2003	Nil
CENTRAL LEASING CO., (K.H).	Machinery and equipment	—	817,106 (US\$23,373)	Dec. 31, 2001– Jan. 31, 2005	Nil
TYCO CAPITAL (Taiwan) LTD.	Machinery and equipment	—	2,459 (US\$70)	March 1, 2002– April 14, 2003	Nil
			NT\$1,179,330 (US\$33,734)		
		<u>NT\$217,444</u>	<u>(US\$33,734)</u>		

14. PENSION

- (1) Based on R.O.C. Statement of Financial Accounting Standard #18 “Pension Accounting”, the Company has completed its pension actuarial valuations for the years ended December 31, 2000 and 2001. Based on the actuarial report, no additional liability needed to be recognized as at December 31, 2000 and 2001 and the pension cost has been recognized from 1996. The minimum pension liability as of September 30, 2001 and 2002 was reconciled as follows:

	Sep. 30, 2001	Sep. 30, 2002	Sep. 30, 2002
Beginning balance of accumulated benefit obligations . . .	(NT\$284,786)	(NT\$349,652)	(US\$10,001)
Current pension cost	<u>(58,138)</u>	<u>(54,813)</u>	<u>(1,568)</u>
Accumulated benefit obligations	<u>(342,924)</u>	<u>(404,465)</u>	<u>(11,569)</u>
Beginning fair value of plan assets	270,497	295,709	8,459
Current Contribution	44,035	40,387	1,155
Pensions paid	<u>(43,930)</u>	<u>(45,057)</u>	<u>(1,289)</u>
Fair value of plan assets.	<u>270,602</u>	<u>291,039</u>	<u>8,325</u>
Minimum pension liability	<u>(72,322)</u>	<u>(113,426)</u>	<u>(3,244)</u>
Beginning balance of accrued pension liabilities	112,356	131,778	3,769
Current pension cost	<u>58,138</u>	<u>54,813</u>	<u>1,568</u>
Accrued pension liabilities	170,494	186,591	5,337
Contribution to plan assets	<u>(44,035)</u>	<u>(39,230)</u>	<u>(1,122)</u>
Minimum additional pension liabilities.	<u>—</u>	<u>—</u>	<u>—</u>
Ending balance of accrued pension liabilities	<u>NT\$126,459</u>	<u>NT\$147,361</u>	<u>US\$ 4,215</u>

- (2) The above pension costs were determined based on the 2000 and 2001 actuarial reports and recognized on a quarterly basis. The components of the Company’s pension cost for 2001 and 2002 are as follows:

Item	2001	2002	2002
Service Cost	NT\$56,125	NT\$54,274	US\$1,552
Interest Cost	27,767	22,261	637
Expected return on plan assets	(16,230)	(13,307)	(381)
Amortization of net transitional obligation	<u>9,856</u>	<u>9,856</u>	<u>282</u>
Net periodic pension cost	<u>NT\$77,518</u>	<u>NT\$73,084</u>	<u>US\$2,090</u>

(3) Actuarial assumptions:

	2001	2002
Discount rate	6.00%	4.50%
Rate of increase in salary	4.00%	2.50%
Expected long-term rate of return on plan assets	6.00%	4.50%

15. ASSETS LEASED TO OTHERS

Item	Sep. 30, 2001	Sep. 30, 2002	Sep. 30, 2002
Machinery and equipment	NT\$37,103	NT\$335,537	US\$9,598
Less: Accumulated depreciation	(19,010)	(131,915)	(3,773)
Net	<u>NT\$18,093</u>	<u>NT\$203,622</u>	<u>US\$5,825</u>

16. IDLE ASSETS

Item	Sep. 30, 2001	Sep. 30, 2002	Sep. 30, 2002
Building and machinery	NT\$12,612	NT\$12,612	US\$361
Less: Accumulated depreciation	(7,847)	(9,281)	(266)
Allowance for loss on decline in market value	(4,765)	(3,331)	(95)
Net	<u>NT\$ 0</u>	<u>NT\$ 0</u>	<u>US\$ 0</u>

17. SHORT-TERM LOANS

Nature	Sep. 30, 2001	Sep. 30, 2002	Sep. 30, 2002
Usance letter of credit loan	NT\$1,553,686	NT\$1,583,518	US\$45,295
Mortgage loan on machine and equipment	268,127	65,140	1,863
Credit loan	<u>1,566,080</u>	<u>1,789,900</u>	<u>51,199</u>
Total	<u>NT\$3,387,893</u>	<u>NT\$3,438,558</u>	<u>US\$98,357</u>

(1) The interest rate ranges for the periods ended September 30, 2001 and 2002, were 0.62%–7.75% and 0.63%–7.50%, respectively.

(2) As at September 30, 2001 and 2002 the due dates of the short-term loans were October 1, 2001–April 15, 2002 and October 9, 2002–March 29, 2003, respectively.

18. SHORT-TERM NOTES PAYABLE

Nature	Sep. 30, 2001	Sep. 30, 2002	Sep. 30, 2002	Remarks
Short-term commercial papers	NT\$470,000	NT\$370,000	US\$10,584	Guaranteed by bank
Less: Discount	(1,988)	(1,398)	(40)	
Net	<u>NT\$468,012</u>	<u>NT\$368,602</u>	<u>US\$10,544</u>	

19. CONVERTIBLE BONDS PAYABLE

(1) The details of convertible bonds were as follows:

	Sep. 30, 2001	Sep. 30, 2002	Sep. 30, 2002
Overseas convertible bonds second issue	NT\$3,452	—	—
Accrued interest on convertible bonds	<u>512</u>	<u>—</u>	<u>—</u>
Total	<u>NT\$3,964</u>	<u>—</u>	<u>—</u>

- (2) (i) On February 26, 1998, the Company issued overseas convertible bonds for US\$97.75 million. The details are as follows:

<u>Item</u>	<u>Trustee</u>	<u>Issued Place</u>	<u>Issued period</u>	<u>Amount</u>	<u>Security</u>
Unsecured bonds	The Bank of New York	Luxembourg	February 26, 1998 – February 26, 2003	US\$97.75 million	none

- (ii) Conversion conditions:

<u>Conversion Period</u>	<u>Conversion Price</u>	<u>Method of accounting for Bonds' Conversion Rights</u>
30 days after the date of issuance, except that no conversion is allowed during the period when registration of common stockholders and conversion right holders is prohibited by law.	NT\$33.90	Book Value method

- (iii) Call option and put option:

<u>Issuing company call option</u>	<u>Bond investors put option</u>
Callable in whole, or in part, on or after two years after the date of issuance, if (1) the closing market price of the Company's common stock, adjusted for parity, is exceeds 140% of the conversion price for each of 30 consecutive TSE trading days, or (2) 90% of the Company's bonds are converted, called or bought back, or cancelled.	Entitled to request the Company to redeem all or part of the bonds held by bondholder on or after three years after the date of issuance, at a price with interest at a rate of 6.75%.

- (iv) The interest rate was 1.5% per annum, payable in annual installments in arrears on February 26 in each year. The bonds were issued at face value so that there was no premium or discount.
- (v) As of September 30, 2002, part of the Company's overseas convertible bonds (US\$20,140) was converted into bond conversion rights (face value NT\$160,685). The total amounts of the premium for the conversion and its accrued interest were recorded in the capital surplus account.
- (vi) As of September 30, 2002, the amount of the second issue of the overseas convertible bonds bought back and redeemed by the Company in the open market was US\$13,850 and US\$63,760.

20. LONG-TERM LOANS

	<u>Sep. 30, 2001</u>	<u>Sep. 30, 2002</u>	<u>Sep. 30, 2002</u>
Mortgage loans on machinery and equipment	NT\$5,549,732	NT\$6,182,094	US\$176,833
Less: due within one year	(917,558)	(1,998,664)	(57,170)
Net	<u>NT\$4,632,174</u>	<u>NT\$4,183,430</u>	<u>US\$119,663</u>

- (1) For the periods ended September 30, 2001 and 2002, the loans carried borne interest at rates ranging 5.6871% – 7.565% and 3.4408% – 7.10%, respectively.
- (2) As at September 30, 2001 and 2002, the due dates of long-term loans were October 7, 2002–December 28, 2010 and October 7, 2002–December 28, 2010, respectively.
- (3) On May 30, 2000, the Company signed a syndicated loan contract with 20 banks. The contract period was 5 years and the amount of the loan facility was NT\$3,500,000. Within the contract period and before the full repayment of the loan, the Company is required to maintain the following financial ratios:
- (i) Current ratio: not less than 100%;
- (ii) Owners' equity: not less than 45%;

- (iii) Interest coverage: not less than 300%;
- (iv) Long-term investment to equity ratio: not more than 50%;

For the calculation of the above ratios, the Company's financial statements should be audited and based on the unconsolidated six-month financial statements and the annual consolidated financial statements.

- (4) In April 2002, the Company obtained permission from the banks to waive the requirements for maintaining the liquidity ratio, owners' equity ratio and interest coverage. In compensation for that, the Company agreed to pay NT\$2,100 (US\$60) (0.06% of the total loan amount) to the banks.

21. LONG-TERM NOTES PAYABLE

(1)

<u>Guarantor</u>	<u>Period</u>	<u>Interest Rates</u>	<u>Sep. 30, 2001</u>	
ABN and other financial institutions	April 9, 1999 to May 30, 2005	2.70% to 4.04%	NT\$4,000,000	
Less: Discount			(29,674)	
Net present value			3,970,326	
Less: Current portion			(—)	
Net			<u>NT\$3,970,326</u>	
<u>Guarantor</u>	<u>Period</u>	<u>Interest Rates</u>	<u>Sep. 30, 2002</u>	<u>Sep. 30, 2002</u>
ABN and other financial institutions	May 30, 2000 to May 30, 2005	1.857%:-1.93%	NT\$1,714,000	US\$49,028
Less: Discount			(9,424)	(270)
Net present value			1,704,576	48,758
Less: Current portion			(—)	(—)
Net			<u>NT\$1,704,576</u>	<u>US\$48,758</u>

- (2) On April 9, 1999 and May 30, 2000, the Company signed a loan agreement with ABN for issuing money market instruments and commercial papers, respectively. The terms of the loan agreement were for 5 years and the banking facility included two parts of NT\$2,000,000 each, totaling NT\$4,000,000. Within the contract period and before the full repayment of the loan, the Company is required to maintain the following financial ratios:

- (i) Current ratio: not less than 100%
- (ii) Owners' equity: not less than 45%
- (iii) Interest coverage: not less than 300%
- (iv) Long-term investment to equity ratio: not more than 50%
- (v) Without the prior consent of the majority of the bankers in writing, the amount of any of the Company's single long-term investment, except for the investment in Orient Semiconductor Electronics Philippines, Inc., cannot exceed NT\$500,000.

For the calculation of the above ratios, the Company's financial statements should be audited and based on the unconsolidated six-month financial statements and consolidated yearly financial statements.

- (3) In April 2002, the Company obtained permission from the banks to waive the above requirements of the agreement on May 30, 2000 for maintaining the liquidity ratio, owners' equity ratio and interest coverage. In compensation for that, the Company agreed to pay NT\$1,200 (US\$34) (0.06% of the total loan amount) to the banks.
- (4) In April 2002, the Company applied to the bank to extend the banking facility for a period of five months. In compensation for that, the Company agreed to pay NT\$3,075 (US\$88) to the bank. This agreement was terminated in September 2002.

22. LEASE LIABILITIES

- (1) The details are as follows:

	<u>Sep. 30, 2001</u>	<u>Sep. 30, 2002</u>	<u>Sep. 30, 2002</u>
CHALEASE FINANCE CO., LTD. — Payable in 9 installments with last payment on April 27, 2003	NT\$197,444	NT\$ 68,044	US\$ 1,946
YA I INTERNATIONAL LEASING CO., — payable by installment with last payment on June 27, 2003.	—	50,247	1,437
CENTRAL LEASING CO., (K.H) — payable in 37 installments with last payment on January 31, 2005	—	675,725	19,329
Less: Due within one year	(129,400)	(388,911)	(11,124)
Net	<u>NT\$ 68,044</u>	<u>NT\$405,105</u>	<u>US\$11,588</u>

- (2) The details of future lease payments are as follows:

<u>Year</u>	<u>Sep. 30, 2001</u>	<u>Sep. 30, 2002</u>	<u>Sep. 30, 2002</u>
2001	NT\$132,790	—	—
2002	855	NT\$141,789	US\$ 4,056
2003	67,856	304,620	8,713
2004	—	360,000	10,298
Total	<u>NT\$201,501</u>	<u>NT\$806,409</u>	<u>US\$23,067</u>

23. CAPITAL STOCK

- (1) As at January 1, 2001, the Company's authorized capital was NT\$14,000,000 with par value NT\$10 each, of which the publicly issued capital was NT\$9,931,428 divided into 993,142,807 shares. On September 21, 2001, the capital was increased by NT\$982,398 by way of transfer of capital surplus. The capital increase was approved by the Government authority. As of September 30, 2001 and 2002, the authorized capital both was NT\$14,000,000, of which the publicly issued capital was NT\$10,913,826 (US\$312,180) divided into 1,091,382,588 shares.

- (2) **Preferred stock**

On September 21, 2001, the Company issued preferred stock (cannot be issued to the public) in the amount of NT\$1,500,000 (US\$42,906), divided into 150,000,000 shares at par value of NT\$10 each and the details are as follows:

- (i) Preferred stock dividend is set at 5.6% and paid once per year. It will be paid after the approval by the Board of Directors in the following year.
- (ii) If the Company's distributable reserves are not sufficient, the preferred stock dividends will be in arrears and they will be paid once the Company has distributable reserves. However, if the preferred stock is converted into common stock, the preferred stock dividends in arrears would be fully paid.
- (iii) Except for fixed dividends, preferred stockholders are not entitled to other distributions from retained earnings and capital reserves.

- (iv) In the case of liquidation, the preferred stockholders are in preference to common stockholders in distribution of the remaining assets, but the amount is limited to the original issue amount.
- (v) The preferred stockholders do not have voting rights in the common stockholders' meeting. However, they are eligible for being elected as directors or supervisors and have voting rights in preferred stockholders' meetings.
- (vi) In case of new capital issued for cash, both preferred stockholders and common stockholders have the same privilege to subscribe.
- (vii) The preferred stocks must be converted into common stock by the end of a three-year period on one-to-one basis.
- (viii) When the premium on preferred stock is capitalized or all the preferred stock is converted into common stock, it must be approved by the preferred stockholders (it requires that over 50% of preferred stockholders attend a meeting and over two-thirds of these stockholders approve the resolution).

24. TREASURY STOCK (COMMON STOCK)

In order to encourage the employees' working spirit and improve efficiency, the Company bought back the treasury stock in the open market, and is reserved them for the employees. For the nine-month period ending September 30, 2002, 10,745 thousand shares were bought at a cost of NT\$96,931 (US\$2,773). According to the Securities Trading Law, the following restrictions are imposed on the treasury stock bought back by a company:

- (i) The repurchase cannot exceed 10% of its issued shares;
- (ii) The value of shares bought back cannot exceed the total amount of retained earnings, premium on capital stock and realized capital surplus;
- (iii) Treasury stock cannot be pledged. For the period ending September 30, 2002, the maximum number of treasury stock on hand was 10,745 thousand shares (cost: NT\$96,931).

25. CAPITAL SURPLUS

Year	Sep. 30, 2001	Sep. 30, 2002	Sep. 30, 2002
Premium on Common stock	NT\$1,881,535	NT\$1,881,535	US\$53,820
Premium on Preferred stock	223,771	223,771	6,401
Premium on convertible bonds	395,107	395,107	11,302
Asset revaluation surplus	63	—	—
Gain on disposal of fixed assets, net of income tax	51,472	—	—
Long-term investments	10,628	7,651	219
Accrued interest on convertible bonds	159,401	159,401	4,559
Total	<u>NT\$2,721,977</u>	<u>NT\$2,667,465</u>	<u>US\$76,301</u>

- (1) According to the Company Law revised in 2001, the capital reserve can only be used to set off losses. If the Company does not have losses, the capital reserve arising from the premium from the issuance of common stock or from donations can be used to increase capital.
- (2) According to the prevailing laws and regulations, if a company is using the capital reserve arising from assets revaluation to set off the Company's losses, the capital reserve must be replenished before dividends are declared. In the 2002 Annual General Meeting, the stockholders resolved to use the capital reserve as at September 30, 2002 to set off the Company's losses.

- (3) According to the prevailing laws and regulations, each year, the amount of capital increase transferred from capital reserve arising from premiums on issuance of capital stock and donations cannot exceed 10% of the Company's total issued capital.

26. LEGAL RESERVE

Under the provisions of the Company's Articles of Incorporation and in accordance with the Company Law, 10% of net income each year, after offsetting any accumulated deficit, must be transferred to a legal reserve, until such time as the reserve is equal to the capital. When the reserve is equal to 50% of the capital, 50% of the reserve may be capitalized.

27. SPECIAL RESERVE

In the Annual General meeting of 1997 and 1998, the stockholders resolved to transfer the 1996 and 1997 investment income accounted for under the equity method into special reserve.

As required by the SEC, if the Company has unrealized losses on long-term investment or a debit balance arising from accumulated translation adjustments in the stockholders' equity account as at year end, it cannot declare dividends unless the special reserve is properly funded to cover the following amounts:

- (1) For those debit amounts recorded for the year the amount of special reserve to be funded should not exceed the total amount of net income for the year plus the prior year's retained earnings.
- (2) For those debit amounts arising from occurred in prior years, the amount of the special reserve to be funded should not exceed the net amount of prior year's retained earnings less the amount as explained in (1) above. After the special reserve is funded, if the debit amounts in the stockholders' equity account are reversed, then the amount of the reversal can be declared as dividends.

28. RETAINED EARNINGS

The Company's dividend policy is decided after considering the following factors: Changes in the industry environment, growth of the enterprise, Company's future demands for working capital and long-term financing, and the stockholders' investment returns. Accordingly, pursuant to the amended Articles of Incorporation, each year net income, after set off of any prior losses, if any, should be allocated as follows:

- (1) Gain on disposal of fixed assets, net of tax transferred to capital surplus.
- (2) 10% of net income transferred to legal reserve.
- (3) Transferred to or for a reversal of the special reserve according to SEC regulations (see note 27).
- (4) Preferred stock dividend at 5.6%.
- (5) After (1)–(4), 1% of the remainder distributed as bonuses to directors and supervisors.
- (6) After (1)–(4), 10% of the remainder distributed as employee bonuses.
- (7) The balance, after (1)–(6) and setting aside funds for working capital, can be distributed as dividends in the proportion to the shares held by each of the stockholders. (cash dividend must not be lower than 10% of total dividends available, but it should not exceed 50% neither)

29. SALES

Product	Jan. 1, 2001– Sep. 30, 2001	Jan. 1, 2002– Sep. 30, 2002	Jan. 1, 2002– Sep. 30, 2002
Plastic integrated circuits	NT\$3,580,207	NT\$4,768,147	US\$136,389
Computer systems	679,263	643,232	18,399
Telecommunication products	2,201,951	2,103,148	60,159
Testing revenues	497,442	596,682	17,067
Computer peripheral products	634,952	1,347,713	38,550
Others	220,511	167,809	4,800
Total	<u>NT\$7,814,326</u>	<u>NT\$9,626,731</u>	<u>US\$275,364</u>

30. INCOME TAX

- (1) Based on the “Statute for Upgrading Industries” and other related regulations, income tax credit from investments in production automation equipment, pollution control machinery and equipment, research and development, employee training and technology are as follows:

Year	Jan. 1, 2001– Sep. 30, 2001	Jan. 1, 2002– Sep. 30, 2002	Jan. 1, 2002– Sep. 30, 2002	Year of expiry
1997	NT\$ 262,069	—	—	2001
1998	193,662	NT\$ 193,662	US\$ 5,539	2002
1999	496,571	485,833	13,897	2003
2000	937,854	971,155	27,779	2004
2001	—	124,035	3,548	2005
September 30, 2002 and 2001	<u>83,487</u>	<u>65,084</u>	<u>1,862</u>	2005–2006
Total income tax credits before utilization	1,973,643	1,839,769	52,625	
Less: Utilized for the period	<u>(30,407)</u>	<u>(—)</u>	<u>(—)</u>	
Unutilized income tax credit, end of period	<u>NT\$1,943,236</u>	<u>NT\$1,839,769</u>	<u>US\$52,625</u>	

- (2) The Company’s tax losses of NT\$35,370 for the year ended December 31, 1999 was approved, and the tax losses of NT\$3,630,000 for the year ended December 31, 2001 and the tax losses of NT\$2,100,000 for the nine-month period ended September 30, 2002 have not yet been approved. According to the tax laws, losses can be used to set off future taxable income for next 5 years.
- (3) During the period, the Company expanded its investment in integrated circuit packages and testing through a capital increase. The above investment was approved by the Government authority and a tax credit was granted for five years. The exemption period was from January 1, 1998 to December 31, 2002.
- (4) For the period ending September 30, 2001 and 2002, there was no estimated tax exempted income.
- (5) The income tax returns through 2000 have been approved by the tax authority.
- (6) As at September 30, 2001 and 2002, the details of the account balance of the stockholders’ Imputation Credit Account (ICA) are as follows:

	Sep. 30, 2001	Sep. 30, 2002	Sep. 30, 2002
Withholding tax on interest income	<u>NT\$64</u>	<u>NT\$64</u>	<u>US\$2</u>

- (7) The year end balance of the Company's undistributed retained earnings are allocated as follows:

	<u>Sep. 30, 2001</u>	<u>Sep. 30, 2002</u>	<u>Sep. 30, 2002</u>
Before 1997	NT\$ 11,732	NT\$ 11,732	US\$ 335
1998 and after	(1,725,210)	(4,850,635)	(138,748)
Total	<u>(NT\$1,713,478)</u>	<u>(NT\$4,838,903)</u>	<u>(US\$138,413)</u>

- (8) For 2001 and 2002, there was no tax deductible for retained earnings to be distributed to stockholders was.

- (9) The details of deferred income tax for the periods ended September 30, 2001 and 2002 are as follows:

January 1, 2001–September 30, 2001

(1) Deferred income tax assets	NT\$3,194,649
(2) Allowance for deferred income tax assets	(NT\$935,000)
(3) Deferred income tax liabilities	(NT\$6,937)
(4) Significant temporary differences resulting in deferred income tax assets or liabilities:	

<u>Item</u>	<u>Amount</u>	<u>Income Tax Effect</u>
Unrealized exchange gains	(NT\$27,746)	(NT\$6,937)
Unrealized exchange losses.	NT\$57,338	NT\$14,334
Allowance for bad debts.	NT\$70,683	NT\$17,671
Allowance for inventory loss	NT\$144,579	NT\$36,145
Demolition cost of building and equipment.	NT\$38,099	NT\$9,525
Unrealized pension expense	NT\$124,312	NT\$31,078
Unrealized intercompany profit	NT\$40,851	NT\$10,934
Unrealized investment losses	NT\$1,639,140	NT\$409,785
Others	NT\$5,277	NT\$1,319

(5) Income tax credits	—	NT\$1,943,236
(6) Tax loss carryforward	NT\$2,885,370	NT\$721,342

January 1, 2002–September 30, 2002

(1) Deferred income tax assets	NT\$4,026,295 (US\$115,168)
(2) Allowance for deferred income tax assets	(NT\$1,837,039) (US\$52,547)
(3) Deferred income tax liabilities	(NT\$23,690) (US\$677)
(4) Significant temporary differences resulting in deferred income tax assets or liabilities:	

<u>Item</u>	<u>Amount</u>	<u>Income Tax Effect</u>
Unrealized exchange gains	(NT\$94,761) (US\$2,711)	(NT\$23,690) (US\$677)
Unrealized exchange losses.	NT\$60,315 US\$1,725	NT\$15,079 US\$431
Allowance for bad debts.	NT\$90,216 US\$2,581	NT\$22,554 US\$645
Allowance for inventory loss	NT\$118,313 US\$3,384	NT\$29,578 US\$846
Unrealized pension expense	NT\$144,735 US\$4,140	NT\$36,184 US\$1,035
Demolition cost of building and equipment	NT\$48,928 US\$1,399	NT\$12,232 US\$350
Unrealized investment losses	NT\$2,478,078 US\$7,088	NT\$619,520 US\$17,721
Unrealized gain on disposal of investment	NT\$25,772 US\$737	NT\$6,443 US\$184
Unrealized intercompany profit	NT\$10,892 US\$312	NT\$2,723 US\$78
Others	NT\$3,485 US\$100	NT\$871 US\$25

(5) Income tax credits	—	—	NT\$1,839,769	US\$52,625
(6) Tax loss carryforward	NT\$3,515,370	US\$100,554	NT\$1,441,342	US\$41,228

(10)

	<u>Sep. 30, 2001</u>	<u>Sep. 30, 2002</u>	<u>Sep. 30, 2002</u>
Deferred income tax assets-current	NT\$330,172	NT\$260,977	US\$7,465
Allowance for deferred income tax assets-current	<u>(247,000)</u>	<u>(193,662)</u>	<u>(5,540)</u>
Net deferred income tax assets-current	83,172	67,315	1,925
Deferred income tax liabilities-current	<u>(6,937)</u>	<u>(23,690)</u>	<u>(677)</u>
Net	<u>NT\$ 76,235</u>	<u>NT\$ 43,625</u>	<u>US\$1,248</u>

(11)

	<u>Sep. 30, 2001</u>	<u>Sep. 30, 2002</u>	<u>Sep. 30, 2002</u>
Deferred income tax assets-non-current	NT\$2,864,477	NT\$3,765,318	US\$107,703
Allowance for deferred income tax assets-non-current	<u>(688,000)</u>	<u>(1,643,377)</u>	<u>(47,007)</u>
Net deferred income tax assets-non-current	2,176,477	2,121,941	60,696
Deferred income tax liabilities-non-current	<u>(—)</u>	<u>(—)</u>	<u>(—)</u>
Net	<u>NT\$2,176,477</u>	<u>NT\$2,121,941</u>	<u>US\$ 60,696</u>

(12)

	<u>Jan. 1, 2001– Sep. 30, 2001</u>	<u>Jan. 1, 2002– Sep. 30, 2002</u>	<u>Jan. 1, 2002– Sep. 30, 2002</u>
Income tax receivable	NT\$ 3,799	NT\$ 489	US\$ 14
Prepaid income tax	<u>(3,799)</u>	<u>(489)</u>	<u>(14)</u>
Prior year over provision of income tax	<u>—</u>	<u>—</u>	<u>—</u>
Income tax payable	—	—	—
Deferred income tax credits	(13,608)	158,321	4,529
Income tax credits on loss carryforward	(3,818)	562,500	16,090
Income tax credits	712,568	142,012	4,062
Allowance for income tax credits	<u>(544,143)</u>	<u>(798,376)</u>	<u>(22,837)</u>
Income tax credit per income statement	<u>NT\$150,999</u>	<u>NT\$64,457</u>	<u>US\$1,844</u>

31. EARNINGS PER SHARE

	Jan. 1, 2001– Sep. 30, 2001	Jan. 1, 2002– Sep. 30, 2002	Jan. 1, 2002– Sep. 30, 2002
Average outstanding shares as of September 30, 2001 and 2002	1,080,647,258 Shares	1,080,637,588 Shares	1,080,637,588 Shares
Loss before income tax	(NT\$2,022,429)	(NT\$2,415,510)	(US\$69,094)
Less: Preferred stock dividend.	(2,380)	(72,200)	(2,065)
Loss attributable to common stockholders.	(2,024,809)	(2,487,710)	(71,159)
Income tax credits.	150,999	64,457	1,844
Net loss	(NT\$1,873,810)	(NT\$2,423,253)	(US\$69,315)
Earnings per share (expressed in dollars)			
Primary earnings per share			
Loss before income tax	(NT\$1.87)	(NT\$2.30)	(US\$0.07)
Income tax credits.	0.14	0.06	0.01
Net loss	(NT\$1.73)	(NT\$2.24)	(US\$0.06)
Diluted earnings per share			
Loss before income tax	(NT\$1.87)	(NT\$2.30)	(US\$0.07)
Income tax credits.	0.14	0.06	0.01
Net loss	(NT\$1.73)	(NT\$2.24)	(US\$0.06)

32. RELATED PARTY TRANSACTIONS

- a. The details of the related parties are as follows:

Related parties	Relationship
CONSOLIDATED MARKETING CORP. (CMC).	President is the spouse of the Company's chairman
SILICON INTEGRATED SYSTEMS CORP. (SISC) . . .	Chairman (resigned on October 4, 2002) is the spouse of the Company's chairman
ACTIONTEC ELECTRONICS INC. (ACTIONTEC) . . .	Board of directors is under common control
ORIENT SEMICONDUCTOR ELECTRONICS PHILIPPINES INC. (OSE PHILIPPINES, INC.)	Investee company accounted for under equity method
ACTIONTEC ELECTRONICS (TAIWAN INC.) — (ACTIONTEC TAIWAN).	The subsidiary of ACTIONTEC (the Company's investee company)
ATP ELECTRONICS INC. (ATP).	The subsidiary of ACTIONTEC (the Company's investee company)
ATP ELECTRONICS, TAIWAN INC. (ATP TAIWAN)	The subsidiary of ATP (the Company's investee company)
SCS HIGHTECH INC. (SCS)	Investee company accounted for under equity method (Become unrelated since June 11, 2001)
OSE, INC. (OSI).	The subsidiary of OSE USA, INC. (the Company's investee company)
OSE USA, INC.	Investee company accounted for under equity method
SPARQTRON CORP.	Investee company accounted for under equity method
OSE INTERNATIONAL LTD.	Investee company accounted for under equity method
YUAN JEN INVESTMENT CORP. (YUAN JEN)	Yuan Jen's chairman is a relative of the Company's Chairman

b. Significant transactions with related parties:

(1) Purchases

The Company's purchases from related parties during the periods of January 1, 2001–September 30, 2001 and January 1, 2002–September 30, 2002 were as follows:

	Jan. 1, 2001–Sep. 30, 2001		Jan. 1, 2002–Sep. 30, 2002		
	Amount	Percentage of total	Amount	Amount	Percentage of total
ACTIONTEC	NT\$1,204,933	26.30%	NT\$700,733	US\$20,044	11.49%
ATP	60,612	1.32%	—	—	—
ACTIONTEC TAIWAN . . .	49,298	1.08%	185,322	5,301	3.04%
OTHERS	26,972	0.59%	40,983	1,172	0.68%
Total	<u>NT\$1,341,815</u>	<u>29.29%</u>	<u>NT\$927,038</u>	<u>US\$26,517</u>	<u>15.21%</u>

The terms for the above-mentioned purchases were similar to those of the Company's other vendors. The credit terms are as follows:

	Days
ACTIONTEC	45
OSE PHILIPPINES, INC.	30
ACTIONTEC TAIWAN	30
SPARQTRON CORP.	30
OSE, INC.	30
ATP TAIWAN	30
ATP	30

(2) Sales:

The Company's sales to related parties during the periods of January 1, 2001–September 30, 2001 and January 1, 2002–September 30, 2002 were as follows:

	Jan. 1, 2001–Sep. 30, 2001		Jan. 1, 2002–Sep. 30, 2002		
	Amount	Percentage of total	Amount	Amount	Percentage of total
SISC	NT\$ 825,751	10.62%	NT\$1,343,284	US\$38,423	14.14%
ACTIONTEC	1,977,086	25.43%	1,196,165	34,215	12.59%
ACTIONTEC TAIWAN . . .	296,819	3.82%	428,636	12,261	4.51%
ATP	101,357	1.31%	—	—	—
OTHERS	24,445	0.31%	30,061	860	0.32%
Total	<u>NT\$3,225,458</u>	<u>41.49%</u>	<u>NT\$2,998,146</u>	<u>US\$85,759</u>	<u>31.56%</u>

The terms for the above-mentioned sales were similar to those of the Company's other customers.

The credit terms are as follows:

	Days
CMC	7
OSE PHILIPPINES, INC.	60
SISC	60
ACTIONTEC	60
ATP	45
ATP TAIWAN	45
ACTIONTEC TAIWAN	60
SPARQTRON CORP.	60
OSE USA, INC.	30

With the exception of CMC all customers were granted the same credit period.

(3) Sales of fixed assets

The details of sales of assets to related parties during the periods of January 1, 2001–September 30, 2001 and January 1, 2002–September 30, 2002 were as follows:

Jan. 1, 2001–Sep. 30, 2001

	<u>Asset Item</u>	<u>Amount</u>	<u>Unrealized gain on sales of fixed assets</u>	<u>Unrealized loss on sales of fixed assets</u>
Sales				
OSE PHILIPPINES, INC.	Machinery and equipment	NT\$5,863	NT\$403	NT\$62
YUAN JEN	Stock-SCS HIGHTEC INC.	NT\$279,160 (16,000,000 shares)	—	NT\$131,709

Jan. 1, 2002–Sep. 30, 2002

	<u>Asset Item</u>	<u>Amount</u>	<u>Gain on sales of fixed assets</u>
Sales			
OSE PHILIPPINES, INC.	Machinery and equipment	NT\$748 (US\$21)	NT\$22 (US\$1)

(4) Intercompany receivables and payables

	<u>Sep. 30, 2001</u>		<u>Sep. 30, 2002</u>		
	<u>Amount</u>	<u>Percentage of total</u>	<u>Amount</u>	<u>Amount</u>	<u>Percentage of total</u>
Notes Receivable					
ACTIONTEC					
TAIWAN	NT\$ 74,623	68.14%	NT\$ 1,429	US\$ 41	10.14%
ATP TAIWAN	16	0.02%	—	—	—
Total	<u>NT\$ 74,639</u>	<u>68.16%</u>	<u>NT\$ 1,429</u>	<u>US\$ 41</u>	<u>10.14%</u>
Accounts Receivable					
SISC	NT\$156,527	8.57%	—	—	—
ACTIONTEC	299,901	16.42%	NT\$548,830	US\$15,699	21.92%
ACTIONTEC TAIWAN	51,622	2.83%	20,647	591	0.82%
ATP	90,107	4.93%	940	27	0.04%
OSE PHILIPPINES, INC.	5,658	0.31%	15,323	438	0.61%
OSE USA, INC.	3,173	0.17%	11,278	322	0.45%
Others	1,303	0.07%	241	7	0.01%
Total	<u>NT\$608,291</u>	<u>33.30%</u>	<u>NT\$597,259</u>	<u>US\$17,084</u>	<u>23.85%</u>
Other Accounts Receivable					
OSE PHILIPPINES, INC.	NT\$217,957	59.47%	NT\$122,840	US\$ 3,514	23.88%
Others	6,954	1.90%	2,888	82	0.56%
Total	<u>NT\$224,911</u>	<u>61.37%</u>	<u>NT\$125,728</u>	<u>US\$ 3,596</u>	<u>24.44%</u>
Accounts Payable					
ACTIONTEC	NT\$147,082	9.67%	NT\$ 99,022	US\$ 2,832	3.45%
ACTIONTEC TAIWAN	4,181	0.28%	66,473	1,901	2.31%
Others	1,899	0.12%	17,535	502	0.61%
Total	<u>NT\$153,162</u>	<u>10.07%</u>	<u>NT\$183,030</u>	<u>US\$ 5,235</u>	<u>6.37%</u>

(5) others

As at September 30, 2002, the Company issued a bank loan guarantee for OSE PHILIPPINES, INC. in the amount of US\$25,750 (2001: US\$23,500).

As at September 30, 2002, the Company issued a bank loan guarantee for OSE USA, INC. in the amount of US\$15,000 (2001: US\$18,000).

As of September 30, 2002, the guarantee given by the Company for ATP's bank loan amounted to US\$1,500 (2001: US\$6,000).

During January 1, 2002–September 30, 2002, the Company rented out its machinery and equipment to OSE PHILIPPINES, INC. and total rental income was NT\$1,291 (US\$37). As at September 30, 2002, all amounts were settled.

During January 1, 2002–September 30, 2002, the Company engaged OSI as its sales and collection agent in America. Total commission expense for the period amounted to NT\$100,285 (US\$2,869) and the amount outstanding as at September 30, 2002 was NT\$51,460 (US\$1,472) which was included in the accrued expenses account.

As at September. 30, 2002, the amount due from OSE PHILIPPINES, INC. was NT\$122,840 (US\$3,514). This receivable related to payments for the purchase of equipment and parts on behalf of OSE PHILIPPINES, INC. This balance was included in the other receivable-affiliates account.

As at September. 30, 2002, the amount received in advance from SISC amounted to NT\$499,871 (US\$14,298).

33. PLEDGED ASSETS

As at September 30, 2001 and 2002, the pledged asset of the Company were as follows:

Item	Book value		
	Sep. 30, 2001	Sep. 30, 2002	Sep. 30, 2002
1. Building and equipment	NT\$1,341,099	NT\$ 2,533,017	US\$ 72,455
2. Machinery and equipment	8,215,934	8,067,335	230,759
3. Other equipment	289	305	9
4. Refundable deposits	34,611	86,142	2,464
5. Restricted assets	11,895	258,779	7,402
Total	<u>NT\$9,603,828</u>	<u>NT\$10,945,578</u>	<u>US\$313,089</u>

34. SIGNIFICANT CONTINGENT LIABILITIES AND COMMITMENTS

As at September 30, 2002, the details of contingent liabilities and commitments of the Company are as follows:

- a. The Company has acted as a subcontractor for processing electronic products and the unfinished consigned inventory amounted to NT\$3,151,140 (US\$90,136).
- b. The Company issued promissory notes of NT\$17,465,347 (US\$99,581) as guarantees for bank loans.
- c. Guarantee given by a bank for the payment of input tax imposed for sales from a tax free zone to non-tax free zone amounted to NT\$20,000 (US\$572).
- d. The input tax amounted to NT\$100 (US\$3) for the import of raw materials.

- e. Unutilized letters of credit:

	<u>Letter of credit Amount</u>	<u>Letter of credit Margin Deposit</u>
USD	1,377	—
JPY	76,447	—

- f. Post-dated checks issued for the payment of leased assets amounted to NT\$821,012 (US\$23,484).
- g. The Company issued promissory notes of NT\$2,000 (US\$57) to serve as a guarantee for acting as a subcontractor for another company.
- h. The Company issued promissory notes of NT\$10,000 (US\$286) to a bank as guarantee for the employment of foreign workers.
- i. As at September 30, 2002, the stockholders' equity of OSE USA, INC. was in a deficit. To enable the Investee company to continue its operations, the Company agreed to provide financial support.

35. LOSSES FROM DISASTROUS

No disasters occurred during the period.

36. SUBSEQUENT EVENTS

No material subsequent events occurred.

37. OTHERS

(1) The fair value of financial instruments

	<u>Sep. 30, 2001</u>	
	<u>Book value</u>	<u>Fair value</u>
Assets		
Cash and cash equivalents	NT\$939,548	NT\$939,548
Short-term investments	NT\$122,665	NT\$122,665
Notes and accounts receivable	NT\$2,212,098	NT\$2,212,098
Long-term investments	NT\$3,882,428	(Note)
Restricted assets	NT\$11,895	NT\$11,895
Refundable deposits	NT\$105,791	NT\$105,791
Liabilities		
Short-term loans	NT\$3,387,893	NT\$3,387,893
Short-term notes payable	NT\$468,012	NT\$468,012
Notes and accounts payable	NT\$1,603,961	NT\$1,603,961
Convertible bonds payable	NT\$3,964	NT\$3,964
Long-term loans (including of current portion)	NT\$5,549,732	NT\$5,549,732
Long-term accounts payable	NT\$23,856	NT\$23,856
Long-term notes payable	NT\$3,970,326	NT\$3,970,326
Long-term lease liabilities (including of current portion)	NT\$197,444	NT\$197,444
Deposits received	NT\$35,902	NT\$35,902

Sep. 30, 2002		
	Book value	Fair value
Assets		
Cash and cash equivalents	NT\$154,754	NT\$154,754
Short-term investments.	NT\$6,276	NT\$6,276
Notes and accounts receivable.	NT\$2,914,390	NT\$2,914,390
Long-term investments.	NT\$3,595,956	(Note)
Restricted assets	NT\$258,778	NT\$258,778
Refundable deposits.	NT\$156,825	NT\$156,825
Liabilities		
Short-term loans	NT\$3,438,558	NT\$3,438,558
Short-term notes payable	NT\$368,602	NT\$368,602
Notes and accounts payable	NT\$2,947,175	NT\$2,947,175
Long-term loans (including of current portion)	NT\$6,182,094	NT\$6,182,094
Long-term notes payable	NT\$1,704,576	NT\$1,704,576
Long-term lease liabilities (including of current portion)	NT\$794,016	NT\$794,016
Deposits received	NT\$8,351	NT\$8,351

Note: Due to the elimination information it is not executable to estimate the fair value of the financial instruments in practice.

(2) Others

Long-term Rental Agreement

The Company has entered into a land rental agreement with the government has a term from December 31, 2002 to January 31, 2012. The Company is required to apply to the government for renewal three months prior to the expiry date. If the Company fails to do so, the land will be returned to the government and the building on the land will be sold to another approved export enterprise within six months after the expiry date. If the Company failed to complete all the above-mentioned procedures within six months, the government has the right to dispose the property on the land on the behalf of the Company. The government has the right to adjust the rent based on the publicly announced land value. The government also has the right to terminate the contract if the Company is in breach of the contract or fails to pay the rent over four months or violates the civil law or the land law. During the period of January 1, 2001–September 30, 2001 and January 1, 2002–September 30, 2002 the rental expense amounted to NT\$10,296 and NT\$10,367 (US\$297), respectively.

Gains on disposal of fixed assets were no longer transferred to capital reserve during January 1, 2002–September 30, 2002 according to the new R.O.C. regulations. This change decreased capital reserve by NT\$6,189 (US\$177) and increased retained earnings by NT\$6,189 (US\$177) as of September 30, 2002.

On June 19, 2002, the stockholders resolved to increase capital for cash for an amount of NT\$750,000, divided into 150,000,000 shares at par value of NT\$10 each, with a discount of NT\$5 per share. An application for MOEA approval has been made.

On June 19, 2002, the stockholders resolved to issue convertible bonds (the third issue). The issue amount was US\$70,000 and an application for MOEA approval has been made.

Reclassification

The prior period financial statements have been reclassified to conform with current years presentation.

38. DISCLOSURE OF DERIVATIVE FINANCIAL INSTRUMENTS

The details of the contracts of the Company's foreign currency options were as follows:

(1) *Contract amount or nominal principal and credit risk.*

	Sep. 30, 2001		Sep. 30, 2002	
	Nominal principal	Credit Risk	Nominal principal	Credit Risk
Buy USD Put/JPY Call	US\$2,000	—	—	—
Sell USD Call/JPY Put.	US\$5,000	—	—	—
Buy USD Call/JPY Put	US\$1,000	—	—	—
Sell USD Put/JPY Call.	US\$3,000	—	—	—

The Company's trading parties were banks of good standing and reputation. Therefore, the credit risk with these parties is minimal.

(2) *Market price risk*

The characteristics of the transactions are to hedge risk. The gains and losses due to the fluctuation of market exchange rates are offset against the gains and losses of the hedged items. As a result, the market price risk is not significant.

(3) *Liquidity risk and cash flow risk.*

- A. The Company enters into contracts for financial instrument options for the purpose of hedging risk and the Company's working capital is sufficient for those options. Therefore, the liquidity risks and cash flow risks are insignificant.
- B. The settlement of the transactions mentioned above depend on whether they are beneficial to the Company or the trading party. The amounts and timing of the future cash demands depend on the fluctuation of exchange rates in the future. If both parties of the options decide to settle the options, during January 1, 2001–September 30, 2001 the Company would have a US\$3,000, JP¥245,958 cash outflow and NT\$200,340 cash inflow.

(4) A. The terms of the derivative financial instruments are detailed below.

September 30, 2001

Contracts	Trade Date	Settlement Date	Settlement exchange rate
Buy USD Put/JPY Call	6.21.2001	2.22.2002	(USD: NTD) 34.17
Sell USD Call/JPY Put.	10.13.2000 10.16.2000	10.15.2001 11.15.2001	(USD: NTD) 33.00 33.00
	7.31.2001	10.9.2001	(USD: JPY) 128.00
Buy USD Call/JPY Put	8.8.2001	10.8.2001	(USD: JPY) 121.78
Sell USD Put/JPY Call.	8.8.2001 8.16.2001	10.8.2001 2.6.2002	(USD: JPY) 121.78 120.00

September 30, 2002

There were no derivative financial instrument transactions.

- B. The purpose of foreign currency options is to hedge the risk resulting from the exchange rate for the foreign currency receivable and payable. The Company's hedging policy is to hedge the major market price risk. The Company uses the derivative financial instruments that have a high negative correlation with the fair values of the hedged items as hedging instruments. The Company evaluates these instruments periodically.

APPENDIX A — FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC

The information presented in this appendix has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Manager or any of their respective affiliates or advisors in connection with the Offering. Please note that citizens of the People's Republic of China and entities organized in the People's Republic of China are subject to special ROC laws, rules and regulations, which are not discussed in this section.

Foreign Investment

Historically, foreign investment in the ROC securities market has been restricted. From 1983 onwards, however, the ROC Government has from time to time enacted legislation and adopted regulations to permit foreign investment in the ROC securities market.

Overseas Corporate Bonds

Since 1989, the ROC SFC has approved a series of overseas corporate bond (“OCBs”) issues by ROC companies listed on the TSE in offerings outside the ROC. Since December 1994, the ROC SFC has also permitted ROC companies whose shares are traded on the ROSE to issue and offer OCBs.

Under the current ROC laws and policies, OCBs can be converted by bondholders (other than PRC persons) into shares of the issuing companies or may be converted into depositary receipts issued under the sponsorship of the same ROC company or the shares of other ROC companies, in the case of exchangeable bonds. Public issuing companies may issue corporate debt in offerings outside the ROC. Proceeds from sales of the shares converted from OCBs may be used for re-investment in securities listed on the TSE or traded on the ROSE. These reinvestments will need to comply with the limitations and restrictions which apply to qualified foreign institutional investors or general foreign investors discussed below.

Bondholders who are non-ROC persons exercising conversion rights will be required to appoint a tax guarantor in the ROC for filing tax returns and making tax payments. Such tax guarantor will be required to meet the qualifications set by the MOF and to act as the guarantor of the converting bondholders' tax payment obligations.

Under existing ROC laws, repatriation of profits by non-ROC bondholders is subject to the submission of evidence of the appointment of a tax guarantor to, and approval thereof by, the ROC tax authorities or submission of tax clearance certificate so long as the capital gains from securities transaction are exempted from ROC income tax.

Under current ROC law, a non-ROC converting bondholder when exercising the conversion right to convert the bonds into shares of an ROC company is required to appoint a local agent (with such qualifications set by the ROC SFC) to open a securities trading account with a local brokerage firm and a bank account, handle the conversion application, remit funds, exercise shareholders' rights, hold the securities and cash proceeds in safekeeping, make confirmations and settle trades, report all relevant information and perform such other actions as may be designated by such converting bondholder, on behalf of and as agent for such converting bondholder. Without making such appointment and obtaining the approval from the TSE, a non-ROC converting Bondholder (or its designee) would be unable to receive, hold and subsequently sell the Shares on the TSE or the ROSE.

Unless otherwise limited by the Central Bank of China (“CBC”), an ROC Company may, without obtaining further approvals from the CBC or any other government authority of the ROC, convert NT Dollars to other currencies, including U.S. Dollars, in respect of the proceeds of the redemption of the Bonds or payment of interest on, or the repayment of principal upon maturity of, the Bonds.

In addition, a non-ROC converting bondholder may, through its local agent and without obtaining prior approval from the CBC, convert NT Dollars into foreign currencies of net proceeds realized from the sale of the converted shares or any stock dividends relating to such shares, or any cash dividend or other cash distribution in respect of such shares, as well as for inward remittances of subscription payments in connection with a rights offering and tax payment.

Depository Receipts

In April 1992, the Securities and Futures Commission began allowing Taiwan companies listed on the TSE to sponsor the issuance and sale of depository receipts (“**DRs**”) evidencing depository shares. Approvals for these issuances are still required. In December 1994, the Ministry of Finance began allowing companies whose shares are traded on the ROSE to sponsor the issuance and sale of depository receipts evidencing depository shares.

A holder of depository shares wishing to withdraw common shares underlying depository shares is required to appoint a qualified local agent to perform services in connection with the withdrawal from the depository receipt facility. In addition, the withdrawing holder is also required to appoint a custodian bank to hold the securities in safekeeping, make confirmations, settle trades and report all relevant information. Without making this appointment and obtaining TSE approval, the withdrawing holder would be unable to receive, hold and subsequently sell the common shares withdraw from a depository receipt facility on both the TSE and the ROSE. The withdrawing holder is also generally required to appoint a tax guarantor as guarantor for the withdrawing holder’s Republic of China tax payment obligations. The tax guarantor must meet certain qualifications set by the Ministry of Finance. Under current Republic of China law, repatriation of profits by a non-Taiwan withdrawing holder is subject to the submission of evidence of the appointment of a tax guarantor to, and the approval by, the tax authority or submission of tax clearance certificates as long as the capital gains from securities transactions are exempt from Republic of China income tax.

Commencing three months after the issuance of a depository share, a holder of the depository share may request the depository issuing the depository share to cause the underlying common shares to be sold in Taiwan or to withdraw the common shares and deliver the common shares to the holder. A citizen of the People’s Republic of China is not permitted to withdraw and hold our common shares.

No deposits of shares may be made in a depository receipt facility and no depository receipt may be issued against deposits without specific Securities and Futures Commission approval, unless they are:

- ▶ stock dividends;
- ▶ free distributions of common shares;
- ▶ due to the exercise by a holder of his or her preemptive rights in the event of capital increases for cash; or
- ▶ due to the direct purchase of shares or purchase through the depository in the domestic market or delivery of shares to the custodian for deposit in the depository receipt facility. In this event, and subject to the acceptance of the depository the total number of depository receipts outstanding after an issuance cannot exceed the number of issued depository shares previously approved by the Securities and Futures Commission in connection with the offering plus any depository shares issued pursuant to the events described in the first three bulleted points above. These issuances may only be made to the extent previously issued depository shares have been cancelled and, for so long as required by applicable law, the corresponding common shares which are withdrawn from the depository facility by holders of depository shares have been sold in the domestic market in Taiwan.

A depository may convert NT dollars from the proceeds of the sale of common shares or cash distributions received into other currencies, including U.S. dollars. A depository must obtain foreign exchange approval from the Central Bank of China on a payment-by-payment basis for conversion into NT dollars of subscription payments for rights offerings or conversion into foreign currencies from the proceeds from the sale of subscription rights for new common shares. It is expected that the Central Bank of China will grant this approval as a routine matter.

A holder of depository shares may convert NT dollars into other currencies from proceeds from the sale of any underlying common shares. Proceeds from the sale of the underlying common shares withdrawn from the depository receipt facility may be used for reinvestment in securities listed on both the TSE and the ROSE, subject to limitations and restrictions applicable to qualified foreign institutional investors or general foreign investors.

Direct Share Offerings

The ROC Government has permitted ROC companies listed on the TSE or the ROSE to issue shares directly (not through depositary receipt facilities) overseas.

Qualified Foreign Institutional Investors

The Executive Yuan has approved guidelines for direct investment in ROC securities listed on the TSE or ROSE or other ROC securities by certain qualified foreign institutional investors (“**QFII**”) approved by ROC SFC and, if applicable, CBC, including:

- (i) banks which hold securities assets of at least U.S.\$100 million;
- (ii) insurance companies which hold securities assets of at least U.S.\$100 million;
- (iii) fund management institutions which manage assets of at least U.S.\$100 million;
- (iv) general securities firms which have a net worth of at least U.S.\$50 million;
- (v) offshore fund management companies of which are more than 50% of their capital is owned by a ROC securities investment trust enterprise provided that the funds to be invested cannot be derived from sources in the ROC or PRC or be owned by such offshore fund management companies;
- (vi) offshore securities firms of which more than 50% of their capital is owned by a ROC securities firm, or other offshore securities firms which are wholly-owned by such offshore securities firms;
- (vii) offshore securities firms of which are wholly-owned by a ROC securities firms, or other offshore securities firms of which are more than 51% of their capital is owned by such offshore securities firms;
- (viii) foreign government-owned investment institutions provided that all the funds to be invested shall be owned by the foreign government;
- (ix) pension funds;
- (x) mutual funds, unit trusts or investment trusts which have assets of at least U.S.\$100 million;
- (xi) trust companies which hold securities assets in trust of at least U.S.\$100 million;
- (xii) educational or charitable organizations the constitution documents of which allow proprietary investment through use of outside investment managers; and
- (xiii) any other professional institutional investors which hold securities or assets of at least U.S.\$100 million.

Each QFII who wishes to invest directly in the ROC securities market is required to apply for an investment permit from the ROC SFC, provided that any application for investment exceeding U.S.\$50 million will require approvals from both the CBC and the ROC SFC. QFIIs who receive the permit(s) may currently invest up to U.S.\$3 billion, with certain limited exceptions, and are required to remit the full amount into ROC within two years of receiving the investment permit. Except some restrictions imposed by specific law and regulation, from January 1, 2001, the individual and aggregate foreign ownership of the issued share capital in a TSE listed company or a ROSE quoted company is not restricted. ROC custodians for QFIIs are required to submit to the CBC and the ROC SFC a report of trading activities and status of assets under custody and other matters every month. Capital remitted to the ROC under these guidelines may be remitted out of the ROC at any time after the date such capital is remitted to the ROC. Capital remitted out of the ROC may be returned to the ROC within the approved years of the outward remittance

without ROC SFC approval as long as its aggregate inward remittance after netting off its aggregate outward remittance does not exceed the investment amount approved by the ROC SFC and CBC (if applicable). Capital gains and income on investments may be remitted out of the ROC at any time.

General Foreign Investors

Except for QFIIs, General Foreign Investors (“**GFI**s”) may currently invest in ROC securities up to U.S.\$5 million (in the case of individual investors) and U.S.\$50 million (in the case of institutional investors) after obtaining approval issued by the TSE.

Foreign Investment Approval

With the exception of QFIIs, GFIs and investors in OCBs and DRs, under existing ROC laws and regulations relating to foreign investment, investors (both institutional and individual) who are not ROC persons and wish to make direct investment in the shares of ROC companies are required to submit a Foreign Investment Approval (“**FIA**”) application to the Investment Commission of the MOEA or other government authority. The Investment Commission or such other government authority reviews each FIA application and approves or disapproves each application after consultation with other government agencies (such as the CBC and the ROC SFC). Under current law, any non-ROC person possessing an FIA may remit capital for the approved investment and is entitled to repatriate annual net profits, interest and cash dividends attributable to such investment. Investment capital and capital gains attributable to such investment may be repatriated after approvals of the Investment Commission or other government authorities have been obtained.

Prohibited and Restricted Industries

In addition to the general restriction against direct investment by non-ROC persons in shares of ROC companies, non-ROC persons are currently prohibited from investing in certain industries in the ROC pursuant to the Negative List as amended by the Executive Yuan from time to time. The prohibition on foreign investment in the prohibited industries specified in the Negative List is absolute and provides no specific exemption from its application. Pursuant to the Negative List, certain other industries are restricted so that non-ROC persons may invest in such industries only up to a specified level and with the specific approval of the relevant competent authority which is responsible for enforcing the relevant legislation which the Negative List is intended to implement. The businesses the Company being engaged are not a prohibited or restricted industry under the Negative List.

Exchange Controls

The ROC’s Foreign Exchange Control Statute and regulations thereunder provide that all foreign exchange transactions must be executed by banks designated to handle such business by the ROC Ministry of Finance and by the CBC. Current regulations favor trade-related foreign exchange transactions.

Consequently, foreign currency earned from exports of merchandise and services may now be retained and used freely by exporters, and all foreign currency needed for the import of merchandise and services may be purchased freely from the designated banks for conducting foreign exchanges.

ROC companies, foreign companies recognized by the ROC, resident individuals and foreigners with an alien resident certificate may also, without foreign exchange approval, remit into and out of the ROC foreign currencies of up to U.S.\$50 million (or its equivalent) and U.S.\$5 million (or its equivalent), respectively, in each calendar year. The above limits apply to remittances involving a conversion between NT Dollars and U.S. Dollars or other foreign currencies. A requirement is also imposed on all enterprises to register medium-and-long-term foreign debt with the CBC.

In addition, foreign persons, other than the persons mentioned in the preceding paragraph, may, subject to certain requirements, but without foreign exchange approval of the CBC, remit outside and into the ROC foreign currencies of up to U.S.\$100,000 (or its equivalent) for each remittance. The above limit applies only to remittances involving a conversion between NT Dollars and U.S. Dollars or other foreign currencies.

APPENDIX B — THE SECURITIES MARKET OF THE ROC

The information presented in this appendix has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Manager or any of their respective affiliates or advisors in connection with the Offering.

In 1960, the ROC Government established the Securities and Exchange Commission to supervise and control all aspects of the securities market. The Securities and Exchange Commission of the ROC was restructured in early 1997 and renamed as the Securities and Futures Commission (“SFC”). In the 1970’s and the early 1980’s, the ROC Government implemented a number of steps designed to upgrade the quality and importance of the ROC securities market, such as encouraging listing on the TSE and establishing an over-the-counter market. In the mid-1980’s, the ROC Government began to revise its laws and regulations in a manner designed to facilitate the gradual internationalization of the ROC securities market.

The Taiwan Stock Exchange

In 1961, the ROC SFC established the Taiwan Stock Exchange (“TSE”) to provide a marketplace for securities trading. The TSE is a corporation owned by government-controlled entities and private banks and enterprises. The TSE is independent of entities transacting business through it, each of which pays a user’s fee. Generally, all transactions in listed securities by brokers, traders and integrated securities firms must be made through the TSE.

The TSE commenced operations in 1962. During the early 1980s, the ROC SFC actively encouraged new listings on the TSE and the number of listed companies grew from 119 in 1983 to 637 by the end of November 2002. As of the end of November 2002, the market capitalization of companies listed on the TSE was NT\$9,393 billion.

Historically, Taiwan companies have listed only shares and bonds on the TSE. However, the ROC SFC has encouraged companies to list other types of securities. In 1988, the ROC SFC permitted the issuance of the Taiwan’s first convertible bonds. Since 1989, there have been offerings of domestic convertible bonds and convertible preferred shares. In addition, beneficiary units evidencing beneficiary interests in closed-end investment funds and bonds issued by Asian Development Bank and other foreign banks are also listed on the TSE or traded on the ROSE. The ROC SFC also has regulations which permit foreign issuers to list their equity securities directly on the TSE or through the use of depositary receipts. To date, two foreign issuers have listed their equity securities on the TSE through the use of depositary receipts in accordance with these regulations.

The TSE requirements for listing are based on the following company attributes:

- ▶ the number and holding of stockholders;
- ▶ length of time in business;
- ▶ amount of capital; and
- ▶ profitability.

However, special listing criteria apply to technology companies and key businesses engaging in national economic development or in key public construction BOT projects.

The Over-the-Counter Market (the “OTC”) and the ROC Over-the-Counter Securities Exchange

To complement the TSE, the ROSE was established in September 1982 on the initiative of the ROC SFC to encourage the trading of securities of companies who do not qualify for listing on the TSE. As of the end of October 2002, 365 companies have listed equity securities on the ROSE and the total market capitalization of those companies was NT\$2,549 billion.

In addition, the Emerging Market on the OTC was established on January 2, 2002 on the initiative of the ROC SFC to encourage trading of securities of companies that are public companies but do not qualify for listing on the TSE or ROSE. The price of the emerging stock is decided by negotiation between securities firms and investors. As of December 31, 2002, 172 companies have registered equity securities on the Emerging Market on the OTC.

The following table sets forth, for the periods indicated, certain information relating to the ROSE Index:

<u>Period ended</u>	<u>No. of listed companies at period end</u>	<u>Trading value</u> NT\$ million	<u>Index high</u>	<u>Index low</u>	<u>Index at period end</u>
1995	41	2,796	101.96	94.02	101.96
1996	79	453,509	234.83	99.92	233.09
1997	114	2,310,659	343.99	210.22	245.05
1998	176	1,198,158	281.41	163.89	165.80
1999	264	1,994,031	207.18	138.99	207.18
2000	300	4,479,660	329.47	99.86	104.93
2001	333	2,326,889	136.23	106.74	136.23
2002 (through October)	365	2,548,934	129.89	89.71	102.97

Sources: OTC Monthly Review; OTC Data Base; Taiwan Economic Journal.

Taiwan Stock Exchange Index

The TSE Index is calculated on the basis of a wide selection of listed shares weighted according to the number of shares outstanding. This weighted average method is also used for the Standard and Poor's Index in the United States and the Nikkei Stock Average in Japan. The TSE Index is compiled by dividing the market value by the base day's total market value for the index shares. The TSE Index is the oldest and most widely quoted market index in Taiwan.

The weighting of stocks in the index is fixed as long as the number of shares outstanding remains constant. When the total number of shares outstanding changes, the weight of each stock is adjusted. Stock splits and stock dividends are adjusted automatically. Cash dividends are not included in the calculation.

The following table shows for the periods indicated information relating to the TSE Index.

<u>Period ended</u>	<u>Number of listed companies at the period end</u>	<u>Index high</u>	<u>Index low</u>	<u>Index at period end</u>
1990	199	12,495.34	2,560.47	4,530.16
1991	221	6,305.22	3,316.26	3,377.06
1992	256	5,391.63	3,327.67	4,600.67
1993	285	6,070.56	3,135.56	6,070.56
1994	313	7,183.75	5,194.63	7,124.66
1995	347	7,051.49	4,503.37	5,173.73
1996	375	6,982.81	4,690.22	6,933.94
1997	404	10,116.84	6,820.35	8,187.27
1998	437	9,277.09	6,251.38	6,418.43
1999	462	8,608.91	5,475.00	8,448.84
2000	474	10,202.20	8,349.91	8,842.63
2001	584	5,551.24	4,646.61	5,551.24
2002 (through November 30)	637	6,462.30	3,850.04	4,646.69

Sources: Status of Securities Listed on Taiwan Stock Exchange.

As indicated above, the performance of the Taiwan Stock Exchange has in recent years been characterized by extreme price volatility.

Price Limits, Commissions, Transaction Tax and Other Matters

The TSE has placed limits on block trading and on the range of daily price movements. Transactions that involve 500 trading lots or more must be registered and executed pursuant to certain TSE guidelines. Fluctuations in the price of stock traded on the TSE are currently subject to a restriction of 7% above and below the previous day's closing price (or reference price set by the TSE if the previous day's closing price is not available because of lack of trading activity) in the case of equity securities, and 5% in the case of debt securities. Brokerage commissions are proposed by the TSE and approved by the ROC SFC. The current approved maximum brokerage commission is 0.1425% of the transaction price for equity securities; however, a lower rate may be charged to clients by securities firms at their sole discretion, provided that they must report such rate to the TSE. A securities transaction tax, currently levied at the rate of 0.3% of the transaction price, is payable by the seller of equity securities. Such securities transaction taxes are withheld at the time of the transaction. According to the amended Statute for Upgrading Industries effective as of February 1, 2002, no securities transaction tax will be imposed on the sale of the Bonds from February 1, 2002 to December 31, 2009. Sales of shares of companies listed on the TSE are currently sold in lots of 1,000 around shares. Odd lot trading, or the purchase or sale of less than 1,000 shares, can be conducted in after-hours trading. Investors who desire to sell odd lots of shares of a listed company occasionally experience delays in effecting such sales.

Regulation and Supervision

The ROC SFC has been under the jurisdiction of the Ministry of Finance since 1981. The ROC SFC has extensive regulatory authority over companies listed on the TSE, companies whose shares are traded on the ROSE and unlisted publicly issuing 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 markets. The ROC SFC has responsibility for implementation of the ROC Securities and Exchange Law and for overall administration of governmental policies in the ROC securities markets. It has extensive regulatory authority over the offering, issuing and trading of securities. In addition, the ROC Securities and Exchange Law specifically empowers the ROC SFC to promulgate rules under certain circumstances.

The ROC Securities and Exchange Law prohibits market manipulation. For example, it requires a company to recover certain short-term trading profits made through purchases and sales within six months by directors, managerial personnel, supervisors and shareholders, together with their spouses, minor children and nominees, holding 10% or more 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 shareholders having more than 10% or more shareholding, 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 can include imprisonment. In addition, damages may be awarded to persons injured by the transaction.

The ROC Securities and Exchange Law also imposes criminal liability on certified public accountants and lawyers who make false certifications in their examination and audit of an issuer's contracts, reports and other evidentiary documents that are related to securities transactions. The ROC SFC regulations require that financial reports of listed companies be audited by accounting firms consisting of at least three certified public accountants and be signed by at least two certified public accountants.

The ROC Securities and Exchange Law also provide for, among other things, regulations relating to public offerings of securities; measures to strengthen the capital structure of issuers; civil liability for material misstatements or omissions made by issuers; more stringent regulation of the securities activities of

officers, supervisors, directors and major shareholders of issuers; regulations regarding tender offers; and a significant expansion of the prohibitions against insider trading, including the imposition of treble civil damages and criminal sanctions.

The ROC SFC does not have criminal or civil enforcement powers under the ROC Securities and Exchange Law. Criminal actions may be pursued only by prosecutors. Under the ROC law, civil actions may only be brought by plaintiffs who assert that they have suffered damages. The ROC SFC is directly empowered to curb abuses and violations of applicable laws and regulations only through administrative measures.

In addition to providing a market for securities trading, the TSE has primary responsibility for reviewing applications by issuers to list securities on the TSE and the ROSE has primary responsibility for reviewing applications by issuers to list securities on the ROSE. The ROC SFC reviews all securities offerings by listed companies. If issuers of listed securities violate relevant laws and regulations or encounter significant difficulties, the TSE and the ROSE may, with the approval of the ROC SFC, delist securities of such issuers.

APPENDIX C — GLOSSARY OF TECHNICAL TERMS

The following glossary is to help explain certain terms discussed in this offering circular:

“ASIC”	<i>Application Specific Integrated Circuit.</i> An integrated circuit which is created for a specific customer’s application, in contrast to a general purpose integrated circuit in which the same chip is used by many different customers.
“Bluetooth”	Bluetooth is a short distance, wireless, open standard available to all electronic device manufacturers — from cell phones to PCs to toys — that allows enabled devices to detect each other and communicate with each other without user intervention.
“Burn-In”	The process of electrically stressing a device (usually at temperature and voltage) for a period of time long enough to cause failure of marginal devices.
“Cell”	A primary unit that normally repeats many times in a semiconductor. For example, a cell represents a bit in a memory semiconductor.
“Chip”	The uncased and normally leadless form of an electronic component part either passive or active discrete or integrated. Also referred to as a die.
“CMOS”	<i>Complementary Metal Oxide Silicon.</i> CMOS is one of the latest wafer fabrication process techniques that uses metal oxide semiconductor transistors. CMOS has many advantages because it is very scalable and requires little power, which make it ideal in producing integrated circuits. CMOS technology is used for the vast majority of digital integrated circuits.
“CPU”	<i>Central Processing Unit.</i> A microprocessor on a single integrated circuit, which serves as the “brains” of a computer.
“Die”	A piece of a semiconductor wafer containing the circuitry of a single semiconductor device. After the semiconductor wafer is processed and tested, it is cut into individual “dice,” each of which is a potentially good integrated circuit.
“DIP”	<i>Dual-In-Line Package.</i> A package having two rows of leads extending at right angles from the base and having standard spacings between leads and between rows of leads. DIPs are made of ceramic (CDIP) and plastic (PDIP).
“DRAM”	<i>Dynamic Random Access Memory.</i> The most common type of volatile or temporary memory in electronic systems used to store data and program instructions. For example, when a personal computer is “booting up,” programs are copied from the disk drives or permanent data storage into the computer’s DRAM because it significantly reduces the amount of time for a CPU to obtain information.
“DSP”	<i>Digital Signal Processor.</i> A microprocessor or microcontroller device which performs complex computations, such as processing and manipulating digital information after it has been converted from an analog source.
“EPROM”	<i>Erasable Programmable Read Only Memory.</i> A type of non-volatile memory in which data can be erased and reprogrammed. Erasing data requires placing the integrated circuit under ultraviolet light for several hours and reprogramming requires a special programming tool.

“EEPROM”	<i>Electrically Erasable Programmable Read Only Memory.</i> A type of non-volatile memory which can be modified electrically, often one byte at a time, unlike an EPROM which must be removed from the integrated circuit and completely erased before reprogramming.
“Flash Memory”	A type of non-volatile memory that can be modified electrically, often while in the integrated circuit. Flash can be much more densely packed relative to EEPROM and is less expensive. Flash is used for storing information such as telephone numbers in cellular phones.
“Flip Chip”	A semiconductor device that is flipped face down and connected to a package whereby a silicon die is attached to the packaging substrate using balls in an array pattern instead of extremely fine gold wires on the perimeter.
“GPS”	<i>Global Positioning Systems.</i> A portable electronic device used to identify locations on earth and measure the distance between locations.
“GUI”	<i>Graphical User Interface.</i> A graphics-based user interface that incorporates icons, pull-down menus and a mouse.
“IC”	<i>Integrated Circuit.</i> A combination of two or more transistors on a base material, usually silicon. All semiconductor chips, including memory chips and logic chips, are just very complicated semiconductors with thousands of transistors.
“Input/Output”	A connector which links the chip to the package or one package level to the next level in the hierarchy. Also referred to as pin out connections or terminals.
“Integrated Circuit” . . .	A combination of two or more transistors on a base material, usually silicon. All semiconductor devices, including memory chips and logic chips, are just very complicated integrated circuits with thousands of transistors.
“ISDN”	<i>Integrated Services Digital Network.</i> An international digital communication network model for voice, image, and data communication. Typical service provides two 64bps data communication channels and one 16ps data signaling channel.
“J-Lead”	A semiconductor package terminal lead configuration that resembles in cross section the letter “J”.
“LAN”	<i>Local Area Network.</i> A short distance network (typically within a building or campus) used to link together computers and peripheral devices (such as printers) under some form of standard control.
“Leadframe”	A sheet metal framework on which a chip is attached, wire-bonded, and then molded with plastic.
“Logic Device”	A device that contains digital integrated circuits that process, rather than store, information.
“Mask”	A piece of clear material, such as quartz or glass, which has opaque patterns that are the opposite of the desired pattern for a semiconductor layer. When light is focused through the mask, the light on the opaque parts is obstructed, while the remaining light forms a pattern on the semiconductor. Semiconductor wafers may require up to 20 different layers of design, each with its own mask.

“Memory”	A group of integrated circuits that a computer uses to store data and programs, such as ROM, RAM, DRAM and SRAM.
“Microprocessor”	A complete computer processor on a single integrated circuit chip.
“Modules”	Standard replaceable components which can be grouped to form a variety of configurations of assemblies subassemblies or systems.
“Motherboard”	The main piece of circuitry inside a PC.
“PC”	Personal Computer.
“PCB”	Printed circuit board. Also known as a circuit board. A flat material fiberglass/epoxy on which electric components are mounted. A circuit board also provides electric pathways that interconnect components.
“PCMCIA”	Personal Computer Memory Card International Association. This association standardizes credit-card size packages for memory and input/output (modems, LAN cards, etc.) cards for PCs, laptops, notebooks and palmtop computers. Currently there are three standards for PCMCIA cards - Type I, II and III. The three types are identical in width (69.2mm) and in length (51.46mm), but differ in their heights. The heights of Types I, II, and III are 3.3, 5.0 and 10.5 millimeters, respectively.
“PDA”	Personal Digital Assistant. A hand-held portable electronic device with the functionality of a date book, address lists, to-do lists as well as other utility programs.
“Peripheral device”	Equipment which is not part of the central processing unit, such as a disk storage device, magnetic tape reading unit, terminal, printer and other devices.
“Photolithography”	A semiconductor manufacturing step in which a complex series of lenses is used to focus light through a mask onto a semiconductor wafer. The light causes certain portions of the photoresist, a material sensitive to light, on the wafer to soften and helps to create patterns on the wafer. After the photoresist is removed, the semiconductor material not covered with photoresist is etched away.
“Pin”	Round, cross-sectional electrical terminal and/or mechanical support. Used in plug-in type packages either straight or modified as nail-head, upset, pierced, or bent variety. A pin’s primary functions are internally to support a wirebond or other joint, and externally, to plug into a second-level package connector.
“PLCC”	Lead-Chip Carrier Plastic. A plastic package containing a chip that has terminal leads emanating from four sides. Each lead has a J-configuration and is designed for surface mounting to a printed-circuit board.
“PTH”	Pin-Through-Hole. The class of packages or modules that are inserted through or soldered to plated holes within the second-level package (printed-circuit board).
“QFP”	Quad Flat Packages. Ceramic or plastic chip carrier with leads projecting down and away from at four sides of a square package.
“RAM ”	Random Access Memory. Storage technique in which the time required to retrieve data is independent of location. RAM can be read from and written into by the user.

“Semiconductor”	A material with electrical conducting properties in between those of metals and insulators. Essentially, semiconductors transmit electricity only under certain circumstances, such as when given a positive or negative electric charge. Therefore, a semiconductor’s ability to conduct can be turned on or off by manipulating those charges and this allows the semiconductor to act as an electric switch. The most common semiconductor material is silicon, used as the base of most semiconductor chips today because it is relatively inexpensive and easy to create.
“SMT”	Surface Mount Technology. A method of assembling hybrid circuits and printed circuit boards where components parts are mounted onto rather than into the printed circuit boards.
“SOP”	Small Outline Package. Small outline integrated circuit package. It is a rectangular DIP like package except that it is smaller with leads generally of 1.27mm, 1.0mm or 0.85mm spacing. It is used for surface mounting. Also referred to as SOIC.
“SRAM”	Static Random Access Memory. A type of volatile memory used in electronic systems to store data and program instructions. SRAM is faster but more expensive than DRAM. Unlike the more common DRAM, it does not need to be constantly refreshed. The most common use for SRAM is cache or temporary memory in a computer.
“System-on-a-chip”	A chip that incorporates functions currently performed by several chips on a cost effective basis.
“Transistor”	An individual circuit that can amplify or switch electric current. This is the building block of all integrated circuits.
“Volatile memory”	Memory products which lose their data content when the power supply is switched off.
“Wafer”	A thin, round, polished piece of silicon which is the basic material from which semiconductor devices are created. Typically, each wafer is six or eight inches in diameter and may have dozens or hundreds of dice, each of which is a potential integrated circuit.
“Wire Bonding”	The method used to attach very fine gold wires to a semiconductor die in order to provide electrical continuity between the semiconductor device and other integrated circuits.

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