



PHIHONG TECHNOLOGY CO., LTD.

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

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

Issue Price: 100%

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

The Bonds will be direct, unconditional, unsecured and unsubordinated obligations of Phihong and will rank at least pari passu in right of payment with all other unsecured and unsubordinated debt of Phihong. Holders of the Bonds (the “**Bondholder**”) may convert the Bonds into the common shares, par value NT\$10 per share, of Phihong (the “**Shares**”) at any time (subject to certain restrictions) on or after January 11, 2004 and prior to the close of business (at the place the Bond is deposited for conversion) on November 12, 2008. Subject to availability, converting holders may elect to receive the Depositary Receipts representing the Shares (“**DRs**”) at a conversion rate to be determined. Conversion of the Bonds into DRs is not currently available. The initial conversion price (the “**Conversion Price**”) will be NT\$22.0 per Share, which is equivalent to U.S.\$0.645 per Share, based on the Fixed Exchange Rate (as defined herein) of NT\$34.104 = U.S.\$1.00, subject to adjustment in the manner provided herein. In addition, the Conversion Price will be adjusted from time to time in certain circumstances relating to the then prevailing closing price of the Shares relative to the Conversion Price. The Shares are listed on the Taiwan Stock Exchange (the “**TSE**”). On December 8, 2003, the closing price of the Shares on the TSE was NT\$21.7 per Share.

Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, Phihong will, at the option of the Bondholders, redeem all or part of the Bonds held by that Bondholder (i) on December 12, 2005 at 103.23% of the principal amount and (ii) on December 12, 2006 at 104.88% of the principal amount. In addition, Phihong will, at the option of the holder of any Bond, redeem all but not part of the Bonds held by that Bondholder at the principal amount in the event that the Shares cease being traded or listed on the TSE. Phihong has the option to call all or any portion of the Bonds on or at any time after December 12, 2005 and prior to December 12, 2008 at their principal amount by giving a 40 days’ to 60 days’ notice of redemption to the Bondholders, if the Closing Price (as defined herein) of the Shares on the TSE in U.S. Dollars, calculated at the prevailing exchange rate, for a period of 30 consecutive Trading Days (as defined herein), the last of which occurring not more than ten days prior to the date of the notice of such redemption, 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. In addition, the Company may at any time redeem the outstanding Bonds in whole, or in part, at their principal amount in the event that more than 90% of the Bonds have been previously redeemed, repurchased and cancelled or converted. In addition, the Bonds may be redeemed in whole at the option of Phihong at the principal amount in the event that certain changes relating to Republic of China (“**ROC**”) taxation result in additional costs to the Company. The Company will redeem the Bonds at their principal amount at maturity on December 12, 2008, unless the Bonds have been previously redeemed, repurchased and cancelled or converted.

For a discussion of certain factors that should be considered in connection with an investment in the Bonds, see “Risk Factors” on page 9 herein.

Application has been made to list the Bonds on the société de la Bourse de Luxembourg S.A. (the “**Luxembourg Stock Exchange**”). It is expected that delivery of the Bonds will be made in book entry form through the facilities of Euroclear and Clearstream, Luxembourg (each as defined herein) on December 12, 2003 (the “**Closing Date**”).

The Bonds and Shares to be issued upon conversion of the Bonds have not been and will not be offered or sold within the United States or to, or for the account on behalf of, U.S. persons. The Bonds are not being offered in the ROC or in the United States.

Global Coordinator, Sole Bookrunner and Lead Manager



Grand Cathay Securities (Hong Kong) Ltd.

Joint Lead Manager

Chinatrust Commercial Bank, Ltd.
(acting through its Offshore Banking Branch)

Co-Lead Manager

Grand Cathay Securities Corp.

Co-Manager

KGI Securities Co., Ltd.

The date of this Offering Circular is December 15, 2003

Phihong, having made all reasonable inquiries, confirms that this Offering Circular contains all information with respect to Phihong, Phihong 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, including GTSM Monthly Review and Status of Securities Listed on Taiwan Stock Exchange, 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 Managers (as defined in “Underwriting”) to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the Bonds and distribution of this Offering Circular, see “Underwriting”. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company or the Managers to subscribe for or purchase, any of the Bonds in any jurisdiction in which such offer or invitation would be unlawful.

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

The Bonds will be represented by beneficial interests in a permanent global certificate (the “**Global Certificate**”) in registered form, which will be registered in the name of a nominee of, and shall be deposited on or about December 12, 2003 with a common depository for, Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”).

Phihong has prepared the audited consolidated and non-consolidated financial statements as at and for the years ended December 31, 2002 and 2001, which include the financial statements as at and for the year ended December 31, 2002 audited by Deloitte & Touche and the financial statements as at and for the year ended December 31, 2001 audited by Realty United Firm and adjusted by Deloitte & Touche. Phihong has also prepared the unaudited non-consolidated financial statements as at and for the nine-month periods ended September 30, 2003 and 2002, which were reviewed by Deloitte & Touche. These financial statements are contained and herein have been prepared in accordance with accounting principles generally accepted in the ROC.

NOTICE TO INVESTORS

Each purchaser of Bonds will be deemed to have represented and agreed as follows (terms that are defined in Regulation S under the Securities Act and used in the following section have the meanings assigned in Regulation S):

- (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) 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 section (3) above, if then applicable;
- (5) 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;
- (6) it understands that the Global Certificate will bear a legend to the following effect (unless otherwise agreed by the Company):

“THIS SECURITY AND THE SHARES ISSUED UPON THE CONVERSION OF THIS SECURITY HAVE 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 FORTY DAYS FROM THE ORIGINAL ISSUANCE OF THE ZERO COUPON CONVERTIBLE BONDS DUE 2008 OF PHIHONG TECHNOLOGY CO., LTD.”; and

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

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

ENFORCEABILITY OF FOREIGN JUDGMENTS IN THE ROC

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

Any final judgment obtained against Phihong or such persons in any court other than the courts of the ROC in respect of any legal suit or proceeding arising out of or relating to the Bonds will be enforced by the courts of the ROC without further review of the merits only if the court of the ROC in which enforcement is sought is satisfied that: (i) the court rendering the judgment has jurisdiction over the subject matter according to the laws of the ROC; (ii) the judgment is not contrary to the public order or good morals of the ROC; (iii) if the judgment was rendered by default by the court rendering the judgment, Phihong or such persons were served within the jurisdiction of such court, or process was served on Phihong or such persons with judicial assistance of the ROC; and (iv) judgments of the courts of the ROC are recognized and enforceable in the jurisdiction of the court rendering the judgment on a reciprocal basis. Remittance out of the ROC of any amount recovered from enforcing a foreign judgment in the ROC is also subject to the Foreign Exchange Control Statute and related regulations thereto as described in “Foreign Investment and Exchange Controls in the ROC” herein.

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CERTAIN DEFINED TERMS, CONVENTIONS AND CURRENCY OF PRESENTATION

Except where the context otherwise requires, all references herein to “**Phihong**” or the “**Company**” are to Phihong Technology Co., Ltd. and the “**Group**” are to Phihong and its subsidiaries. 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 “**U.S. GAAP**” are to accounting principles generally accepted in the United States, respectively. All references herein to the “**PRC**” and “**mainland China**” are to the People’s Republic of China. All references herein to the “**TSE**” are references to the Taiwan Stock Exchange and all references herein to the “**GTSM**” are to the GreTai Securities Market (previously known as the ROC Over-the-Counter Securities Exchange).

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

The Company publishes its financial statements in New Taiwan Dollars, the lawful currency of the ROC. All references herein to “**New Taiwan Dollars**,” “**NT Dollars**” and “**NT\$**” are to New Taiwan Dollars, references to “**United States Dollars**,” “**U.S. Dollars**” and “**U.S.\$**” are to United States Dollars, references to “**Japanese Yen**” and “**JP**” are to Japanese Yen, references to “**Brazilian Reis**” and “**R\$**” are to Brazilian Reis, and references to “**Renminbi**” and “**RMB**” are to Renminbi. 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. Dollar as certified by Taipei Forex Inc. of NT\$34.75 = U.S.\$1.00 as of December 31, 2002 and of NT\$33.75 = U.S.\$1.00 as of September 30, 2003. 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. Dollar or NT Dollar, 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 December 5, 2003 was NT\$34.104 = U.S.\$1.00.

SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements contained elsewhere herein.

Phihong Overview

The Group designs, manufactures and sells power supply units mainly in communications, computer peripherals, and consumer electronics sectors. The Group's products are applied on communication devices, consumer electronics, networking products and industrial equipment. Power supply units, consisting of AC/DC power adapters and chargers, charger bases and open-frame power supply modules, supplied by the Group are on an original equipment manufacture ("OEM") or original design manufacture ("ODM") basis to some of the world's leading makers of communication devices, consumer electronics, networking products and industrial equipment. The Group also manufactures accessories for mobile telephones and other handheld or portable electronic devices. In accordance with its product diversification policy, since 2002 the Group has gradually increased its production volume of high-voltage power supply systems which are commonly used on high power consumption systems such as industrial equipment and office automation ("OA") machines. The Company believes that it is one of the major OEM/ODM manufacturers of power supply units for mobile telephones and consumer electronics in the world. The Group's customers include some of the industry leaders, such as Accton Technology Corporation ("Accton"), BenQ Corporation ("BenQ"), Cisco Systems, Inc. ("Cisco"), Seiko Epson Corporation ("Epson"), Motorola Inc. ("Motorola"), OMRON Corporation ("OMRON"), Palm Inc. ("Palm"), Panasonic Mobile Communication Co., Ltd. ("Panasonic"), Sanyo Electronic Co., Ltd. ("Sanyo") and Sony Corporation ("Sony").

In 2003, the Company moved to its newly constructed global headquarters in Tao-Yuan County, Taiwan and renamed from Phihong Enterprise Co., Ltd. as Phihong Technology Co., Ltd.

The Group has been named as one of a few core global suppliers for power supply units and communication accessories for use in the Motorola brand products. The Group currently provides seven different types of power supply units and communication accessories to Motorola. Sales to Motorola accounted for 57.9%, 67.6% and 60.1% of the Group's total sales in 2000, 2001 and 2002, respectively. All sales made by the Group to Motorola, as those made to other OEM/ODM customers, are on a purchase orders basis without long-term contracts or firm purchase commitments.

The Group owns four manufacturing facilities in the PRC and two in Brazil to produce its products. As a whole, the Company and its subsidiaries own a total of approximately 1,260,035 square feet of manufacturing space. Whereas the corporate headquarters are located in Taiwan, none of the Company's manufacturing facilities are located in Taiwan. In order to take the advantage of lower labor costs and to capture the market opportunities, the Group increased its production outside of Taiwan, primarily in plants located in the PRC and Brazil. The Group has a global network of sales and service offices in the United States, Japan, the United Kingdom, Taiwan, the PRC, and Brazil to provide fast and convenient global distribution services to its customers. The Company also engages independent sales representatives who operate on a commission basis to market its products in the United States and Europe.

In respect of quality assurance, the Group implements strict quality control programs and undertakes substantial on-the-job training for its employees. The corporate headquarters in Taiwan have received TL9000 and ISO14001 accreditation. Each of Dongguan Phihong Plant and Dongguan Phitek Plant has received ISO9002, ISO14001 and TL9000 accreditation, and the Santa Rita Plant I has received ISO9001 accreditation. Santa Rita Plant II has received ISO9002 accreditation. The Group implements quality control at both the product design and commercial production stages to ensure that its products meet customers' satisfaction. The Group has received numerous vendor awards from its major customers, including Motorola and Sony. All power supply products manufactured by the Group are designed to meet relevant international safety standards, such as UL, CSA, CE and TUV, and comply with strict FCC Class B and CISPR Class II (EN55022) emission levels.

The Group's products have become more advanced and sophisticated over time, and many of its customers' product development cycles have shortened in response to technological innovations and rapidly changing market demands. The Company believes that continuous investment and efforts to reinforce its research and development capabilities are key to maintaining its competitiveness in the markets for its

existing products and enhancing its market share and customer base for its new products. The Group has design divisions, engineering teams and research and development laboratories in Taiwan, the PRC, the United States and Brazil. As a result of its research and development efforts, the Group has developed various new products such as electronic ballast and advanced acoustic devices.

The consolidated net sales of the Company have grown at a compound annual growth rate of 17.6% from NT\$4,002.0 million in 1998 to NT\$7,651.3 million (U.S.\$220.2 million) in 2002. For the nine months ended September 30, 2003, the Company recorded non-consolidated net sales of NT\$5,224.8 million (U.S.\$154.8 million) and non-consolidated net income of NT\$151.0 million (U.S.\$4.5 million), compared to NT\$5,266.6 million and NT\$437.0 million, respectively, for the same period in 2002.

Competitive Strengths

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

- ▶ Highly reliable products and safety standards compliance
- ▶ Close relationships with key industry leaders
- ▶ Providing one-stop shopping supply capacity to the customers
- ▶ Strong research and development programs and design capacity
- ▶ Strict quality control processes and standards
- ▶ Experienced professional management team

Strategy

The key elements of the Company's strategy are:

- ▶ Maintain position as a leading manufacturer of power supply products in mobile communications devices sector
- ▶ Diversify customer base to reduce reliance on limited number of customers
- ▶ Focus on high-growth markets
- ▶ Establish strategic alliance with market leaders to improve technology and develop new customers
- ▶ Co-location of production facilities with industrial leaders in major markets
- ▶ Increase vertical and horizontal integration of manufacturing process

Corporate and Other Information

The Company was founded on December 7, 1972 and its common shares were traded on the GreTai Securities Market on February 15, 2000 and have been listed on the Taiwan Stock Exchange since September 17, 2001. The Company's corporate headquarters and principal place of business are located at No. 568, Fu-Shing III Road, Wen Hua Village, Gui-Shan Shiang, Tao-Yuan County, Taiwan, the ROC. The Company's telephone number and web-site are (886) 3-327-7288 and <http://www.phihong.com.tw>, respectively. Information and hyperlinks contained in the Company's web-site do not form and will not form any part of this Offering Circular.

The Offering

Issuer	Phihong Technology Co., Ltd.
Bonds	U.S.\$30,000,000 zero coupon Convertible Bonds due 2008 convertible into fully-paid common shares of the Company with a par value of NT\$10 each (“ Shares ”).
Issue Price	100%.
The Offering	The Bonds will not be offered or sold in the ROC or in the United States. The Bonds will be offered only in offshore transactions in reliance on Regulation S under the U.S. Securities Act of 1933, as amended.
Closing Date	December 12, 2003.
Maturity Date	December 12, 2008.
Status	The Bonds will be direct, unconditional, unsecured and unsubordinated obligations of the Company and will rank at least <i>pari passu</i> without any preference or priority among themselves and shall at all times rank at least equally with all other present and future direct, unsecured and unsubordinated obligations of the Company.
Interest	No interest will be payable on the Bonds prior to maturity, except in certain circumstances where an event of default has occurred. See “Terms and Conditions of the Bonds — Events of Default”.
Withholding Tax	Premium (if any) and interest (if any) payable on the Bonds to non-residents of the ROC is subject to a withholding tax in the ROC equal to 20% of the gross amount of such premium (if any) and interest (if any). The Company will pay such additional amounts as will result in the receipt by the bondholders of the amounts which would have been receivable in the absence of such withholding or deduction.
Tax Redemption	The Company may redeem all but not part of the Bonds at their principal amount in the event of changes in the ROC taxation laws and regulations and/or the application or interpretation thereof, which will result in additional costs to the Company. See Condition 8(D) in “Terms and Conditions of the Bonds”.
Conversion	Subject to prior redemption and as otherwise provided herein, the Bonds are convertible at any time on or after January 11, 2004 and prior to the close of business (at the place at which the Bond is deposited for conversion) on November 12, 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\$22.0 per Share, which is equivalent to U.S.\$0.645 per Share, determined on the basis of the Fixed Exchange Rate of NT\$34.104 = U.S.\$1.00. The Conversion Price will be subject to adjustment for, among other things, subdivision or reclassification of Shares, bonus issues of Shares, rights issues, distributions of stock or cash 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”.

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

The Company shall as soon as practicable, and in any event within five Trading Days (as defined in Condition 8(B)) from the date the Agent Conversion Notification (as defined in the Agency Agreement) is received by the Company from the Principal Agent, deliver to the local agent appointed by the converting Bondholder a certificate or certificates for the relevant Shares, by electronics credit to the account established by the relevant local agent for the conversion of the Bonds, through the facilities of the Taiwan Securities Central Depositary Co., Ltd.

Conversion Price Reset . . . The Conversion Price shall be adjusted downward in accordance with the formula set forth in Condition 6(D) on December 12, 2004, December 12, 2005 and December 12, 2006 (each a “**Reset Date**”) in the event that the Average Closing Price (as defined in Condition 6(D)) of the Shares on the Taiwan Stock Exchange (“**TSE**”) for the 30 consecutive Trading Days immediately prior to and excluding the Reset Date converted into U.S. Dollars at the Prevailing Rate (as defined in Condition 6(D)) is less than the Conversion Price then in effect converted into U.S. Dollars at the Fixed Exchange Rate (as defined in Condition 6(A)); provided that any adjustment to the Conversion Price pursuant to the Conversion Price Reset shall be limited so that the adjusted Conversion Price shall not be less than 80% of the Conversion Price then in effect.

Alternative Conversion
Price Reset The Company may (but shall not be obliged to) grant the Bondholders the option, within a seven Trading-Day period starting from the date to be determined by the Company after November 12, 2005, November 12, 2006 and November 12, 2008 and before the relevant Put Date (as defined in Condition 8(C)(i)) or the Maturity Date (as defined in Condition 8(A)), to convert the Bonds into Shares based on the reset Alternative Conversion Price (defined in Condition 6(E)). 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 December 12, 2008. See “Withholding Tax” above and Condition 8(A) in “Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation”.

Redemption at the Option of the Company	The Company has the option to call all or any portion of the Bonds on or at any time after December 12, 2005 and prior to the Maturity Date at their principal amount by giving a 40 days' to 60 days' prior notice of redemption to the Bondholders, if the Closing Price (as defined in Condition 8(B)) of the Shares on the TSE in U.S. Dollars, calculated at the Prevailing Rate, for a period of 30 consecutive Trading Days, the last of which occurring not more than 10 days prior to the date of the notice of such redemption, 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. In addition, The Company may redeem the outstanding Bonds in whole or in part, at their principal amount in the event that more than 90% of the Bonds have been previously redeemed, called or converted. See Condition 8(B) in "Terms and Conditions of the Bonds".
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 at 103.23% and 104.88% of their principal amount on December 12, 2005 and December 12, 2006, respectively. In addition, the Company will, at the option of the holder of any Bond, redeem all but not part of the Bonds held by that Bondholder at the principal amount (as defined in Condition 8(C)) in the event that the Shares cease being traded or listed on the TSE. 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 in the denomination of U.S.\$10,000 each. The Bonds will be offered and sold in principal amounts of U.S.\$10,000 or an integral multiple thereof. The Bonds will be represented by a Global Certificate deposited with The Bank of New York, as common depositary for, and registered in the name of a nominee for, Euroclear and Clearstream, Luxembourg. 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.
Governing Law	The laws of the State of New York, U.S.A.
Trustee	The Bank of New York.
Listing	Application has been made to have the Bonds listed 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 net proceeds from the offering of the Bonds, after deducting underwriting fees, including selling concessions and other expenses, are estimated to be approximately U.S.\$29,460,000. The net proceeds will be used by the Company for the redemption of the Company's 1% Convertible Bonds due 2007 and the procurement of raw materials overseas.

Summary Financial Data

The summary consolidated balance sheet and income statement data as of and for the years ended December 31, 2000 and 2001, prepared by Reality United Firm, and the summary consolidated balance sheet and income statement data as of and for the year ended December 31, 2002, and the summary non-consolidated balance sheet and income statement data as of and for the nine-month periods ended September 30, 2002 and 2003 prepared by Deloitte & Touche set forth below are derived, without adjustment, from the Audited Consolidated Financial Statements and the Unaudited Non-Consolidated Financial Statements, as the case may be, and should be read in conjunction with, and are qualified in their entirety by reference to, such financial statements, including the notes thereto. Results for the nine-month period ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. The summary consolidated balance sheet and income statement data as of and for the years ended December 31, 1998 and 1999 set forth below are derived from the audited consolidated financial statements of the Company not included herein. Such financial statements were audited by Realty United Firm, independent public accountants, whose audit report dated February 11, 2000 is not included in this Offering Circular. Deloitte & Touche's unaudit report dated October 24, 2003 on the Unaudited Non-Consolidated Financial Statements as of and for the nine-month periods ended September 30, 2003 and 2002 were qualified with respect to the effect on the Unaudited Non-Consolidated Financial Statements of adjustments, if any, had the financial statements of certain subsidiaries and investee companies been audited by independent accountants. The Audited Consolidated Financial Statements and Unaudited Non-Consolidated Financial Statements of the Company have been prepared and presented in accordance with ROC GAAP and reporting practices in the ROC which differ in certain material respects with U.S. GAAP. For a discussion of certain differences between ROC GAAP and U.S. GAAP, see "Summary of Significant Differences Between ROC GAAP and U.S. GAAP". The Company has not qualified or identified the impact of the differences between ROC GAAP and U.S. GAAP, see "Risk Factors — Risks Relating to the ROC — Financial reporting and accounting standards in the ROC differ from other countries; bonus share issuance". The Company is not required to, and does not, prepare interim financial statements on a consolidated basis.

Convenience translations in the Audited Consolidated Financial Statements and the Audited Non-Consolidated Financial Statements expressed in U.S. Dollars are provided solely for the convenience of the reader and such amounts do not form a part of the audited financial statements.

As from April 13, 2002, the independent auditors of the Company have been changed from Reality United Firm, a local accounting firm, to Deloitte & Touche, as the latter is an internationally recognized accounting firm, see "Risk Factors — Risks Relating to the Group's Business — Changes in the Group's Independent Auditors".

	Consolidated as of December 31,						Non-Consolidated as of September 30,		
	1998	1999	2000	2001	2002	2002	2002	2003	2003
	NT\$	NT\$	NT\$	NT\$(¹)	NT\$	U.S.\$(²)	NT\$	NT\$	U.S.\$(²)
	(in thousand dollars)								
Income Statement									
Operating revenue									
— net	4,001,566	4,927,765	7,212,725	7,294,466	7,651,313	220,181	5,266,565	5,224,763	154,808
Cost of revenues	2,567,943	3,525,367	5,742,130	5,702,767	6,335,212	182,308	4,594,963	4,708,260	139,504
Gross profit	1,433,623	1,402,398	1,470,595	1,591,699	1,316,101	37,873	671,602	516,503	15,304
(Unrealized) Realized Gross Profit	—	—	—	(8,351)	10,779	310	15,176	(3,220)	(95)
Realized Gross Profit.	1,433,623	1,402,398	1,470,595	1,583,348	1,326,880	38,183	686,778	513,283	15,208
Operating expenses . .	619,520	668,663	793,800	936,188	933,395	26,860	427,619	432,782	12,823
Operating income . . .	814,103	733,735	676,795	647,160	393,485	11,323	259,159	80,501	2,385
Non-operating income	97,473	112,172	267,743	230,104	402,321	11,577	289,505	201,101	5,959
Non-operating expenses	93,366	31,384	35,045	78,137	124,182	3,573	46,636	137,063	4,061
Income before income tax	818,210	814,523	909,493	799,127	671,624	19,327	502,028	144,539	4,283
Income tax expense . .	(202,148)	(169,209)	(208,923)	(173,855)	(121,119)	(3,485)	(65,000)	6,500	193
Net income.	616,062	645,314	700,570	625,272	550,505	15,842	437,028	151,039	4,475
Per Share Data ⁽³⁾									
(in dollars)									
Basic Earnings Per Share	2.3	2.41	2.61	2.33	2.01	0.06	1.62	0.53	0.02
Diluted Earnings Per Share.	—	—	—	—	1.95	0.06	1.57	—	—

	Consolidated as of December 31,						Non-Consolidated as of September 30,		
	1998	1999	2000	2001	2002	2002	2002	2003	2003
	NT\$	NT\$	NT\$	NT\$(¹)	NT\$	U.S.\$(²)	NT\$	NT\$	U.S.\$(²)
(in thousand dollars)									
Balance Sheet									
Current assets	2,793,752	4,040,336	4,844,044	5,011,307	5,708,163	164,263	4,783,233	3,995,022	118,371
Long-term investments	—	13,828	106,166	521,565	741,684	21,343	3,712,504	4,085,875	121,063
Property, plant and equipment	226,583	323,067	735,576	1,231,031	1,849,795	53,232	789,631	929,421	27,538
Intangible assets	9,696	20,043	17,327	13,368	2,490	72	13,368	2,490	74
Other assets	33,481	37,056	36,604	65,627	124,260	3,576	63,991	98,198	2,910
Total Assets	<u>3,063,512</u>	<u>4,434,330</u>	<u>5,739,717</u>	<u>6,842,898</u>	<u>8,426,392</u>	<u>242,486</u>	<u>9,362,727</u>	<u>9,111,006</u>	<u>269,956</u>
Current liabilities	1,088,168	1,743,289	2,084,789	2,456,939	2,213,242	63,690	3,161,519	2,428,469	101,584
Long-term liabilities	1,650	—	—	—	829,036	23,857	826,862	500,000	14,815
Other liabilities	265,028	413,681	587,286	627,450	557,177	16,034	577,451	550,018	16,297
Total liabilities	1,354,846	2,156,970	2,672,075	3,106,706	3,599,455	103,581	4,565,832	4,478,487	132,696
Total stockholders' equity	<u>1,708,666</u>	<u>2,277,360</u>	<u>3,067,642</u>	<u>3,736,192</u>	<u>4,826,937</u>	<u>138,905</u>	<u>4,796,895</u>	<u>4,632,519</u>	<u>137,260</u>
Total liabilities and stockholders' equity	<u>3,063,512</u>	<u>4,434,330</u>	<u>5,739,717</u>	<u>6,842,898</u>	<u>8,426,392</u>	<u>242,486</u>	<u>9,362,727</u>	<u>9,111,006</u>	<u>269,956</u>

- (1) Based on financial data audited by Reality United Firm and adjusted by Deloitte & Touche in the "Consolidated Financial Statement as at and for the Years Ended December 31, 2002 and 2001".
- (2) Translated into United States Dollars using the exchange rate published by Taipei Forex Inc. at December 31, 2002 of NT\$34.75 = U.S.\$1.00, and at September 30, 2003 of NT\$33.75 = 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.

RISK FACTORS

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

Risks Relating to the Group's Business

The Group's business depends on a small number of customers

The markets for the Group's products tend to be concentrated, with a large percentage of orders coming from a relatively small number of customers. For 2000, 2001 and 2002, the Group's largest three customers accounted for 78.4%, 78.4% and 78.0%, respectively, of its consolidated net sales, respectively. Most of the Group's key customers operate in the cyclical mobile communications and consumer electronics businesses and have in the past, and may in the future, vary order levels significantly from period to period. In addition, as there are no long-term contract or purchase commitment made between the Group and its customers, there can be no assurance that such customers or any other customers will continue to place orders with the Group in the future at the same levels as in prior periods. The loss of one or more of the Group's customers, or reduced orders by its key customers, could adversely affect the Group's results of operations. See "— The Group does not usually enter into long-term supply contracts with its customers and therefore its customers may cancel their orders, change production quantities or delay production".

A substantial portion of the Group's revenue derives from sales to Motorola. The Group currently provides seven different types of power supply units and mobile telephone accessories to Motorola and is jointly designing several new products with Motorola. Sales to Motorola accounted for 57.9%, 67.6% and 60.1% of the Group's total sales in 2000, 2001 and 2002, respectively. The Company does not have significant control over the pricing on the sales to Motorola. There can be no assurance that the Company's sales to Motorola can be as profitable as usual or at all. The Company's average selling costs are impacted not only as seen in the revenue line but also by repricing after the invoices are issued. See "Management's Discussion and Analysis of Financial Condition and Results of Operation — Net Sales".

In addition, some of the Group's OEM/ODM customers also make sales of such products purchased from the Group to Motorola. All sales made by the Group to Motorola, as those to the other customers that the Company supplies the products on an original equipment manufacturing ("OEM") or original design manufacturing ("ODM") basis are on purchase orders without long-term contract or firm purchase commitments. There is no assurance that Motorola will continuously place orders with or take deliveries from the Group.

The Group does not usually enter into long-term supply contracts with its customers and therefore its customers may cancel their orders, change production quantities or delay production

The Group does not generally enter into firm, long-term supply contracts with its customers and it continues to experience reduced lead-times in customer orders. Customers may cancel their orders, change production quantities or postpone production for a number of reasons. Cancellations, reductions or postponements by a significant customer or by a group of customers could seriously adversely affect the Group's results of operations.

In addition, the Company makes significant decisions, including determining the levels of business that it will seek and accept, production schedules, components and raw material procurement commitments, personnel needs and other resource requirements, based on its estimates of customer requirements. The short-term nature of the Group's customers' commitments and the possibility of rapid changes in demand for their products reduce the Company's ability to estimate accurately future customer requirements. On occasion, customers may require rapid increases in production, which can stress the Group's resources and reduce margins. Although the Group has increased its manufacturing capacity and plans further increases, it may not have sufficient capacity at any given time to meet its customers' demands. In addition, because many of the Group's costs and operating expenses are relatively fixed, a reduction in customer demand could impact the Group's gross margins and operating income.

The Group's business is highly dependent on the communications, computer peripherals and consumer electronics businesses

Most of the Group's sales are to customers in the communications, consumer electronics and computer peripherals industries. Therefore, the Group's financial performance depends on its customers' continued growth, viability and financial stability. These customers in turn depend on the growth and viability of the communications devices, computer peripherals and consumer electronics industries, which are highly cyclical. These industries are characterized by rapidly changing technologies and short product life cycles. The factors affecting the communications, consumer electronics and computer peripherals industries in general, or any of the Group's major customers or competitors in particular, could have a material adverse effect on the Group's results of operations. The Group's success depends to a significant extent on the success achieved by its customers in developing and marketing their products, some of which may be new and untested. If customers' products become obsolete or fail to gain widespread commercial acceptance, the Group's business could be materially adversely affected.

The Group's historical sales growth and historical margins may not be sustainable

The Group recorded sales growth of 46.4%, 1.1% and 4.9% for the years 2000, 2001 and 2002, respectively. This level of sales growth may not be sustained in future periods. As the Group continues to develop and expand its operations and production capacity, its operating costs and expenses will continue to increase, putting pressure on gross margins and operating margins. In addition, competition could result in price pressure, lower sales, reduced margins and lower market share, any of which could materially and adversely affect the Group's results of operations. Therefore, period-to-period comparisons of operating results may not be meaningful and investors should not rely on the results of any period as an indication of future performance.

The communications, consumer electronics and computer peripheral accessories and components manufacturing industries are highly competitive

The communications, consumer electronics and computer peripherals manufacturing industry in which the Group operates is highly competitive and includes hundreds of companies with widely varying levels of engineering expertise and sophistication, some of which have achieved substantial market share. General competition in the communications, consumer electronics and computer peripherals accessories and components manufacturing industry is characterized by price erosion and rapid technological change. The Group competes with different companies, depending upon the type of product or geographic area. A number of the Group's competitors are much larger and have greater manufacturing, financial, research and development and marketing resources than the Group. Some of these competitors also carry product lines that the Group does not carry and provide services that the Group does not provide. No assurance can be given that the Group will be able to continue to compete successfully in its relevant markets.

The Company may be involved in intellectual property disputes

The industry in which the Group is doing business, like other industries which high technology is involved, is characterized by frequent litigation regarding patent and other intellectual property rights. The Group's ability to compete successfully depends on its ability to operate without infringing the proprietary rights of others. The Group has no means of knowing what patent applications have been filed in the United States or elsewhere until the applications or resulting patent (if one is granted) are made available to the public. As is typical in the industry, from time to time the Group receives communications from third parties asserting patents that cover certain of the Group's technologies and alleging infringement of intellectual property rights. See Note 20 of the Unaudited Non-Consolidated Financial Statements as of and for the nine-month periods ended September 30, 2003 and 2002.

If the Group is found infringing the patent or if any third parties make other valid claims against the Group or its customers, the Group may be required to:

- ▶ discontinue using process technologies which could cause it to stop manufacturing particular products;
- ▶ limit sales to areas where such patent is registered;

- ▶ pay substantial monetary damages;
- ▶ seek to develop non-infringing technologies, which may not be feasible or may be time-consuming; or
- ▶ seek to acquire licenses to the infringed technology which may not be available on reasonable commercial terms, or at all.

The Group could be seriously harmed by any of these developments. Even if the Group is able to successfully defend it in an intellectual property right infringement claim, such claim could result in substantial costs to the Group and divert its resources.

The Group's operating results vary significantly

The Group experiences significant fluctuations in its results of operations. The factors which contribute to fluctuations include:

- ▶ the timing of customer orders;
- ▶ the volume of these orders relative to the Group's capacity;
- ▶ market acceptance of customers' new products;
- ▶ changes in demand for customers' products and product obsolescence;
- ▶ the timing of the Group's expenditure in anticipation of future orders;
- ▶ the Group's effectiveness in managing manufacturing processes;
- ▶ changes in the cost and availability of labor and components;
- ▶ changes in the Group's product mix;
- ▶ changes in economic conditions; and
- ▶ local factors and events that may affect the Group's production volume, such as local holidays.

The markets for the Group's customers' products are subject to a certain degree of seasonality. These markets exhibit particular strength toward the end of each year in connection with holiday season sales. Accordingly, the Group's third- and fourth-quarter revenues are usually higher, and its first- and second-quarter sales are usually lower, than average.

The Group may experience shortages of raw materials and components

The Group currently purchases certain of its key components and raw materials from a limited number of suppliers. These suppliers' capacity may be insufficient should the Group's requirements increase. In addition, the Group is, in certain circumstances, required to source certain key components from suppliers who have been approved by its customers and the Group may not be able to obtain alternative satisfactory sources of supply should such qualified suppliers be unable to supply it in the future. Accordingly, there can be no assurance that shortages of supply will not occur in the future and that, if such shortages occur, the Group will be able to obtain an adequate alternative supply of components and raw materials to meet production demand. If the Group is unable to obtain sufficient components and raw materials on a timely basis, the Group could experience manufacturing and shipping delays, which could adversely affect customer relationships and reduce sales. In addition, there can be no assurance that the Group would be able to pass on increased costs of components and raw materials to its customers. See "Business — Raw Materials and Components".

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

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

The Group maintains insurance in the corporate headquarters located in Taiwan and electronics manufacturing industry in the PRC and Brazil and in amounts that the Company believes to be adequate. Such insurance, however, may not provide adequate coverage in certain circumstances. In particular, in accordance with industry practice, the Group does not currently carry any third party liability insurance to cover claims in respect of bodily injury or property or environmental damage resulting from accidents on the Group's property or relating to Group operations. Nor does the Group carry business interruption insurance. No assurance can be given that uninsured losses and liabilities incurred by the Group will not have a material adverse effect on the Group's results of operations.

The Group may not be able to develop new products or keep pace with technological change

The Group's future success will depend in part on its ability to develop and market products and manufacturing processes which meet changing customer needs and to successfully anticipate or respond to technological changes in manufacturing processes in cost-effective and timely ways. Many of the Group's products have short product life cycles due to frequent product introductions, rapidly changing technology and evolving industry standards. There can be no assurance that the Group will be successful in developing new products as a result of its research and development efforts or its cooperation with industry leaders or that it will keep pace with technological changes taking place in the market. Failure to do so or delay in reacting to the technological changes could have a material adverse effect on the Group's business, or results of operations.

The Company's diversification into new businesses or product lines may not be successful

The Company intends to diversify its products into high-voltage power supply systems and other higher valued added products. In connection with this plan, the Company expects to incur additional costs (including increased management attention) and to face intense competition in the relevant markets from other companies, including those with more relevant technological and managerial experience.

The Company's diversification into new businesses will put pressure on its managerial, technical, financial, production, operational and other resources. To manage future growth, the Company must add production and distribution capacity, enhance financing controls and hire additional skilled personnel as well as manage relationships with a greater number of customers, suppliers, equipment vendors and other third parties.

There can be no assurance that the Company will be able to successfully compete in these businesses or products; that demand for these new products will grow to the extent that the Company expects; or that these new businesses and products will provide the returns that the Company expects. Moreover, there can be no assurance that the implementation of such plan, including the management attention that such implementation is expected to require, will not adversely affect the Company's existing operations.

New power related technology that revolutionarily abandons or decreases the use of power supplies may have adverse impact on the Group's business

A substantial portion of the Group's business depends on the conventional power supply products, i.e., using AC/DC adapters or switching power supply units to charge rechargeable batteries on portable devices, such as mobile telephones, digital cameras and personal digital assistant ("PDA"). If conventional power supply technology changes significantly, such as invention of longer-lasting or disposable batteries, the market of the conventional power supply products and demand for the Group's power supply units will be adversely affected.

The Group may be unable to manage its growth effectively

The Group has grown rapidly. The Group's ability to manage growth effectively will require it to continue to implement and improve its operational, financial and management systems; continue to develop the management skills of its managers; and continue to train, motivate and manage its employees. If the Group were to fail to manage growth effectively the Group's results of operations could be adversely affected.

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

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

The Group is exposed to the risks of currency exchange rate fluctuations

Historically, a majority of the operating costs and expenses of the Group have been denominated in U.S. Dollars, Hong Kong Dollars, RMB, Brazilian Reis and NT Dollars and the Group's revenue has been denominated primarily in U.S. Dollars and NT Dollars. Accordingly, a portion of the Company's consolidated costs of sales, operating expenses and revenues are exposed to fluctuations between the U.S. Dollar, Hong Kong Dollar, RMB, Brazilian Reis and NT Dollar. Although the Company attempts to mitigate the effects of exchange rate fluctuations primarily through the use of foreign currency borrowings and forward contracts, fluctuations in exchange rates may have an adverse impact on the Group's future gross and operating margins and results of operations. See "Exchange Rates" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". In addition, the Group has substantial investments in the PRC, and any devaluation in the value of RMB may have an adverse impact on the value of such investments in the PRC.

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

The Group has structured its operations in a manner designed to maximize income in countries where tax incentives have been extended to encourage foreign investment, such as the PRC or where income tax rates are low. If the tax rates and policies applicable to the Group are rescinded or changed or if tax authorities were to challenge successfully the manner in which profits are recognized among the members of the Group, the Group's taxes could increase and its results of operations and cash flow could be adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operation — Income Tax".

A potential outbreak of Severe Acute Respiratory Syndrome ("SARS") in Greater China and neighboring areas may affect the Company's business operations and sales

SARS, an atypical pneumonia, was first reported at the end of February 2003 in Hanoi, Vietnam. Scientists and the World Health Organization ("WHO") believe that SARS was originated from Guangdong Province, the PRC. Cases of SARS were reported from eight countries between February and September 2003. Local transmission of SARS was confirmed in Canada, Hong Kong, Singapore, Taiwan, Vietnam and the PRC.

As Beijing, Guangdong Province, Hong Kong, and Taiwan were announced by the WHO as affected areas during the SARS outbreak, many multinational companies, including the Company's customers and suppliers, established travel ban policy to and from such areas during the period. In addition, a number of companies, including the Company, required its visitors or employees returning from affected areas to be subject to a seven to 14 days of quarantine period before they visit the Company or return to work. The Company will implement such policies in the event of a re-emergence of SARS outbreak. Inconvenience caused by such travel ban and quarantine policies upon a re-emergence of SARS outbreak may have adverse impact on the Company's business operations.

During the SARS outbreak, none of the Company's employees at any of its manufacturing facilities has reported any case of SARS. However, there can be no assurance that any of the Company's employees will not be infected by SARS. As the PRC and Taiwan governmental authorities had adopted strict quarantine policy with respect to SARS, if any employee of any of the Company's manufacturing facilities is infected by SARS, such affected facilities may be subject to up to 14 days of quarantine. In such situation, the Company's business operation, sales and financial results may be adversely affected. In addition, any media coverage of any such possible SARS cases is likely to affect the Company's share prices.

The Group's operation may be adversely affected by natural disaster in the ROC and the PRC

The Company's present corporate headquarters located in Northern Taiwan are vulnerable to natural disasters. Disruption of operations of the Company, including work stoppages, power outages, fire, earthquakes or other natural disasters, would cause delays in processing shipments of certain products, which could lead customers to obtain products from other sources. For example, the Company has in the past experienced major power outages on July 29 and September 21, 1999, each of which resulted in a brief suspension of production. In September 1999, a major earthquake occurred, with its epicenter in central Taiwan. The earthquake caused interruptions to power supply and significant damage to buildings across Taiwan. As a result of the earthquake, the Company was obliged to suspend its manufacturing operation in Taiwan for one day. After the 1999 earthquake, there were a number of earthquakes in Taiwan in 2000, 2001 and 2002 including one which attacked northern Taiwan on March 31, 2002. The area of Tianjin, PRC, where one of the Group's plants is located is also a geologically earthquake active area and has a history of earthquakes. Similar incidents may occur in the future, which could have a material adverse effect on its results of operations.

Changes in the Group's independent auditors

The Group's independent auditors have been changed from Reality United Firm (who has been the Group's independent auditors for 10 years) to Deloitte & Touche as from April 13, 2002. The interpretation and/or application of ROC GAAP in preparing and/or auditing the financial statements of the Group may not necessarily be consistent with the interpretation and/or application adopted by Reality United Firm. As such, the financial statements as of and for the year ended December 31, 2002 and future financial statements prepared and/or audited by Deloitte & Touche may not necessarily served as useful comparison to the Group's past financial conditions reflected in the financial statements prepared and/or audited by Reality United Firm.

Risks Relating to the Offering

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

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

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

Transfers of the Bonds and Shares are restricted

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

An active trading market for the Bonds may not develop

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

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

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

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

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

Further issuance of Shares, including pursuant to stock dividends, employee stock bonuses and employee stock options, could dilute the holdings and associated rights with respect to the Shares

The Articles of Incorporation of the Company provide that the Company may distribute dividends in the form of Shares. In addition, Article 6 of the Company’s Articles of Incorporation provides that 80,000,000 shares of common stock are reserved for issuance of employee stock option, convertible bonds with warrants and preferred shares with warrants. As of October 20, 2003, the Company’s Board of Directors had not yet approved an employee stock option plan. Under current ROC law, a stock option plan must be approved by at least a majority of the directors represented at the board of directors’ meeting in which a quorum of at least two-thirds of all directors are represented. Any distribution of stock dividends by the Company or employee bonuses or further issuance of new Shares will effectively dilute the holdings and associated rights of the Bondholders who convert the Bonds into Shares.

Risks Relating to the ROC

Disruptions in the ROC’s political environment could seriously harm the Group’s business

The Company is incorporated in the ROC. Significant assets of the Company are located in, and substantial revenues are derived from its operations in the ROC. Accordingly, the Company’s business and financial condition and the market price of the Shares may be affected by changes in local governmental

policies and local political and social instability. 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. 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 Group's business and the market price of the Shares.

The adverse economic conditions in Taiwan and Asia may affect the Company and the Bonds

Many economies in Asia, including the ROC and the PRC, have experienced significant downturns and related difficulties in recent years. Currency fluctuations, as well as worries of deflation, high unemployment rates and other factors, have materially and adversely affected the economies of many countries and regions, including the ROC and the PRC. Economic developments in Asia could materially and adversely affect the Company's business, results of operations and financial condition.

Foreign exchange approvals may be required

Under existing ROC law, foreign exchange approvals must be obtained from the Central Bank of China (the "CBC") on a payment-by-payment basis for the conversion into foreign currencies of the net proceeds realized from sale of the Shares issued upon conversion of Bonds or any dividends relating to such Shares, or of any cash dividends or other cash distributions in respect of such Shares, as well as for inward remittances of subscription payments in connection with a rights issue. In addition, foreign persons may, subject to certain required documents, but without foreign exchange approval of the CBC, remit outside and into the ROC foreign currencies of up to U.S.\$100,000 (or its equivalent) for each remittance. There can be no assurance that any such approval will be obtained in a timely manner or at all. See "Appendix A — Foreign Investment and Exchange Controls in the ROC — Overseas Corporate Bonds".

The value of the Bonds and the Company's Shares may be adversely affected by the volatility of the Taiwan securities market

The Taiwan securities market is smaller and more volatile than the securities markets in the United States and in certain European and other countries. The TSE and the GTSM have experienced substantial fluctuations in the prices and trading volumes of listed securities, and there are currently limits on the range of daily price movements on the TSE and the GTSM. From time to time, the ROC regulatory agencies have intervened in the Taiwan stock market during periods of extreme volatility. In the past decade, the TSE Index peaked at 10,393.59 in February 2000, and reached a low of 3,411.68 in September 2001. During 2002, the TSE Index peaked at 6,462.3 on April 19, 2002, and reached a low of 3,850.0 on October 11, 2002. In addition, the TSE and the GTSM have experienced problems such as market manipulation, insider trading and payment defaults. The recurrence of these or similar problems could adversely affect the market price and liquidity of the securities of Taiwan companies, including the Bonds and the Shares. For more information, please see "Appendix B — The Securities Markets of the ROC".

Financial reporting and accounting standards in the ROC differ from other countries; bonus share issuance

The Group 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 Group'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 3% to 10% of the distributable after-tax profits, in the form of Shares or cash or combination of the two and expects that, subject to shareholders approval, it will pay all or some of employee bonuses for future periods. The Company granted an aggregate of 3,660,000 Shares, 4,201,000 Shares and 4,407,761 Shares in the years 2000, 2001 and 2002 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 calculated in accordance with U.S. GAAP would be reduced. This difference in treatment between ROC GAAP and U.S. GAAP would be material.

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. However, the Conversion Price of the Bonds is adjusted for such issuances.

Bondholders should not rely on financial forecasts that the Company reports from time to time as required by the TSE

The Company publishes forecasts from time to time under the requirements of the TSE. These forecasts are based upon a number of estimates and assumptions regarding the industries, investments and general market, political and economic conditions, many of which are beyond the Company's control, and are inherently subject to significant uncertainties and contingencies.

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

Internally prepared annual financial information that the Company publishes from time to time under recent requirements of the TSE may be inaccurate and incomplete

The TSE and the ROC Securities and Futures Commission (the "ROC SFC") require companies listed on the TSE which publishes financial forecasts to publish by the end of January each year certain internally prepared unaudited non-consolidated information regarding the realization of the financial forecasts made by such companies during the prior fiscal year. The Company has complied with this requirement since the promulgation of this rule. The information published in response to this requirement will not be subject to the same review and scrutiny, including internal auditing procedures and review by independent auditors, to which the financial information that the Company publishes from time to time is subject pursuant to the requirements of the TSE. Further, because this information is unaudited, it may vary from the Company's audited ROC GAAP financial statements for the same period. Any such variance may be material and adverse.

A Bondholder or its designee requesting the conversion of the Bonds into the Shares may be required to provide certain information to the Company, and failure to provide such information may result in a delay of the conversion

A Bondholder or its designee requesting the conversion of the Bonds into Shares may be required to provide certain information to the Company or the Conversion Agent, including the names and nationality of the person to be registered as the shareholder and the number of Shares to be acquired by such person and the number of Shares acquired by such person in the past through the date of conversion of the Bonds. Under applicable ROC laws, the Company is required to report to the ROC SFC if the person to be registered as a shareholder (i) is a "related party" of the Company as defined in the ROC Statement of Financial Accounting Standard No. 6, or (ii) will hold, immediately following such conversion, more than 10% of the total number of the Company's Shares outstanding. Failure to provide such information may result in a delay of the conversion of the Bonds.

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

Holders of the Bonds (being either individuals or legal entities) who are non-ROC persons, upon exercising their conversion right will be required to register with TSE and, if applicable, obtain the approval of the CBC (if they are offshore foreign institutional investors) and will be required to appoint an agent in

the ROC for filing tax returns and making tax payments. Such agent (a “**Tax Guarantor**”) will be required to meet the qualifications set by the Ministry of Finance of the ROC (the “**MOF**”) and to act as the guarantor of the converting Bondholder’s tax payment obligations.

Under current ROC laws, repatriation of profits by holders of the Bonds is subject to the submission of evidence of the appointment of a Tax Guarantor to, and approval thereof by, the tax authority or submission of tax clearance certificates to the tax authority so long as the capital gains from securities transactions are exempt from ROC income tax. Notwithstanding the above requirement for the appointment of a Tax Guarantor or submission of tax clearance certificates as provided in the ROC regulations, the CBC has not required submission of such evidence or tax clearance certificates as a condition to repatriation of sale proceeds of Shares. However, there can be no assurance that the CBC will not require submission of such evidence or tax clearance certificate in the future.

In addition, under current ROC law, such converting non-ROC holders of the Bonds are required to appoint a local securities agent (with such qualifications as are set by the ROC SFC) to open a securities trading account with a local brokerage firm and a NT Dollar bank account, pay ROC withholding tax, remit funds, exercise stockholders’ rights and perform such other actions as may be designated by such holders. Further, the converting non-ROC holders of the Bonds are also required to appoint a local bank to act as a custodian bank to hold the securities and any cash proceeds in safekeeping, to make confirmations, to settle trades and to report all relevant information. Without satisfying these requirements, converting non-ROC holders of the Bonds who receive the Shares would not be able to hold or otherwise sell them on the TSE.

Holders of the Bonds will bear the risk of fluctuations in the price of the Company’s Shares

The market price of the Bonds at any time will be affected by fluctuations in the price of the Company’s Shares. It is impossible to predict whether the price of the Company’s Shares will rise or fall. Trading prices of the Company’s Shares will be influenced by, among other things, the Company’s results of operations and political, economic, financial and other factors that can affect the capital markets on which the Company’s Shares are traded and the financial services market in Taiwan. Any decline in the price of the Company’s Shares would adversely affect the secondary market price of the Bonds.

Holders of the Bonds will have no rights as shareholders until they acquire the Shares upon conversion of the Bonds

Unless and until the Bondholders acquire the Shares upon conversion of the Bonds, the Bondholders will have no rights with respect to the Company’s Shares, including any voting rights or rights to receive any regular dividends or other distributions with respect to the Shares. Bondholders who acquire the Company’s Shares upon exercise of a Conversion Right (as defined in the terms and conditions of the Bond) will be entitled to exercise the rights of shareholders only as to actions for which the applicable record date occurs after the Conversion Date (as defined in the terms and conditions of the Bond).

Fluctuations in the exchange rate between the NT Dollar and the U.S. Dollar may have a material adverse effect on the value of the Bonds in U.S. Dollar terms

Although the principal amount of the Bonds is denominated in U.S. Dollars, the Company’s Shares are listed on the TSE, which quotes and trades the Company’s Shares in NT Dollars. As a result, fluctuations in the exchange rate between the NT Dollar and the U.S. Dollar will affect, among other things, the secondary market price of the Bonds and the U.S. Dollar equivalent of the Company’s Shares received upon conversion of the Bonds.

Risks relating to the PRC

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

Currently, a substantial part of the Group’s operations and assets are located in the PRC and the Group expects to make further investments in the PRC in the future. The Group is also selling and marketing its products in the PRC. Accordingly, financial condition, results of operations and future prospects of the Group are subject, to a significant degree, to the political and economic situation and legal developments in the PRC. There can be no assurance that the Group’s investment in the PRC and its production operations in the PRC will not be adversely affected if relations between the PRC and the ROC are further strained.

Prior to 1978, the PRC had adopted a central economic planning system. All production and economic activities in the country were governed by the economic goals set out in the five-year plans and annual plans adopted by central authorities. Since 1978, the PRC government has permitted foreign investment and implemented economic reforms, gradually changing from a planned economy towards a market-oriented economy. However, many of the reforms and economic policies adopted or to be adopted by the PRC government are unprecedented or experimental in nature and may have unforeseen results, which may have an adverse effect on enterprises with substantial business in the PRC, including the Group.

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

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

USE OF PROCEEDS

The net proceeds from the offering of the Bonds, after deducting underwriting fees, including selling concessions, and other expenses, are estimated to be approximately U.S.\$29,460,000. The net proceeds will be used by the Company for redemption at the option of the Bondholders of the Company's 1% Convertible Bonds due 2007 and the procurement of raw materials overseas.

MARKET PRICE INFORMATION

The Shares have been quoted and traded on the GTSM on February 15, 2000 and listed on the TSE since September 17, 2001. The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the TSE for the Shares (adjusted for the effects of rights issues, employee bonus issues and stock dividends) and the high and low of the daily closing values of the TSE Index.

		<u>Closing Price per Share</u>		<u>Average Daily Trading</u>	<u>TSE Index</u>		<u>GTSM Index</u>	
		<u>High</u>	<u>Low</u>	<u>Volume</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
		(NT\$)		(in thousands of Shares)				
2001 . .	January	30.53	18.66	4,542			139.53	109.7
	February	39.25	31.40	6,457			149.52	135.96
	March	39.54	30.24	4,958			152.46	132.75
	April	38.96	31.11	3,724			149.51	139.12
	May	36.05	23.08	2,372			138.83	121.15
	June (listed on TSE)	36.56	28.07	2,394	5,271.30	4,768.55		
	July	31.76	25.56	2,158	4,886.86	4,040.77		
	August	33.90	27.40	3,046	4,687.33	4,310.32		
	September	29.03	18.17	1,313	4,493.53	3,493.78		
	October	25.85	20.76	4,173	4,065.10	3,446.26		
	November	37.67	25.19	8,180	4,680.32	3,929.69		
	December	48.38	36.93	6,955	5,551.24	4,646.61		
2002 . .	January	50.23	38.04	8,304	6,007.33	5,488.33		
	February	44.32	34.42	3,714	5,968.61	5,499.79		
	March	50.23	38.04	7,676	6,242.64	5,680.78		
	April	53.18	43.58	5,580	6,462.30	6,059.21		
	May	46.16	36.27	3,842	5,910.69	5,443.18		
	June	42.10	32.65	3,209	5,599.12	5,071.76		
	July	47.27	33.31	4,984	5,416.50	4,855.34		
	August	48.60	37.82	6,462	4,968.85	4,572.35		
	September	43.65	35.52	6,353	4,668.01	4,185.95		
	October	38.61	32.43	10,655	4,601.37	3,850.04		
	November	37.02	32.96	8,665	4,813.23	4,500.55		
	December	35.61	24.74	5,979	4,823.67	4,452.45		
2003 . .	January	29.87	25.18	5,730	5,078.80	4,524.87		
	February	27.13	21.91	2,914	4,833.58	4,432.46		
	March	22.80	18.64	3,661	4,599.25	4,260.45		
	April	24.74	18.47	6,849	4,658.30	4,139.50		
	May	19.26	16.35	4,620	4,555.90	4,189.82		
	June	22.53	19.00	8,179	5,048.91	4,678.08		
	July	26.20	20.60	8,427	5,451.80	5,017.78		
	August	21.70	19.30	3,279	5,686.85	5,214.60		
	September	19.70	17.60	1,898	5,757.91	5,611.41		
	October	20.20	17.70	2,470	6,108.13	5,581.66		
	November	19.7	17.8	3,715	6,142.32	5,771.77		
	December (through December 8)	21.7	21.0	14,874	5,920.46	5,847.15		

Source: Taiwan Stock Exchange Corporation Monthly Review

On December 8, 2003, the reported closing price of the Shares was NT\$21.7 per Share and the TSE Index closed at 5,847.15.

DIVIDENDS AND DIVIDEND POLICY

The following table sets forth the cash dividends per share and stock dividends per share as a percentage of outstanding shares, paid during each of the years indicated in respect of Shares outstanding at the end of each such year, excepted as otherwise noted.

	<u>Cash Dividend per Share</u>	<u>Stock Dividend per Share⁽¹⁾</u>	<u>Total Number of Shares Issued as Stock Dividend</u>	<u>Number of Outstanding Shares at Year End</u>
	(NT\$)	(NT\$)		
1997	—	1.8	4,122,000	37,263,100
1998	—	7.2	26,859,242	65,000,000
1999	—	6.1	39,344,500	107,000,000
2000	—	4.0	42,800,000	153,460,000
2001	0.5	2.5	38,365,000	196,050,000
2002	0.7	1.8	35,289,000	257,119,494

Note:

- (1) The Company declares stock dividends in a New Taiwan Dollar amount per share, but it pays the dividends to its shareholders in the form of Shares. The amount of Shares distributed to each shareholder is calculated by multiplying the dividend declared by the number of Shares held by the given shareholder, divided by the par value of NT\$10 per Share. Fractional Shares will be paid in cash.

The Company has historically paid dividends on the Shares with respect to the preceding year after approval by the shareholders at the annual general meeting of shareholders. The form, frequency and amount of future cash or stock dividends on the Shares will depend upon the Company's earnings, cash flow, financial condition and other factors.

According to the Company's Articles of Incorporation, out of the profits of the Company for each fiscal year, after having provided for income tax and the losses of the previous years, a legal reserve of 10% shall be set aside and thereafter a special reserve for reduction in shareholders' equity for the fiscal year, may be further set aside. The balance of the profits may be wholly or partially retained to meet the operating needs of the Company as decided by the board of directors, and thereafter any remainder profits will be distributed as follows:

- ▶ 85% to 92% thereof as dividends;
- ▶ 5% thereof as remuneration to directors and supervisors; and
- ▶ 3% to 10% thereof as bonuses to employees.

The Company is at a growth stage of development. Taking into account the funds required and the long term financial planning of the Company and its shareholders, the dividends will be distributed in the form of Shares. However, the dividends may be distributed in cash only when the cash flow from the Company's operating activities in the preceding fiscal year is positive, and when no major capital expenditure is planned within one year in the future. The Articles of Incorporation provide that dividends distributed in cash shall be no less than 10% of the total dividends.

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>Average</u>	<u>High</u>	<u>Low</u>	<u>At Period-End</u>
1996	27.460	27.935	27.131	27.491
1997	28.964	33.471	27.308	32.638
1998	33.389	35.17	31.781	32.216
1999	32.235	33.277	31.35	31.395
2000	31.345	33.197	30.22	33.082
2001	33.892	35.174	32.227	35
2002	34.561	35.248	32.768	34.75
2003				
January	34.601	34.868	34.331	34.699
February	34.773	34.862	34.541	34.777
March	34.721	34.85	34.583	34.748
April	34.820	35.025	34.721	34.847
May	34.714	34.847	34.555	34.709
June	34.622	34.731	34.49	34.609
July	34.408	34.612	34.249	34.414
August	34.331	34.51	34.086	34.163
September	33.997	34.17	33.635	33.765
October	33.880	34.055	33.657	33.97
November	34.045	34.27	33.9	34.205
December (through December 8)	34.111	34.265	34.044	34.055

Source: Taipei Forex Inc.

CAPITALIZATION

The following table sets forth the short-term debt, and the capitalization of the Company as of December 31, 2002 and as adjusted to reflect the issuance of the Bonds.

	As at December 31, 2002			
	Actual		As adjusted ⁽¹⁾	
	NT\$	U.S.\$ ⁽²⁾ (in thousand dollars)	NT\$	U.S.\$ ⁽²⁾
Short-term debt: (including current portion of long-term debt)	<u>8,393</u>	<u>242</u>	<u>8,393</u>	<u>242</u>
Long-term debt	<u>829,036</u>	<u>23,857</u>	<u>829,036</u>	<u>23,857</u>
The Bonds now being issued.	<u>—</u>	<u>—</u>	<u>1,042,500</u>	<u>30,000</u>
Shareholders' equity:				
Common stock	2,571,195	73,991	2,571,195	73,991
Additional Paid-in Capital	857,401	24,674	857,401	24,674
Retained Earnings	1,319,580	37,974	1,319,580	37,974
Cumulative translation adjustments	165,103	4,751	165,103	4,751
Treasury stock	<u>(86,342)</u>	<u>(2,485)</u>	<u>(86,342)</u>	<u>(2,485)</u>
Total shareholders' equity	<u>4,826,937</u>	<u>138,905</u>	<u>4,826,937</u>	<u>138,905</u>
Total long-term capitalization	<u>5,655,973</u>	<u>162,762</u>	<u>6,698,473</u>	<u>192,762</u>

(1) Adjustment is made for the Bonds issued hereby.

(2) NT Dollar amounts have been translated into U.S. Dollars (and the principal amount of the Bonds, being U.S.\$30,000,000, has been translated into NT Dollars) using the exchange rate published by Taipei Forex Inc. at December 31, 2002 of NT\$34.75 = U.S.\$1.00 solely for the convenience of the reader.

The following table sets forth the non-consolidated short-term and long-term debt and the capitalization of the Company as of September 30, 2003 and as adjusted to reflect the issuance of the Bonds.

	As at September 30, 2003			
	Actual		As adjusted ⁽¹⁾	
	NT\$	U.S.\$ ⁽²⁾ (in thousand dollars)	NT\$	U.S.\$ ⁽²⁾
Short-term debt: (including current portion of long-term debt)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Long-term debt	<u>500,000</u>	<u>14,815</u>	<u>500,000</u>	<u>14,815</u>
The Bonds now being issued.	<u>—</u>	<u>—</u>	<u>1,012,500</u>	<u>30,000</u>
Shareholders' equity:				
Common stock	2,923,816	86,632	2,923,816	86,632
Additional Paid-in Capital	847,414	25,109	847,414	25,109
Retained Earnings	882,917	26,160	882,917	26,160
Cumulative translation adjustments	142,906	4,234	142,906	4,234
Treasury Stock	<u>(164,534)</u>	<u>(4,875)</u>	<u>(164,534)</u>	<u>(4,875)</u>
Total shareholders' equity	<u>4,632,519</u>	<u>137,260</u>	<u>4,632,519</u>	<u>137,260</u>
Total long-term capitalization	<u>5,132,519</u>	<u>152,075</u>	<u>6,145,019</u>	<u>182,075</u>

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- (1) NT Dollar amounts have been translated into U.S. Dollars (and the principal amount of the Bonds, being U.S.\$30,000,000 has been translated into NT Dollars) using the exchange rate published by Taipei Forex Inc. at September 30, 2003 of NT\$33.75 = U.S.\$1.00 solely for the convenience of the reader.

Except as set forth above, there has been no material change in consolidated capitalization of the Company since December 31, 2002, nor has there been any material changes in non-consolidated capitalization of the Company since September 30, 2003.

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 Group designs, manufactures and sells power supply units mainly in communications, computer peripherals, and consumer electronics sectors. The Group’s products are applied on communication devices, consumer electronics, networking products and industrial equipment. Power supply units, consisting of AC/DC power adapters and chargers, charger bases and open-frame power supply modules, supplied by the Group are on an original equipment manufacture (“OEM”) or original design manufacture (“ODM”) basis to some of the world’s leading makers of communication devices, consumer electronics, networking products and industrial equipment. The Group also manufactures accessories for mobile telephones and other handheld or portable electronic devices. In accordance with its product diversification policy, since 2002 the Group has gradually increased its production volume of high-voltage power supply systems which are commonly used in high power consumption systems such as industrial equipment and office automation (“OA”) machines. The Company believes that it is one of the major OEM/ODM manufacturers of power supply units for mobile telephones and consumer electronics in the world. The Group’s customers include some of the industry leaders, such as Accton Technology Corporation (“Accton”), BenQ Corporation (“BenQ”), Cisco Systems, Inc. (“Cisco”), Seiko Epson Corporation (“Epson”), Motorola Inc. (“Motorola”), OMRON Corporation (“OMRON”), Palm Inc. (“Palm”), Panasonic Mobile Communication Co., Ltd. (“Panasonic”), Sanyo Electronic Co., Ltd. (“Sanyo”) and Sony Corporation (“Sony”).

In 2003, the Company moved to its newly constructed global headquarters in Tao-Yuan County, Taiwan and renamed from Phihong Enterprise Co., Ltd. as Phihong Technology Co., Ltd.

The Group has been named as one of a few core global suppliers for power supply units and communication accessories for use in the Motorola brand products. The Group currently provides seven different types of power supply units and communication accessories to Motorola. Sales to Motorola accounted for 57.9%, 67.6% and 60.1% of the Group’s total sales in 2000, 2001 and 2002, respectively. All sales made by the Group to Motorola, as those made to other OEM/ODM customers, are on a purchase orders basis without long-term contracts or firm purchase commitments.

The Group owns four manufacturing facilities in the PRC and two in Brazil to produce its products. As a whole, the Company and its subsidiaries own a total of approximately 1,260,035 square feet of manufacturing space. Whereas the corporate headquarters are located in Taiwan, none of the Company’s manufacturing facilities are located in Taiwan. In order to take the advantage of lower labor costs and to capture the market opportunities, the Group increased its production outside of Taiwan, primarily in plants located in the PRC and Brazil. The Group has a global network of sales and service offices in the United States, Japan, the United Kingdom, Taiwan, the PRC, and Brazil to provide fast and convenient global distribution services to its customers. The Company also engages independent sales representatives who operate on a commission basis to market its products in the United States and Europe.

In respect of quality assurance, the Group implements strict quality control programs and undertakes substantial on-the-job training for its employees. The corporate headquarters in Taiwan have received TL9000 and ISO14001 accreditation. Each of Dongguan Phihong Plant and Dongguan Phitek Plant has received ISO9002, ISO14001 and TL9000 accreditation, and the Santa Rita Plant I has received ISO9001 accreditation. Santa Rita Plant II has received ISO9002 accreditation. The Group implements quality control at both the product design and commercial production stages to ensure that its products meet customers’ satisfaction. The Group has received numerous vendor awards from its major customers, including Motorola and Sony. All power supply products manufactured by the Group are designed to meet relevant international safety standards, such as UL, CSA, CE and TUV, and comply with strict FCC Class B and CISPR Class II (EN55022) emission levels.

The Group's products have become more advanced and sophisticated over time, and many of its customers' product development cycles have shortened in response to technological innovations and rapidly changing market demands. The Company believes that continuous investment and efforts to reinforce its research and development capabilities are key to maintaining its competitiveness in the markets for its existing products and enhancing its market share and customer base for its new products. The Group has design divisions, engineering teams and research and development laboratories in Taiwan, the PRC, the United States and Brazil. As a result of its research and development efforts, the Group has developed various new products such as electronic ballast and advanced acoustic devices.

The consolidated net sales of the Company have grown at a compound annual growth rate of 17.6% from NT\$4,002.0 million in 1998 to NT\$7,651.3 million (U.S.\$220.18 million) in 2002. For the nine months ended September 30, 2003 the Company recorded non-consolidated net sales of NT\$5,224.8 million (U.S.\$154.81 million) and non-consolidated net income of NT\$151.0 million (U.S.\$4.47 million), compared to NT\$5,266.6 million and NT\$437.0 million, respectively, for the same period in 2002.

Competitive Strengths

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

Highly reliable products and safety standards compliance

Product safety is one of the major concerns in power supply industry. The Group manufactures power supply products which are highly reliable and comply with a wide range of the commonly accepted industrial safety standards and EMC adopted in different jurisdictions, including, IEC electronic standard license and UL safety standard license. For example:

- ▶ IEC 60950 (Information Technology Equipment, I.T.E.);
- ▶ IEC 601-1 (Medical Equipment);
- ▶ UL 1310 and CSA C22.2 No. 223 (Class 2 Equipment: power supply with extra low voltage and limited output power); and
- ▶ UL 60950 (safety of Information Technology Equipment).

The Group's testing laboratories are certified by the Underwriters' Laboratories Inc. ("UL") to conduct in-house testing, providing efficient and reliable testing for the products manufactured in the Group's manufacturing facilities.

Close relationships with key industry leaders

The Group has established close supplier-customer relationships with some of the world's leading manufacturers of communication devices, consumer electronics, networking products and industrial equipment. Such leading names as Accton, BenQ, Cisco, Epson, Motorola, OMRON, Palm, Panasonic, Sanyo and Sony have placed the Group on their approved vendor lists in recognition of the consistently high product quality and quick response time of the Group. The Group has been named as one of a few core suppliers worldwide for Motorola. The Group is also named as a designated vendor by a number of major customers, with whom the Group participates in the joint design of power supply units and other communication accessories. This allows the Group to benefit from, and contribute to, the customers' strategic planning and standard-setting processes in the early stages of product development. This practice provides the Group with up-to-date market information, which ensures that the Group's new products are tailored to and responsive to its customers' needs. The Company believes that this practice helps the Group to maintain the competitive edge of the technology, to increase the Group's technological advantage in relation to its competitors, and to cement its relationships with important customers.

Strong research and development programs and design capacity

The Group invests significant resources in research and development, through in-house research and development activities, joint development with major customers and provision of strong incentives to employees. The Group's research and development activities are directed at developing new products and improving production efficiency and lowering costs.

As an ODM manufacturer, the Group has substantial expertise in new product design, which conforms to the customer's requirements and safety standards. By leveraging its strong design capability, the Group is able to produce standardized products being widely used in the communications, consumer electronics, and computer peripherals industries.

Provide one-stop shopping supply capability to customers

In addition to power supply units, the Group also provides a full range of mobile telecommunications accessory products and higher power supply systems which are either developed and manufactured by the Group or produced by the Group's designated subcontractors. These accessory products include microphones, radio receivers, desktop chargers, car adapters and hand-free headsets. The high-voltage power supply systems are mainly open-frame modules used in industrial equipment and OA machines such as high-speed photocopiers and laser printers. The Company benefits from its strong industrial and mechanical engineering capability and to manufacture other electronics products as an electronic manufacturing service provider. The Group's capability to manufacture all kinds of power supply products enables it to provide one-stop shopping service to its customer.

Strict quality control processes and standards

The Group has instituted a comprehensive quality assurance program to ensure the implementation of its firmwide quality policy. This policy rests on five basic principles, namely, satisfactory services; excellence of design; superior quality; punctual delivery; and competitive price.

To implement the quality program comprehensively, the Company has established a Technology Enhancement Service Division. The Division provides quality services and support for the quality assurance departments of each of the manufacturing divisions. These quality assurance departments implement a series of rigorous quality checks at all stages of product development and production. The Technology Enhancement Service Division also provides electrical, mechanical, environmental, reliability and special testing services and functions to the research and development projects of the manufacturing divisions, as well as to the quality assurance departments.

The Company believes that through rigorous implementation of the quality assurance program, it has been able to achieve a reputation for its consistently high product quality, and that this reputation is an important competitive advantage for retaining its existing customers and attracting new customers among industry leaders in the communications, consumer electronics, networking and industrial equipment industries.

Experienced professional management team

The senior management of the Group is led by a core team of professionals in the fields of management, finance and engineering, with an average of approximately ten years of management experience in this industry. As a result, the Company is able to capture market opportunities by directing its research and development and sales and marketing efforts to high growth areas. The Company believes it has the leadership it needs to continue to leverage its core strengths in the future.

Strategy

Maintain position as a leading manufacturer of power supplies in the communications, consumer electronics and computer peripherals sectors

The Company believes that the Group's position as a leading manufacturer of power supply units for the communications, consumer electronics and computer peripherals industries has provided it with significant competitive advantages. The Group has demonstrated its ability to manufacture sophisticated

switching power supply units and other products in large volumes for customers who prefer sourcing their components from a small number of high quality manufacturers. The Company believes that the Group's established reputation as a reliable supplier of quality products provides it with the opportunity to sell a broader range of products to its existing customers and to increase its sales of power supply units and other products in industries such as communication devices, consumer electronics, networking products and industrial equipment in which there are opportunities to increase its market share. The Group aims to focus its efforts on establishing long-term relationships with leading companies in high-growth markets.

Diversify the customer base to reduce reliance on a limited number of customers

The markets for the Group's products tend to be concentrated, with a large percentage of orders coming from a relatively small number of customers. For 2000, 2001 and 2002, the Group's largest three customers, all of which are global market leaders, accounted for 78.4%, 78.4% and 77.9%, respectively, of its consolidated net operating revenues, respectively. In 2003, the Group has further reduced its reliance on its top three customers and sales to its three largest customers accounted for 69.0% of its non-consolidated net operating revenues in the first nine months of 2003, compared with 77.5% of its non-consolidated net operating revenues in the same period of 2002. The Group endeavors to increase the customer base to include the major communications, consumer electronics, networking products and industrial equipment manufacturers in Europe, Japan and the PRC to reduce reliance on a limited number of customers.

Focus on high-growth markets

The Group will continuously focus its product development efforts on high-growth markets. These include markets for communications devices, PDAs, consumer electronics, such as digital still cameras ("DSC"), and OA equipment, which experience rapidly increasing rate of turnover due to the evolution of new standards, the increasing functionality of each successive generation and the increasing rates of market penetration. Moreover, because of the emphasis on miniaturization in these products, the Group's design and engineering superiority, supported by the Group's experience, is expected to enable the Group to increase sales and earnings.

Establish strategic alliance with market leaders to improve technology and develop new customers

The Group will keep exploring the opportunity to form solid strategic alliance with market leaders in different sectors to improve its services to customers. The Company seeks to establish strategic alliances that will provide the Group with access to leading-edge engineering and technology capabilities, to enable the Group to expand its customer base, and to enhance the quality, technological sophistication, cost efficiency and time to market of its products.

Co-location of production facilities and logistic hubs with industrial leaders in major markets

The Group will continue to set up production facilities and logistic hubs in proximity to those of its key customers in major markets. Co-location of facilities and hubs ensures rapid response to changing customer orders, which is a key factor for selection of suppliers for some of the Group's major customers. The Group maintains logistic hubs in Germany, the United Kingdom, the United States, and Brazil. In addition to its new facilities at Tianjin City, the PRC, which started mass production in the second quarter of 2002, the Group has recently established its new manufacturing facilities in Suzhou City, Jiangsu Province, the PRC. The Group has leased one manufacturing facility and is currently constructing another facility at Suzhou Pihong to provide more efficient services and production capacities for its customers located in Eastern China and elsewhere in the PRC. The Company believes that these facilities can provide its customer with more efficient and reliable services.

Increasing vertical and horizontal integration of manufacturing process

The Group endeavors to establish a steady supply of critical materials and components for its core products through vertical integration with selected suppliers by way of acquisitions, equity participations, or strategic alliances. This gives the Group both control over quality, costs and supply chain management, as well as the flexibility necessary to customize components to match its customers' specifications, and to roll out and ramp up production of new products.

The Group also aims to focus its efforts on working with its customers early in the design stage in order to design products which meet the customers' specific requirements. This practice is particularly important in the power supply market which has historically required manufacturers to modify their products in accordance with the specific needs of each customer.

History and Organization of the Company

The Company was founded on December 12, 1972, in accordance with ROC Company Law. According to Article 2 of the Articles of Incorporation of the Company, the Company's authorized business includes the following:

- ▶ Import and export business, including quotation and bidding for domestic and overseas customers;
- ▶ Sales, maintenance, and installation of communication systems, devices, meters and machines;
- ▶ Sales of metal and wood materials and plumbing;
- ▶ Installation and sales of electrics and electronic parts and devices;
- ▶ Manufacturing of generators, chargers and other electric devices;
- ▶ Manufacturing of batteries;
- ▶ Manufacturing of electric devices; and
- ▶ Manufacturing of telephones and cables.

The Company's original product line focused on the manufacture of power adapters. In response to the growing demand of the communication devices and consumer electronics industries, in recent years the Company has invested significant resources to expand its product lines to include a full range of power supply products and communication accessories. Since 2003, the Company has been renamed from Phihong Enterprise Co., Ltd. to Phihong Technology Co., Ltd.

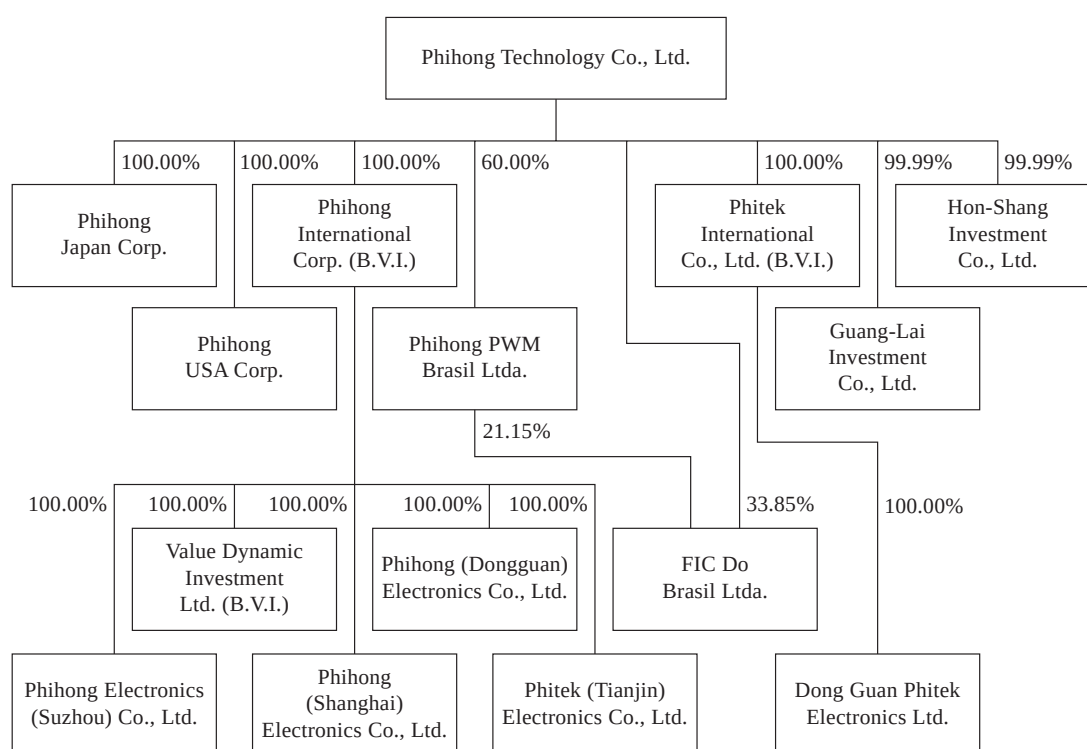
The Company's common shares were quoted and traded on the GTSM on February 15, 2000 and have been listed on the TSE since September 17, 2001. In July 2002, the Company issued U.S.\$50 million 1% Euro convertible bonds due 2007, which are listed on the Luxembourg Stock Exchange.

The Company started manufacturing AC/DC power adapters and linear power supply units in 1973. In 1994, the Company obtained ISO9001 accreditation for its manufacturing facilities in Taiwan. The Company was certified by T-Mark, a Japanese industrial standard, in 1995. In 2000, as part of its efforts to focus on higher-growth products in the mobile telecommunications devices sector, the Group began to manufacture communication accessories. In early 2002, the Group established a new product line to make electronic ballast as a result of its research and development efforts. In addition, in 2002, the Company started manufacturing high-voltage power supply systems for those equipment and machines consume more electricity power, such as OA equipment and industrial equipment.

In 1997, the Group was appointed by Motorola as its core supplier of power supply units and communication accessories. Currently, the Group is one of a few core suppliers of power supply units and communication accessories worldwide for Motorola.

The Company moved into its old corporate headquarters and main manufacturing plant in San-Chung City, Taipei County, where it commenced manufacture of switching power supply units, in 1981. In 2002, the Group gradually terminated its manufacturing facilities in Taiwan and moved substantially all production equipments and staffs to the PRC. The Group also established and moved into a new corporate headquarters in Hwa-Ya Industrial Park, Tao-Yuan County, in 2003; the new corporate headquarters primarily provide all corporate functions, such as administrative, sales and marketing, research and development and financial, but manufacturing. Currently, the Company owns another parcel with total area of approximately 161,000 square feet located in Hwa-Ya Industrial Park. The Company plans to sell this parcel in the near future. The Group commenced its operations in mainland China in 1996 by establishing

The following diagram shows the structure of the Company and its principal subsidiaries, as of September 30, 2003, together with details of the Company’s direct and indirect equity interests in such subsidiaries. See “— Principal Subsidiaries”.



- The Company's corporate headquarters and principal place of business are located at No. 568, Fu-Shing III Road, Wen Hua Village, Gui-Shan Shiang, Tao-Yuan County, Taiwan, the ROC. The Company's telephone number and web-site are (886) 3-327-7288 and <http://www.phihong.com.tw>, respectively. Information and hyperlinks contained in the Company's web-site do not form and will not form any part of this Offering Circular.

Products

The Group capitalizes on its strong research and development capability, industrial engineering expertise, vertically integrated manufacturing processes through cooperation with third party suppliers and its expertise in low cost, high quality mass production to offer quality products to its customers. The products manufactured by the Group include (i) switching and linear power supply units; (ii) communication accessories; and (iii) other products, which can further be categorized by their applications as follows:

- ▶ Power supply units and electronic accessories for communication devices and equipment;
- ▶ Power supply units and electronic accessories for consumer electronics;
- ▶ Power supply units for networking products;
- ▶ Power supply units for industrial equipment; and
- ▶ High-voltage power.

The Group supplies its products on an OEM/ODM basis to manufacturers of communications, consumer electronics, networking and industrial devices and equipment. The table below sets out the Company's consolidated and non-consolidated total sales by product application and consolidated and non-consolidated net sales for the periods indicated. The information for the years ended December 31, 2000, 2001 and 2002 is provided on a consolidated basis and the information for the nine months ended September 30, 2002 and 2003 is provided on a non-consolidated basis.

	Year ended December 31,			Nine months ended	
	(consolidated)			September 30,	
	2000	2001	2002	2002	2003
	NT\$'000	NT\$'000	NT\$'000	NT\$'000	NT\$'000
Product applied to					
Communication devices ⁽¹⁾	5,108,707	5,441,358	5,254,943	3,688,997	2,979,807
Consumer electronics ⁽²⁾	1,213,556	1,218,296	1,688,142	1,135,423	1,532,506
Networking equipment ⁽³⁾	698,187	468,546	520,829	313,563	530,369
Industrial equipment ⁽⁴⁾	192,275	166,266	187,399	128,582	182,081
Net sales	<u>7,212,725</u>	<u>7,294,466</u>	<u>7,651,313</u>	<u>5,266,565</u>	<u>5,224,763</u>

(1) Include switching and linear power supply units, such as AC/DC adapters and chargers, charger base and open-frame power supply modules for communications devices and equipment; and accessories to communications devices such as mobile phone hand-free headsets, data cables and Bluetooth devices.

(2) Include switching and linear power supply units, such as AC/DC adapters and chargers, charger base and open-frame power supply modules for consumer electronics products; and electronic ballasts.

(3) Mainly consists of linear low- and high-voltage open-frame power supply units for networking equipment.

(4) Mainly consists of linear high-voltage open-frame power supply units for industrial equipment.

Products for communication devices

The Group manufactures critical accessories for communications devices, such as power supply units, charge basis, hand-free headsets, data cable and Bluetooth devices.

AC/DC power adapters and chargers and charger bases. The Group has 30 years of experience in the manufacture of AC/DC power adapters and chargers for communication devices. The power adapters and chargers produced by the Group communications, consumer electronics and computer peripherals utilize hybrid circuits, system monitoring circuitries and sophisticated technologies developed by the Group to increase power density and reliability at reduced component cost. These products feature power factor correction ("PFC") and power management functions for energy saving.

The Group manufactures both switching and linear power adapters and chargers for communication devices, such as mobile phones and answering machines, fax machines, two-way radios and other day-to-day used communication devices. Switching power supply units convert AC into DC in order to provide stable DC voltage and protection against voltage variation, unstable current, short-circuits and power line disturbance that may have severe impact on communication devices. These switching power supply units come with output levels ranging from 3.3V to 48V to support a machine's operation and include a wide range of models. The switching power supply units produced by the Group for communication devices provide up to 350 watts in power range. The Group also produces models with advanced features such as PFC, current sharing, hot swap, battery backup and green energy function. All of the switching power supply units produced by the Group are in compliance with international safety standards.

Linear power adapters and chargers convert AC to DC, but, unlike switching power supply units, only produce one set of current output for portable electronic appliances. Many models of the Group's AC/DC adapters and chargers are designed to receive full-range input from 90VAC to 264VAC, a feature which enables communication devices to gain adequate power supplies worldwide without adjustment. The Group's linear power adapters and chargers provide stabilization protection against voltage variations and short circuits and can produce stable voltage, current and power output to meet customer-specific applications.

The Group manufactures charger bases for recharging the batteries used in mobile phones and other communication devices. Mobile phone charger bases range from C/10-rate trickle chargers to 2C-rate fast switching chargers, from constant-current/constant-voltage devices for single cells to micro-controller designs to satisfy the specific cell chemistry and complex charge profile of NiCd, NiMH, Li-ion and other smart battery packs. Most of the charger bases manufactured by the Group are able to check the battery electrical connection before starting, in order to protect the battery cells from over- or under-voltage, over- or under-temperature or excessive charge current. The charger bases can be powered from a conventional 90-264 VAC universal input or from a 12V vehicle power adapter.

Communication accessories. In addition to the power related products, the Group started producing communication accessories in 1997. The communication accessories produced by the Group include vehicle power adapters, desktop mobile telephone chargers, hand-free headsets, Bluetooth communication devices and receivers and microphones. The Company believes that the demand of communication accessories will increase significantly as being driven by the increasing demand of communication devices.

For the years ended December 31, 2000, 2001 and 2002, sales of products further applied on communication devices accounted for 70.8%, 74.6% and 69.9%, respectively, of the Group's consolidated total sales. For the nine months ended September 30, 2003, sales of products further applied on communications devices accounted for 70.1% of the Company's non-consolidated total sales, compared to 57.0% in the comparable period of 2002.

Products for consumer electronics

The Group is also a worldwide leading manufacturer of switching and linear power supply products for consumer electronics, such as notebook and desktop computers, game platforms, television sets, audio/video systems, home theaters, and office automation equipment. Different from the power supply products applied to communication products, a number of the Group's products are installed on consumer electronics as an open-frame module.

AC/DC power adapters and chargers. By leveraging the Group's 30-year experience in the manufacture of AC/DC power adapters and chargers for communication devices, it also develops and manufactures AC/DC power adapters and chargers for consumer electronics products. Features of the power adapters and chargers for consumer electronics are very similar to those of the power supply units for communication devices.

The switching power supply units for consumer electronics come with output levels ranging from 3.3V to 48V to support a machine's operation and include a wide range of models. The switching power supply units produced by the Group for consumer electronics provide up to 350 watts in power range. All of the switching power supply units produced by the Group are in compliance with international safety standards.

Some consumer electronic products also utilize linear power adapters and chargers, which convert AC to DC and produce one set of current output for portable electronic appliances. Many models of the Group's AC/DC adapters and chargers are designed to receive full-range input from 90VAC to 264VAC, a feature which enables portable consumer electronic devices to gain adequate power supplies worldwide without adjustment. The Group's linear power adapters and chargers provide stabilization protection against voltage variations and short circuits and can produce stable voltage, current and power output to meet customer-specific applications.

Open-frame power supply modules. Open-frame power supply modules produced by the Group are switching power supply units to be installed in finished consumer electronic goods. The Group started producing open-frame power supply modules in 1982.

Electronic ballasts. Since 2000, the Group has also self-developed and produced electronic ballasts for home and industrial lighting systems. Although these products are still in the start-up stage, the Company believes the demand of them will increase substantially.

For the years ended December 31, 2000, 2001 and 2002, sales of products further applied on consumer electronics accounted for 16.8%, 16.7% and 21.7%, respectively, of the Group's consolidated total sales. For the nine months ended September 30, 2003, sales of products further applied on consumer electronics accounted for 21.6% of the Company's non-consolidated total sales, compared to 29.3% in the comparable period of 2002.

Products for networking and industrial equipment

In addition to the low-voltage power supply units that the Group has produced over years, the Group gradually develops and produces various models of high-voltage power supply units for the application on networking and industrial products, mainly on open-frame forms. A number of the Group's power supply unit products not in open-frame form are equipped with similar features and functions as those products applied on communications or consumer electronic products. The power supply units for networking and industrial equipment come with output levels ranging from 3.3V to 48V and 500W to 1.5KW to support the equipment's operation and include a wide range of models. All of the switching power supply units produced by the Group are in compliance with international safety standards.

For the years ended December 31, 2000, 2001 and 2002, sales of products further applied on networking equipment accounted for 9.7%, 6.4% and 5.9%, respectively, of the Group's consolidated total sales. For the nine months ended September 30, 2003, sales of products further applied on networking equipment accounted for 6.0% of the Company's non-consolidated total sales, compared to 10.2% in the comparable period of 2002.

For the years ended December 31, 2000, 2001 and 2002, sales of products further applied on industrial equipment accounted for 2.7%, 2.3% and 2.5%, respectively, of the Group's consolidated total sales. For the nine months ended September 30, 2003, sales of products further applied on industrial equipment accounted for 2.4% of the Company's non-consolidated total sales, compared to 3.5% in the comparable period of 2002.

Sales and Marketing

The Group has a global sales network, consisting of a direct sales force and customer service representatives. To conduct its sales and marketing activities, the Group has sales offices located in Taipei, Taiwan; Singapore; Fremont and Chicago, the United States; Santa Rita and Sao Paulo, Brazil; and Glasgow, Scotland. Sales offices are located in proximity to key customers. Each office is responsible for obtaining new customers, providing sales and customer supports and maintaining existing customer relationships. The primary sales and marketing efforts for the Group are conducted by the Group's product divisions, each of which is responsible for developing the sales and marketing strategies of new and existing products produced by the division. As of September 30, 2003, the Company and its subsidiaries had 57 sales staff worldwide. The Group also uses independent sales representatives in the United States and Europe. Sales representatives operate on a commission basis.

Moreover, the Group has increasingly been named as designated vendor by a number of major customers to engage in the joint development and design of power supply units and other accessories for customers' new products. This allows the Group to benefit from and contribute to the customers' strategic planning and standard-setting processes in the early stages of product development. This joint development process provides the Group's sales and marketing force as well as research and development team with up-to-date market information and allows the Group to have inputs into new product decisions, ensuring that the Group's new products are tailored to and responsive to its customers' needs.

The Group generally sells its products pursuant to specific purchase orders without any long-term contractual commitments. The customers may cancel the purchase orders with certain compensations, if agreed upon by the Group and customers. Generally, the sales and marketing process involves a customer first qualifying the Group as an approved vendor or supplier. This process typically involves exchanges of information through written surveys, presentations, site visits, formal audits, sample quotations and prototype promotions. The Group is an approved vendor for many of the major mobile telephone manufacturers, such as BenQ and Motorola. The Group also conducts a direct and active marketing strategy, including advertising in trade publications and attending trade shows and exhibitions.

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

The following table sets out a breakdown of the Group total sales by geographical region for the periods indicated:

Region	Year ended December 31,					
	(consolidated)					
	2000		2001		2002	
	NT\$	%	NT\$	%	NT\$	%
	(in millions, except percentages)					
Taiwan	899	12.5%	1,980	27.1%	2,017	26.4%
Asia (excluding Taiwan)	1,669	23.1%	1,484	20.4%	1,935	25.3%
Americas	2,913	40.4%	2,670	36.6%	2,794	36.5%
Europe	1,732	24.0%	1,160	15.9%	905	11.8%
Net sales	<u>7,213</u>	<u>100%</u>	<u>7,294</u>	<u>100%</u>	<u>7,651</u>	<u>100%</u>

Customers

The Group emphasizes customer relations as a key to its growth and profitability. A key aspect of the Group's customer development strategy is to locate the sales and marketing and in certain instances the production facilities near the customers in order to provide better and more efficient service. The Group also supplies the products to OEMs and sub-contractors, who in turn supply these products to global telecommunications and electronics companies.

The Group supplies power supply units, battery chargers and communication accessories to key customers in the communications, consumer electronics, networking and industrial equipment industries. Some of the Group's key customers are Accton, BenQ, Cisco, Epson, Motorola, OMRON, Palm, Panasonic, Sanyo and Sony. For 2000, 2001 and 2002, the Group's largest customer, Motorola, accounted for 57.9%, 67.6% and 60.1%, respectively, of consolidated net sales. All sales made by the Group to Motorola, as well as those made to other OEM/ODM customers, are on a purchase order basis without long-term contracts or firm purchase commitments.

The Group's close relationship with Motorola started from the end of year 1996 and it has been named since 1997 as one of a few core global suppliers for power supply units and communication accessories for use in the Motorola brand products. The Group currently provides seven different types of power supply units and communication accessories to Motorola in various of categories and is jointly designing several new products with Motorola, including power adapters and chargers and charger bases, hand-free headsets, and desk-top and vehicle power adapters. The Company is in the process to gradually reduce its reliance on Motorola, as well as other large customers, by positively exploring more business opportunities from other customers.

Delivery

The Group generally distributes its OEM and ODM products directly to customers from its manufacturing facilities. The Group uses third party commercial freight delivery services or other delivery methods selected in consultation with its customers. The Group has not experienced difficulties in meeting its customers' needs in this way. The Group usually takes four to six weeks from receipt of orders to deliveries of products to customers. In certain cases, to better serve certain customers, the Group produces particular OEM or ODM products at factories which are located near the customers' own production facilities. The Group considers its customers' and potential customers' requirements when selecting sites for its factories.

In recent years, certain customers require the Group to establish "just-in-time" logistic hubs near the customers' own production facilities. In such cases, it has been the Group's practice to lease space in commercial warehouse facilities rather than to establish its own warehouses. To date, the Group has not experienced any difficulty in meeting the requirements of its customers in this respect.

Raw Material and Components

Most of the raw materials and components utilized by the Group are supplied by third parties, which account for approximately 80% of the Company's consolidated costs of goods sold. Principal components and raw materials include semiconductors, PC boards, cores, ICs, capacitors, wires, metal and plastic casing, and batteries. In general, the Group purchases these components and raw materials from multiple suppliers pursuant to purchase orders. The Company believes that the Group's relations with its principal suppliers are stable.

The Group takes into consideration its projected production requirements, orders received and procurement lead time to determine the level of supply of components and raw materials in stock. The Group also reviews the adequacy of its stock on a weekly basis to ensure that its production will not be interrupted by temporary shortages. In the event any of the single source suppliers fails to provide adequate supply continuously, the Company believes that its design engineers will be able to redesign the specific product, or work with other producers to assist them to produce the same components, so as to mitigate the reliance on the single source suppliers involved. In addition, the Company believes that to the extent that the Group continues to gain greater market share, its suppliers will desire to maintain a close business relationship with the Group in order to gain their own substantial market shares in component supply. For certain components, such as power semiconductors and cores, the Company believes that the Group is one of the largest customers to a certain suppliers and, therefore, that it has certain advantages in terms of bargaining power.

Market Environment and Competition

The principal markets in which the Group competes are those for power supply products and communication accessories products. Each of the markets is global, with industry leaders principally in the United States, Japan and Europe, but with production sites and ultimate customers located throughout the world. The Group sells a substantial portion of its products on an OEM or ODM basis, and therefore the Group competes for orders with other OEM and ODM manufacturers. Many of the Group's products have relatively short product cycles due to rapidly changing technology and evolving industry standards. There has been a consistent downward trend in product prices, as advancement in technological know-how and sustained competition compels producers to lower prices in order to retain market shares.

The markets for the Group's products are highly competitive and somewhat concentrated, with a large percentage of orders coming from a relatively small number of companies. The Group competes for orders with major international companies, some of which have greater financial, technical, marketing and other resources than the Group. The Group has found that product markets are also often segmented by industry. For example, in the market for adapters, competitors of the Group include Friwo, Astec and Mitsumi in the mobile telecommunications industry whereas the Group competes for sales of such products in the consumer electronics industry with companies such as Delta and Mitsumi.

The Group competes in different product lines to various degrees on the basis of price, product quality and reliability, product features, product system compatibility, customized design and sales and technical support. The Company believes that most of the Group's customers prefer to sourcing products from a

relatively small number of outside vendors, and therefore consistent high quality execution of orders received is necessary to foster customer loyalty, earn repeat orders and increase its market share. The Group's ability to compete successfully is also subject to other factors both within and outside of its control, including successful and timely development of new products, design innovation, efficient manufacturing of products which meet required quality standards, pricing, as well as industry supply and demand trends and general economic conditions. The business of the Group is particularly dependent on demand for mobile communication products, consumer electronics products and their respective accessories.

Production and Accreditation

The Group assembles components and electronic parts supplied by third-party suppliers into finished goods, such as power supply units. The basic production processes for the Group's products consist of surface mounting, automatic insertion, manual insertion, PC board inspection, wave soldering, final assembly, in-circuit tests, burn-in tests and inspection, function testing, final testing and packaging. The Group maintains a team of quality control staff and the Group as a whole has over 147 engineers, technicians and other employees whose duty is to monitor design and production processes in order to ensure quality of its products. These employees include line inspectors who work with members of the production staff to conduct examination and testing during the production process.

Each of the members within the Group has set up its quality engineering department to conduct quality review at the design stage. The Group's quality engineers and manufacturing engineers are highly involved during the product design stage to evaluate the quality, reliability and manufacturing feasibility of the products. Before mass production, reliability tests are conducted to ensure satisfactory performance during the designed useful life spans of such products.

Most of the Group's products are approved for self-test and certification by UL under TCP and CSA and are tested by the Group's automatic testing system to help ensure their effectiveness and reliability. All the Group's plants in the PRC and Brazil except Tianjin Phitek, Phihong Suzhou and Santa Rita Plant I are ISO14001 certified. The Company has submitted ISO14001 application for Tianjin Phitek, Phihong Suzhou and Santa Rita Plant I and all plants are expected to be certified in 2004.

The Group's production plants in the PRC and Brazil except for Phihong Suzhou are either ISO9001 or TL9000 certified. The ISO is an organization formed by delegates from member countries to establish international quality assurance standards for engineering and manufacturing processes. The ISO standards have been adopted by more than 60 countries. The certification process involves subjecting the production processes and the quality management systems at the relevant manufacturing facilities of the Group to review and surveillance for various periods. The ISO certifications also provide independent verification to customers as to the quality standards in the manufacturing processes of the Group.

Quality Assurance Policy

The Group has instituted a comprehensive quality assurance program to ensure the implementation of its firmwide quality policy. This policy consists of five basic principles, namely:

- ▶ satisfactory services — products must consistently achieve highest quality to meet customer demands,
- ▶ excellent design — product design must be efficient and sophisticated, which meets highest industrial standards,
- ▶ superior quality — utilization of sophisticated quality assurance program and continuously improve the quality of products,
- ▶ punctual delivery — lead-time of delivery to be shortened to meet the customers' expectation, and
- ▶ competitive price — price of the Group's product must be competitive by utilizing cost efficient programs.

In order to implement the quality assurance program comprehensively, the Group has established a Technological Enhancement Service Division to assist or oversee the following activities:

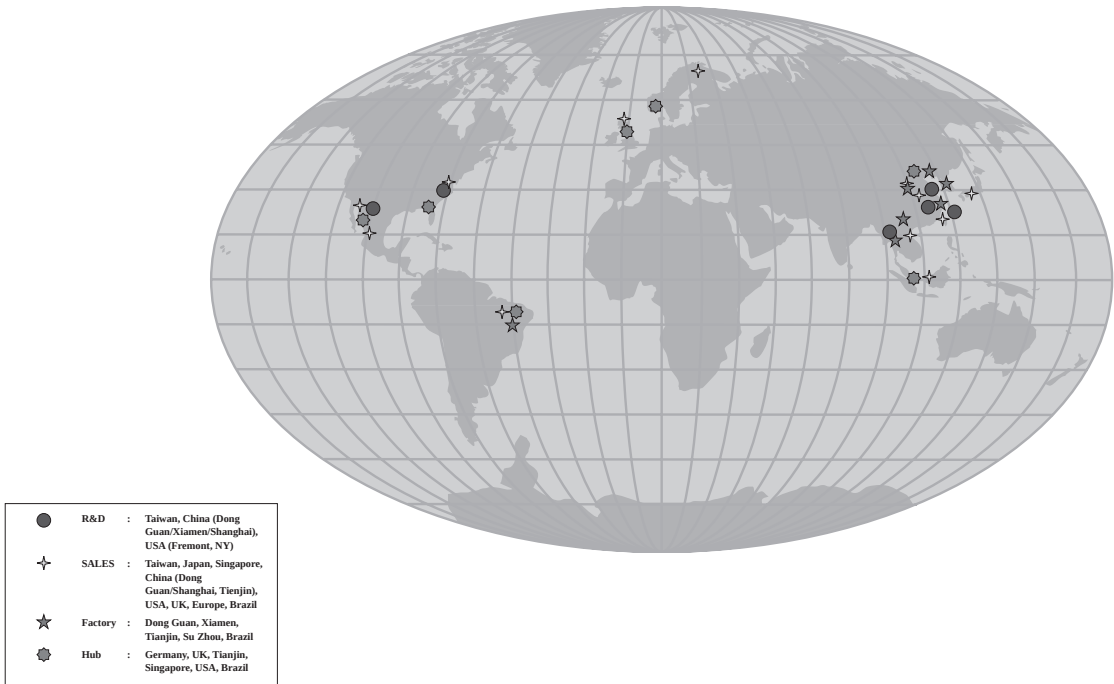
- ▶ customer complaint follow-up and improvement,
- ▶ engineering standards research and services,
- ▶ designing product testing procedures,
- ▶ electrical, mechanical, environmental and reliability and special testing,
- ▶ laboratory operation and management, equipment maintenance and calibration, and
- ▶ product safety applications and management.

Each of the members within the Group has also set up its quality assurance department to conduct quality review at the design stage. The Group’s quality engineers and manufacturing engineers are highly involved during the product design stage to evaluate the quality, reliability and manufacturing feasibility of the products. Before mass production, reliability tests are conducted to ensure satisfactory performance during the designed useful life spans of such products.

The Company believes that through rigorous implementation of the quality assurance program, it has been able to achieve a reputation for maintaining consistent high product quality, and that this reputation is an important competitive advantage for retaining existing customers and attracting new customers among industry leaders in the communications devices, consumer electronics and computer industries.

Facilities

The following map indicates the worldwide locations of the Group’s production facilities, research and development teams, sales and marketing forces and logistics hubs.



The Group operates six production facilities in three locations in the PRC and Brazil. The following table sets out the location and primary use of the production facilities of the Group as of September 30, 2003:

Plant	Principal products	Address	Owned or leased
<i>The PRC</i>			
Dongguan Pihong	Power supply units, communication accessories and data cables for export sale	Ke Ji Road, Yinhu Industrial Zone, Qingxi Town, Dongguan City, Guangdong, China	Owned
Dongguan Phitek.	Power supply units, communication accessories and data cables for domestic sale within mainland China	Xie Keng Management Area, Qingxi Town, Dong Guan City, Guang Dong, China	Owned
Tianjin Phitek.	Power supply units and communication accessories for domestic sale within mainland China	No. 11, Wei Shan Road, Tianjin Economic-Technological Development Area (TEDA), Tianjin, China	Owned
Suzhou Pihong	Power supply units and communication accessories	No. 98, Hengshan Road, New District Suzhou, Jiangsu	Leased
<i>Brazil</i>			
Santa Rita I	Power supply units	Rua Tocantins, 190 Santa Rita do Sapucaí-MG Brazil-CEP: 37540-000, C.G.C: 03,727,705/0001-01	Owned
Santa Rita II.	Computers and motherboards	City of Santa Rita do Sapucaí, State of Minas Gerais at Avenue Frederico de Paula Cunha, 1001 37540-000, Brazil	Owned

The PRC

The Group has four production facilities in the PRC. The Dongguan Pihong and Dongguan Phitek Plants are located at Dongguan, Guangdong Province, PRC; the Tianjin Phitek Plant is located at Tianjin City, PRC; and the Suzhou Pihong Plant is located at Suzhou City, Jiangsu Province, the PRC. Currently, the Group's production facilities in the PRC contribute over 90% of the Group's total annual output by value. All plants in the PRC except for the Pihong Suzhou are owned by the Group.

Dongguan Pihong. The Group started operating the Dongguan Pihong Plant in 1996. Dongguan Pihong Plant produces switching and linear power supply units, including AC/DC power adapters and chargers, charger bases, open-frame power supply modules, communication accessories and data cables for export sale. The Dongguan Pihong Plant employs more than 2,400 employees with total factory space of approximately 448,150 square feet. The Group has research and development and engineering laboratories at the Dongguan Pihong Plant. The factory complex also has dormitory facilities to accommodate factory workers. Dongguan Pihong also serves as the Group's business center in mainland China. Dongguan Pihong Plant has been granted ISO9002, ISO14001 and TL9000 accreditations.

Dongguan Phitek. The Group started operating the Dongguan Phitek Plant in 1999. Dongguan Phitek Plant produces switching and linear power supply units, including AC/DC power adapters and chargers, charger bases, open-frame power supply modules, communication accessories and data cables for domestic sales in mainland China. Dong Guan Phitek Electronics Ltd., the operator of Dongguan Phitek, is permitted to conduct domestic sales in mainland China. Total building area of the factory is 156,000 square feet, where approximately 685 employees are employed. Dongguan Phitek Plant has been granted ISO9002, ISO14001 and TL9000 accreditations.

Tianjin Phitek. The Group started operating the Tianjin Phitek Plant in May 2002. Tianjin Phitek Plant produces switching and linear power supply units, including AC/DC power adapters and chargers, charger bases, open-frame power supply modules, communication accessories and data cables for domestic sales in mainland China. Total building area of the factory is 156,000 square feet, where approximately 330 employees are employed.

Suzhou Pihong, The Group started operating the Suzhou Pihong Plant in July 2003. Suzhou Pihong Plant produces switching and linear power supply units, including AC/DC power adapters and chargers, charger bases, open-frame power supply modules and electronics ballast. The Group leases the standard plant building from local government for two years with an option to renew provided that a three months' advance notice is given prior to expiration of the lease on March 14, 2005, while it is currently constructing a self-owned plant in Suzhou to manufacture more products than it currently does. Total building area of the current factory is 94,120 square feet, where approximately 160 employees are employed.

Brazil

Santa Rita Plant I. The Group started operating the Santa Rita Plant I in 2000. The product line of Santa Rita Plant I contains switching and linear power supply units, including AC/DC power adapters and chargers, and charger bases. Total building area of the factory is 69,450 square feet, where approximately 500 employees are employed.

Santa Rita Plant II. In 2003, the Group formed a joint venture, First International Computer Do Brazil Ltda. ("**FIC Brazil**"), in Brazil with First International Computer ("**FIC**") whereby the Group owns 46.5% of the equity interest. The main product of FIC Brazil is computers and motherboards. The Company utilizes this plant to produce computer components exclusively for FIC. Total building area of the factory is 21,528 square feet, where approximately 450 employees are employed.

The total building area of the Group's facilities is 1,076,721 square feet. The Company believes that its existing production and office facilities are adequate to meet current requirements, and that suitable additional or substitute space will be available as needed to accommodate any further physical expansion of production, corporate operations and for any additional sales offices. The Group has not experienced any significant interruptions in production at any of its production facilities due to equipment failure or breakdown, raw material shortages, power interruptions, fire, labor disputes or other causes.

Headquarters

The Company maintains the corporate headquarters in Taiwan, the ROC but does not have any production facility in Taiwan. The Company engages in sales and marketing, research and development and provides administrative services at its headquarters. The Company's headquarters are located at No. 568, Fu-Shing III Road, Wen Hua Village, Gui-Shan Hsiang, Tao-Yuan County, Taiwan, the ROC. The Company projects that the corporate headquarters will have sufficient capacity for all of its current operation and operations in the foreseeable future.

Research and Development

The Company believes that research and development is critical to the future success of the Group and it is committed to devoting increasing efforts in research and development. Aggregate annual research and development expenditures by the Group increased from approximately NT\$122.4 million in 2000 to approximately NT\$172.7 million in 2002. For the nine months ended September 30, 2003, expenditures by the Group on research and development totaled NT\$137.7 million on a non-consolidated basis. The Group intends to increase its research and development expenses as a percentage of consolidated net sales revenue from 2.0% to 2.3%.

The Group has engineering research and development offices in Taiwan, the PRC, the USA and Brazil. The Group has more than 138 research and development engineers engaged in product design, automation and quality assurance.

Each of the manufacturing facilities within the Group generally conducts a five-step development procedure for each new product before it commences commercial production.

- ▶ based on the market survey and specific requirements of customers, the research and development group conducts product planning.
- ▶ based on the product plans, the relevant company's engineers develop design and manufacturing concepts and an estimated schedule for the product development.

- ▶ the design engineers create prototypes, which involve design and simulation, component selection, sample building and testing, design review, reliability testing and manufacturability review.
- ▶ the production unit starts a pilot run of the new product, during which the products are subject to continuous review and testing.
- ▶ the workers in each relevant product line complete their pre-production preparation and the product is then ready for commercial production.

The Company's Santa Rita Plant II follows the products development procedure specified by the joint venture company.

The Group's research and development office in New York was established in March, 2003. It focuses on the research and development of high-voltage power supply systems which are commonly used on high power consumption machines such as office automation equipment.

In conducting its research and development activities, the Group works closely with its customers. This allows the Group to benefit from and contribute to the customers' strategic planning and standard-setting processes in the early stages of product development. This joint development process provides the Group's sales and marketing force as well as research and development team with up-to-date market information and allows the Group to have input into new product decisions, ensuring that the Group's new products are tailored to and responsive to its customers' needs. This close involvement of the research and development teams with customers at each stage of the design and development process positions the Group at the leading edge of technological innovation in the manufacture of power supply units and other accessories. The Company believes that this process will help to increase the Group's technological advantage in relation to its competitors, cement its relationships with important customers, and raise the threshold for the Group's competitors.

The research and development improvements have helped the Group to manufacture its products in a cost-effective and reliable manner. The Group's research and development achievements include electronic ballast, green power adapter, microcontroller based battery charger, FM radio module and power supply system suitable for higher voltage.

Intellectual Property

As of September 30, 2003, the Company owns one patent registered in ROC and the PRC and the other patent registered in Japan. Currently, the Company has pending patent applications in Taiwan and the United States for products and technologies developed solely through its own efforts. Although the Company believes that it is not essential to own a large number of patents because the goods it produces are made in accordance with the specifications of its customers, it intends generally to continue to seek patent protection on any new inventions in design or process technology. The Company does not license intellectual property from other parties, other than licensing of software on commercial terms.

The Company has registered three trademarks in the ROC. The trademarks are designated for use on the Group's products, including power supply units, battery charges, communication accessories, and other products.

Environmental Matters

All industrial wastes produced by each member of the Group are treated in compliance with local government regulations before discharge. The Company and its subsidiaries have not been subject to any, nor is it aware of any pending or threatened, material fines or action involving non-compliance with any environmental regulation of the ROC, the PRC or any other jurisdictions. All the Group's plants in the PRC and Brazil, except for the plants in Tianjin Phitek, Pihong Suzhou and Santa Rita Plant I, are ISO14001 accredited.

In 2003, the Group was awarded as a "Green Partner" by Sony. As a "Green Partner" of Sony, the Company believes that its efforts in providing high-quality environmentally friendly power supply products have been recognized by one of the most important customers.

Legal Proceedings

The Company is from time to time involved in litigation incidental to the conduct of its business. See Note 20 of the Unaudited Non-Consolidated Financial Statements as of and for the nine-month period ended September 30, 2003 and 2002. Neither the Company nor any of its consolidated 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.

Insurance

The Company maintains insurance policies with independent third parties in respect of buildings, goods in transit, equipment and certain inventories covering loss due to fire, explosion, earthquake, typhoon, and flood. While the Company believes its insurance policies to be adequate and in line with industry norms in Taiwan, significant damage to any of the Group's production facilities, whether as a result of fire or other causes, could have a material adverse effect on the Group. Insurance coverage on property, plant and equipment amounted to approximately NT\$638.0 million, NT\$1,178.0 million and NT\$987.0 million as of December 31, 2000, 2001 and 2002, respectively. The Company or any member of the Group does not have any third-party liability insurance covering its product liability. The Company does not carry business interruption insurance or key-personnel insurance or any policy of a similar nature.

Principal Subsidiaries and Affiliates

Most of the business and assets of the Group in the ROC are held through the Company. The Company's subsidiaries hold the Group's operation facilities in the PRC. See "— History and organization of the Group" and "— Principal production facilities". The information set forth below reflects the Company's direct and indirect equity interests in these subsidiaries and affiliates as of September 30, 2003.

Company	Main business	Place of incorporation	Total paid-in capital	The Company's direct and indirect equity interest ⁽¹⁾
Phihong Japan Corp. ⁽²⁾	Sales and marketing	Japan	JP¥80,000,000	100%
Phihong USA Corp.	Sales and marketing, research and development	California, USA	U.S.\$3,100,000	100%
Phihong International Corp.	Manufacture of switching and linear power supply units and communication accessories	British Virgin Islands	NT\$143,312,000	100%
Phitek International Co., Ltd.	Manufacture of switching and linear power supply units and communication accessories	British Virgin Islands	NT\$63,286,000	100%
Phihong PWM Brazil Ltda..	Manufacture of switching and linear power supply units	Brazil	R\$2,820,000	60%
Phihong (Shanghai) Electronics Co., Ltd. . . .	Research and development	PRC	U.S.\$3,000,000	100%
Phihong (Dongguan) Electronics Co., Ltd. . . .	Manufacture of switching and linear power supply units, and communication accessories	PRC	HK\$48,963,911	100%
Dong Guan Phitek Electronics Ltd..	Manufacture of switching and linear power supply units, and communication accessories	PRC	U.S.\$2,000,000	100%
Phitek (Tianjin) Electronics Co., Ltd.	Manufacture of switching and linear power supply units, and communication accessories	PRC	U.S.\$2,500,000	100%
Phihong Electronics (Suzhou) Co., Ltd.	Manufacture of switching and linear power supply units, including AC/DC power adapters and chargers, charger bases, open-frame power supply modules and electronics ballast	PRC	U.S.\$1,800,000	100%

Company	Main business	Place of incorporation	Total paid-in capital	The Company's direct and indirect equity interest ⁽¹⁾
First International Computer Do Brasil Ltda.	Manufacture and assembly of computers and motherboards	Brazil	U.S.\$2,000,000	46.5%
Hon-Shang Investment Co., Ltd.	Investment holding	ROC	NT\$300,000,000	99.99%
Guang-Lai Investment Co., Ltd.	Investment holding	ROC	NT\$300,000,000	99.99%

(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, 2003.

(2) Currently under liquidation procedure and is expected to dissolve by the end of 2003.

Phihong Japan Corp. (“Phihong Japan”) was established in Japan in 2000. Its registered office is at Gotanda No. 2 Hanatari-Bldg., 9th Floor, 5-28-10, Higashi-Gotarda, Shinagami-ku Japan. Phihong Japan is a sales and marketing office which is responsible for promoting the Group's products to new and existing Japanese customers, retaining new and existing customers and gathering market information. Phihong Japan is currently under liquidation procedure and is expected to dissolve by the end of 2003.

As of and for the period ended September 30, 2003, Phihong Japan had net assets, operating losses and net losses of NT\$9.4 million, NT\$0.9 million and NT\$1.8 million, respectively.

Phihong USA Corp. (“Phihong USA”) was established in California, USA in 1997. Its registered office is at 48607 Warm Springs Blvd., Fremont, CA 94539, USA. Phihong USA is a sales and marketing office which is responsible for promoting the Group's products to new and existing North American customers, retaining new and existing customers and gathering market information. In addition, Phihong USA has research and development capability with 29 personnel working as engineers. Phihong USA has branch offices in Whitewall, Pennsylvania and Simi Valley, California, USA.

As of and for the period ended September 30, 2003, Phihong USA had net assets, operating revenues and net profits of NT\$243.1 million, NT\$22.1 million and NT\$17.1 million, respectively.

Phihong International Corp. (“Phihong International”) was established in the British Virgin Islands in 1997. Its registered office is at IFS Chambers, Creque, Building Road Town, Tortola, British Virgin Islands. Phihong International owns Phihong (Dongguan) Electronics Co., Ltd., Phihong (Shanghai) Electronics Co., Ltd., Phitek (Tianjin) Electronics Co., Ltd. and Phihong Electronics (Suzhou) Co., Ltd.

As of and for the period ended September 30, 2003, Phihong International had net assets, operating revenues and net losses of NT\$2,942.5 million, NT\$3.3 million and NT\$10.6 million, respectively.

Phitek International Corp. (“Phitek International”) was established in the British Virgin Islands in 1999. Its registered office is at P.O. Box 3321, Road Town, Tortola British Virgin Islands. Phitek International owns Dong Guan Phitek Electronics Ltd.

As of and for the period ended September 30, 2003, Phitek International had net assets, operating revenues and net losses of NT\$68.4 million, NT\$15.7 million and NT\$5.9 million respectively.

Phihong PWM Brazil LTDA (“Phihong Brazil”) was established in Brazil in 2000. Its registered office is at Rua tocantins, 190 CEP: 37540-000, Santa Rita Do Sapucaí, Minas Gerais, Brazil. Phihong Brazil manufactures various of switching and linear power supply units. Phihong Brazil also maintains sales forces and research and development teams locally.

As of and for the period ended September 30, 2003, Phihong Brazil had net assets, operating revenues and net profits of NT\$129.7 million, NT\$9.1 million and NT\$41.6 million, respectively.

Phihong (Shanghai) Electronics Co., Ltd. (“Phihong Shanghai”) was established in the PRC in 2000. Its registered office is at Room 1211, Hongcao Building, No. 421, Hongcao Road, Shanghai 200233, China. Phihong Shanghai engages in research and development of new power supplies, electronic ballasts, and mobile communications devices.

As of and for the period ended September 30, 2003, Phihong Shanghai had net assets, operating losses and net losses of RMB13.9 million, RMB3.8 million and RMB3.8 million, respectively.

Phihong (Dongguan) Electronics Co., Ltd. (“Phihong Dongguan”) was established in the PRC in 1996. Its registered office is at Kiji Road, Yinhu Industrial Zone, Qingxi Town, Dongguan, Guangdong Province, China. Phihong Dongguan owns one of the largest manufacturing facilities in the Group and has the most complete product lines within the Group. Phihong Dongguan engages in the manufacturing of switching and linear power supply units, communication accessories and other new products, such as electronic ballasts, mainly for export sales. The products produced by Phihong Dongguan are outsourced by Phihong International under the order of the Company.

As of and for the period ended September 30, 2003, Phihong Dongguan had net assets, operating revenues and net profits of RMB135.0 million, RMB8.4 million and RMB8.7 million, respectively.

Dong Guan Phitek Electronics Ltd. (“Dongguan Phitek”) was established in the PRC in 1999. Its registered office is at Xiekeng Management Area, Qingxi Town, Dongguan, Guangdong China. Having obtained a domestic license, Dongguan Phitek is allowed to issue PRC value added tax receipt and can conduct domestic sales within mainland China. Dongguan Phitek engages in the manufacturing of switching and linear power supply units and communication accessories. The products produced by Dongguan Phitek are outsourced by Phitek International under the order of the Company.

As of and for the period ended September 30, 2003, Dongguan Phitek had net assets, operating revenues and net profits of RMB16.1 million, RMB2.5 million and RMB0.4 million, respectively.

Phitek (Tianjin) Electronics Co., Ltd. (“Tianjin Phitek”) was established in the PRC in 2001. Its registered office is at No. 11 Wei Shan Road, Tianjin Economic Technological Development Area (TEDA), Tianjin, China. Having obtained a domestic license, Tianjin Phitek is allowed to issue PRC value added tax receipt and can conduct domestic sales in mainland China. Tianjin Phitek manufactures switching and linear power supply units and communication accessories.

As of and for the period ended September 30, 2003, Tianjin Phitek had net assets, operating losses and net losses of RMB9.7 million, RMB4.1 million and RMB4.4 million, respectively.

Phihong Electronics (Suzhou) Co. Ltd. (“Phihong Suzhou”) was established in the PRC in 2003. Its registered office is at No. 98 Hengshan Road, New District Suzhou Jiangsu. Phihong Suzhou commenced commercial operation in March 2003 and intends to manufacture switching and linear power supply units, and communication accessories. Phihong Suzhou is currently constructing a new plant owned by itself in Suzhou area, which is expected to complete and commercial operate by 2004.

As of and for the period ended September 30, 2003, Phihong Suzhou had net assets, operating losses and net losses of RMB64.3 million, RMB2.0 million and RMB2.0 million, respectively.

First International Computer Do Brazil Ltda. (“FIC Brazil”) was established in Brazil in 1998. Its registered office is at City of San Paulo, State of San Paulo, at Rua Padre Garcia Velho, 73, Room 104, Pinheiros. FIC Brazil was formed as a joint venture with First International Computer in which the Group owns 46.5% of the equity interest. The main products of FIC Brazil are computers and motherboards. The Company utilizes this plant to produce computer components exclusively for FIC.

As of and for the period ended September 30, 2003, FIC Brazil had net assets, operating revenues and net profits of NT\$204.3 million, NT\$10.9 million and NT\$14.6 million, respectively.

Hon-Shang Investment Co., Ltd. was established in the ROC in 2001. Its registered office is at 6F-1, No. 2, Chung-Shang North Road, Taipei, Taiwan, the ROC. It serves as an investment holding company but to date, no significant investment has been made by the Company through it.

Guang-Lai Investment Co., Ltd. was established in the ROC in 2001. Its registered office is at 6F-1, No. 2, Chung-Shang North Road, Taipei, Taiwan, the ROC. It serves as an investment holding company but to date, no significant investment has been made by the Company through it.

Related Party Transactions

The Company, 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 18 to the “Non-Consolidated Financial Statements as at and for the nine-month periods ended September 30, 2003 and 2002” and Note 19 to the “Consolidated Financial Statements as at and for the years ended December 31, 2002 and 2001”.

SELECTED FINANCIAL INFORMATION

The selected consolidated balance sheet and income statement information as of and for the years ended December 31, 2000 and 2001, prepared by Reality United Firm, and the selected consolidated balance sheet and income statement information as of and for the year ended December 31, 2002, and the selected non-consolidated balance sheet and income statement information as of and for the nine-month periods ended September 30, 2002 and 2003 prepared by Deloitte & Touche set forth below are derived, without adjustment, from the Audited Consolidated Financial Statements and the Unaudited Non-Consolidated Financial Statements, as the case may be, and should be read in conjunction with, and are qualified in their entirety by reference to, such financial statements, including the notes thereto. Results for the nine-month periods ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. The selected consolidated balance sheet and income statement information as of and for the years ended December 31, 1998 and 1999 set forth below are derived from the audited consolidated financial statements of the Company not included herein. Such financial statements were audited by Realty United Firm, independent public accountants, whose audit report dated February 11, 2000 is not included in this Offering Circular. Deloitte & Touche's unaudit report dated October 24, 2003 on the Unaudited Non-Consolidated Financial Statements as of and for the nine-month periods ended September 30, 2003 and 2002 were qualified with respect to the effect on the Unaudited Non-Consolidated Financial Statements of adjustments, if any, had the financial statements of certain subsidiaries and investee companies been audited by independent accountants. The Audited Consolidated Financial Statements and Unaudited Non-Consolidated Financial Statements of the Company have been prepared and presented in accordance with ROC GAAP and reporting practices in the ROC which differ in certain material respects with U.S. GAAP. For a discussion of certain differences between ROC GAAP and U.S. GAAP, see "Summary of Significant Differences Between ROC GAAP and U.S. GAAP". The Company has not qualified or identified the impact of the differences between ROC GAAP and U.S. GAAP, see "Risk Factors — Risks Relating to the ROC — Financial reporting and accounting standards in the ROC differ from other countries; bonus share issuance". The Company is not required to, and does not, prepare interim financial statements on a consolidated basis.

Convenience translations in the Audited Consolidated Financial Statements and the Unaudited Non-Consolidated Financial Statements expressed in U.S. Dollars are provided solely for the convenience of the reader and such amounts do not form a part of the audited financial statements.

As from April 13, 2002, the independent auditors of the Company have been changed from Reality United Firm, a local accounting firm, to Deloitte & Touche, as the latter is an internationally recognized accounting firm, see "Risk Factors — Risks Relating to the Group's Business — Changes in the Group's Independent Auditors".

	Consolidated as of December 31,						Non-Consolidated as of September 30,		
	1998	1999	2000	2001	2002	2002	2002	2003	2003
	NT\$	NT\$	NT\$	NT\$(¹)	NT\$	U.S.\$(²)	NT\$	NT\$	U.S.\$(²)
(in thousand dollars)									
Income Statement									
Operating revenue									
— net	4,001,566	4,927,765	7,212,725	7,294,466	7,651,313	220,181	5,266,565	5,224,763	154,808
Cost of revenues	<u>2,567,943</u>	<u>3,525,367</u>	<u>5,742,130</u>	<u>5,702,767</u>	<u>6,335,212</u>	<u>182,308</u>	<u>4,594,963</u>	<u>4,708,260</u>	<u>139,504</u>
Gross profit	1,433,623	1,402,398	1,470,595	1,591,699	1,316,101	37,873	671,602	516,503	15,304
(Unrealized) Realized									
Gross Profit	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8,351)</u>	<u>10,779</u>	<u>310</u>	<u>15,176</u>	<u>(3,220)</u>	<u>(95)</u>
Realized Gross Profit .	1,433,623	1,402,398	1,470,595	1,583,348	1,326,880	38,183	686,778	513,283	15,208
Operating expenses . .	<u>619,520</u>	<u>668,663</u>	<u>793,800</u>	<u>936,188</u>	<u>933,395</u>	<u>26,860</u>	<u>427,619</u>	<u>432,782</u>	<u>12,823</u>
Operating income . . .	814,103	733,735	676,795	647,160	393,485	11,323	259,159	80,501	2,385
Non-operating income	97,473	112,172	267,743	230,104	402,321	11,577	289,505	201,101	5,959
Non-operating									
expenses	<u>93,366</u>	<u>31,384</u>	<u>35,045</u>	<u>78,137</u>	<u>124,182</u>	<u>3,573</u>	<u>46,636</u>	<u>137,063</u>	<u>4,061</u>
Income before income									
tax	818,210	814,523	909,493	799,127	671,624	19,327	502,028	144,539	4,283
Income tax expense . .	<u>(202,148)</u>	<u>(169,209)</u>	<u>(208,923)</u>	<u>(173,855)</u>	<u>(121,119)</u>	<u>(3,485)</u>	<u>(65,000)</u>	<u>6,500</u>	<u>193</u>
Net income.	<u>616,062</u>	<u>645,314</u>	<u>700,570</u>	<u>625,272</u>	<u>550,505</u>	<u>15,842</u>	<u>437,028</u>	<u>151,039</u>	<u>4,475</u>
Per Share Data⁽³⁾									
(in dollars)									
Basic Earnings									
Per Share	<u>2.3</u>	<u>2.41</u>	<u>2.61</u>	<u>2.33</u>	<u>2.01</u>	<u>0.06</u>	<u>1.62</u>	<u>0.53</u>	<u>0.02</u>
Diluted Earnings Per									
Share.	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1.95</u>	<u>0.06</u>	<u>1.57</u>	<u>—</u>	<u>—</u>

	Consolidated as of December 31,						Non-Consolidated as of September 30,		
	1998	1999	2000	2001	2002	2002	2002	2003	2003
	NT\$	NT\$	NT\$	NT\$(¹)	NT\$	U.S.\$(²)	NT\$	NT\$	U.S.\$(²)
	(in thousand dollars)								
Balance Sheet									
Current assets	2,793,752	4,040,336	4,844,044	5,011,307	5,708,163	164,263	4,783,233	3,995,022	118,371
Long-term investments	—	13,828	106,166	521,565	741,684	21,343	3,712,504	4,085,875	121,063
Property, plant and equipment	226,583	323,067	735,576	1,231,031	1,849,795	53,232	789,631	929,421	27,538
Intangible assets	9,696	20,043	17,327	13,368	2,490	72	13,368	2,490	74
Other assets	33,481	37,056	36,604	65,627	124,260	3,576	63,991	98,198	2,910
Total Assets	3,063,512	4,434,330	5,739,717	6,842,898	8,426,392	242,486	9,362,727	9,111,006	269,956
Current liabilities	1,088,168	1,743,289	2,084,789	2,456,939	2,213,242	63,690	3,161,519	2,428,469	101,584
Long-term liabilities	1,650	—	—	—	829,036	23,857	826,862	500,000	14,815
Other liabilities	265,028	413,681	587,286	627,450	557,177	16,034	577,451	550,018	16,297
Total liabilities	1,354,846	2,156,970	2,672,075	3,106,706	3,599,455	103,581	4,565,832	4,478,487	132,696
Total stockholders' equity	1,708,666	2,277,360	3,067,642	3,736,192	4,826,937	138,905	4,796,895	4,632,519	137,260
Total liabilities and stockholders' equity	3,063,512	4,434,330	5,739,717	6,842,898	8,426,392	242,486	9,362,727	9,111,006	269,956

- (1) Based on financial data audited by Reality United Firm and adjusted by Deloitte & Touche in the "Consolidated Financial Statement as at and for the Years Ended December 31, 2002 and 2001".
- (2) Translated into United States Dollars using the exchange rate published by Taipei Forex Inc. at December 31, 2002 of NT\$34.75 = U.S.\$1.00, and at September 30, 2003 of NT\$33.75 = 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.

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

This discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and Non-Consolidated Financial Statements included elsewhere in this Offering Circular. The Company's financial statements have been prepared in accordance with ROC GAAP, which differ in certain material respects from U.S. GAAP. 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 the Company's Audited Consolidated Financial Statements and Audited Non-Consolidated Financial Statements as of and for the years ended December 31, 2002 and 2001, as well as Unaudited Non-Consolidated Financial Statements as of and for the nine-month periods ended September 30, 2003 and 2002. Accordingly, 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. Results for any interim period may not be indicative of the results for the entire fiscal year.

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, which could cause actual results to differ materially from the expectations expressed in such forward-looking statements. You are cautioned not to place undue reliance on any forward-looking statements.

Overview

The Group designs, manufactures and sells power supply units mainly in communications, computer peripherals, and consumer electronics sectors. The Group's products are applied on communication devices, consumer electronics, networking products and industrial equipment. Power supply units, consisting of AC/DC power adapters and chargers, charger bases and open-frame power supply modules, supplied by the Group are on an original equipment manufacture ("OEM") or original design manufacture ("ODM") basis to some of the world's leading makers of communication devices, consumer electronics, networking products and industrial equipment. The Group also manufactures accessories for mobile telephones and other handheld or portable electronic devices. In accordance with its product diversification policy, since 2002 the Group has gradually increased its production volume of high-voltage power supply systems which are commonly used on high power consumption systems such as industrial equipment and office automation ("OA") machines. The Company believes that it is one of the major OEM/ODM manufacturers of power supply units for mobile telephones and consumer electronics in the world. The Group's customers include some of the industry leaders, such as Accton Technology Corporation ("Accton"), BenQ Corporation ("BenQ"), Cisco Systems, Inc. ("Cisco"), Seiko Epson Corporation ("Epson"), Motorola Inc. ("Motorola"), OMRON Corporation ("OMRON"), Palm Inc. ("Palm"), Panasonic Mobile Communication Co., Ltd. ("Panasonic"), Sanyo Electronic Co., Ltd. ("Sanyo") and Sony Corporation ("Sony").

In 2003, the Company moved to its newly constructed global headquarters in Tao-Yuan County, Taiwan and renamed from Phihong Enterprise Co., Ltd. as Phihong Technology Co., Ltd.

The Group has been named as one of a few core global suppliers for power supply units and communication accessories for use in the Motorola brand products. The Group currently provides seven different types of power supply units and communication accessories to Motorola. Sales to Motorola accounted for 57.9%, 67.6% and 60.1% of the Group's total sales in 2000, 2001 and 2002, respectively. All sales made by the Group to Motorola, as those made to other OEM/ODM customers, are on a purchase orders basis without long-term contracts or firm purchase commitments.

The Group owns four manufacturing facilities in the PRC and two in Brazil to produce its products. As a whole, the Company and its subsidiaries own a total of approximately 1,260,035 square feet of manufacturing space. Whereas the corporate headquarters are located in Taiwan, none of the Company's manufacturing facilities are located in Taiwan. In order to take the advantage of lower labor costs and to capture the market opportunities, the Group increased its production outside of Taiwan, primarily in plants

located in the PRC and Brazil. The Group has a global network of sales and service offices in the United States, Japan, the United Kingdom, Taiwan, the PRC, and Brazil to provide fast and convenient global distribution services to its customers. The Company also engages independent sales representatives who operate on a commission basis to market its products in the United States and Europe.

In respect of quality assurance, the Group implements strict quality control programs and undertakes substantial on-the-job training for its employees. The corporate headquarters in Taiwan have received TL9000 and ISO14001 accreditation. Each of Dongguan Pihong Plant and Dongguan Phitek Plant has received ISO9002, ISO14001 and TL9000 accreditation, and the Santa Rita Plant I has received ISO9001 accreditation. Santa Rita Plant II has received ISO9002 accreditation. The Group implements quality control at both the product design and commercial production stages to ensure that its products meet customers' satisfaction. The Group has received numerous vendor awards from its major customers, including Motorola and Sony. All power supply products manufactured by the Group are designed to meet relevant international safety standards, such as UL, CSA, CE and TÜV, and comply with strict FCC Class B and CISPR Class II (EN55022) emission levels.

The Group's products have become more advanced and sophisticated over time, and many of its customers' product development cycles have shortened in response to technological innovations and rapidly changing market demands. The Company believes that continuous investment and efforts to reinforce its research and development capabilities are key to maintaining its competitiveness in the markets for its existing products and enhancing its market share and customer base for its new products. The Group has design divisions, engineering teams and research and development laboratories in Taiwan, the PRC, the United States and Brazil. As a result of its research and development efforts, the Group has developed various new products such as electronic ballast and advanced acoustic devices.

The consolidated net sales of the Company have grown at a compound annual growth rate of 17.6% from NT\$4,002.0 million in 1998 to NT\$7,651.3 million (U.S.\$220.2 million) in 2002. For the nine months ended September 30, 2003 the Company recorded non-consolidated net sales of NT\$5,224.8 million (U.S.\$154.8 million) and non-consolidated net income of NT\$151.0 million (U.S.\$4.5 million), compared to NT\$5,266.6 million and NT\$437.0 million, respectively, for the same period in 2002.

Net Sales

The Company generates its sales primarily from its sales of products in communications sector. In fiscal years 2000, 2001 and 2002, sales of power supply units and accessories for the communication devices constituted 70.8%, 74.6% and 69.9% of its net sales. The Company also generates its sales from sales of power supply units and other electronic devices for consumer electronics, and networking and industrial equipment. In fiscal years 2000, 2001 and 2002, sales of the products applied to these sectors constituted 29.2%, 25.4% and 30.1% of its net sales, respectively. Specifically, sales of high-voltage power supply units have increased since 2002 and accounted for 8.0% of the Company's net sales in 2002.

In the past few years, Motorola has been the Company's largest customer. As explained in the Overview section above, sales to Motorola accounted for 57.9%, 67.6% and 60.1% of the Group's total sales in 2000, 2001 and 2002, respectively. All sales made by the Group to Motorola are on a purchase order basis without long-term contracts or firm purchase commitments.

From time to time, Motorola revises the prices it pays the Company for purchases of products. These price changes usually take immediate effect, and consequently they affect the selling prices not only for future shipments, but also for products that have been invoiced to Motorola and are either in transit or are being held for Motorola's account at one of the Company's distribution hubs.

In pricing its products and services, the Company takes into account the complexity of the product, the prevailing market conditions, the order size, and the strength and history of the relationship with the customer. When possible, the Company seeks early involvement with customers in product design.

The Company accepts orders from customers. The Company procures materials and components, and contracts with its BVI subsidiary for the manufacture of the products, which in turn contracts with the Company's subsidiaries in PRC and Brazil. The Company pays the subsidiaries a processing fee for the manufacturing services.

Net operating revenues from sales are generally recognized when the products are shipped to the customer or the receipt of products by customer at the respective logistic hubs of the Company.

Cost of Goods Sold

The Company's non-consolidated cost of goods sold consists principally of:

- ▶ costs of raw materials and components;
- ▶ processing fees; and
- ▶ overheads.

The Company's consolidated cost of goods sold consists principally of:

- ▶ costs of raw materials and components;
- ▶ direct labor costs; and
- ▶ overhead, including depreciation and maintenance of production equipment, indirect labor costs, indirect material costs, outsourcing expenses and electricity and water utility costs.

Operating Expenses

The Company's operating expenses consist of the following:

- ▶ **Selling Expenses.** Selling expenses consist primarily of selling commissions, salaries and related personnel expenses and other marketing expenses. The Company expects its selling and marketing expenses to increase significantly as it seeks to further expand its sales volume and customer base.
- ▶ **Administrative Expenses.** Administrative expenses consist primarily of salaries for its management, administrative, accounting, finance and human resources personnel, fees for professional services, and depreciation and amortization expenses for office equipment.
- ▶ **Research and Development Expenses.** Research and development expenses consist primarily of salaries, bonuses and related costs for product and technology development, and depreciation and maintenance on the equipment and various materials used in research and development processes. The Company expects its research and development expenses to grow significantly as the Company increases its research and development efforts to develop new products.

Results of Operations

The following table summarizes certain items from the Company's results of operations for fiscal years 2000, 2001 and 2002, in each case as a percentage of net sales.

	Years ended December 31,			Nine Months Ended September 30,	
	2000	2001 ⁽¹⁾	2002	2002	2003
	(audited, consolidated)			(unaudited, non-consolidated)	
	%	%	%	%	%
Net Sales	100.0	100.0	100.0	100.0	100.0
Cost of Goods Sold	79.6	78.2	82.8	87.3	90.1
Gross Profit	20.4	21.8	17.2	12.7	9.9
Unrealized Gross Profit	—	(0.1)	0.1	0.3	(0.1)
Realized Gross Profit	20.4	21.7	17.3	13.0	9.8
Operating Expenses	11.0	12.8	12.2	8.1	8.3
Operating Income (loss)	9.4	8.9	5.1	4.9	1.5
Other Income and Gain	3.7	3.4	5.3	5.5	3.9
Other Expenses and Loss	0.5	1.3	1.6	0.9	2.6
Earnings Before Income Tax	12.6	11.0	8.8	9.5	2.8
Income Tax (Expense) Benefit	(2.9)	(2.4)	(1.6)	(1.2)	0.1
Net Earnings	9.7	8.6	7.2	8.3	2.9

Unaudited, Non-consolidated Financial Information

Nine months ended September 30, 2003 Compared to nine months ended September 30, 2002

Net Sales. Net sales decreased by NT\$41.8 million, or 0.8%, from NT\$5,266.6 million in the nine months ended September 30, 2002 to NT\$5,224.8 million (U.S.\$154.8 million) in the nine months ended September 30, 2003. This decrease was primarily due to declining average selling prices, despite the substantial increased sales volume.

Cost of Goods Sold. Cost of goods sold increased by NT\$113.3 million, or 2.5%, from NT\$4,595.0 million in the nine months ended September 30, 2002 to NT\$4,708.3 million (U.S.\$139.5 million) in the nine months ended September 30, 2003 primarily due to increases in cost of raw materials resulted from increased sales volume.

Gross Profit. Gross profit, including unrealized or realized gross profit from inter-affiliate transactions, decreased by NT\$173.5 million, or 25.3%, from NT\$686.8 million in the nine months ended September 30, 2002 to NT\$513.3 million (U.S.\$15.2 million) in the nine months ended September 30, 2003. Gross margin, or gross profit as a percentage of net sales, decreased from 13.0% in the nine months ended September 30, 2002 to 9.8% in the nine months ended September 30, 2003. The decreases in gross profit and gross margin were primarily because of the decrease in net sales and increase in cost of goods sold.

Operating Expenses. Operating expenses increased by NT\$5.2 million, or 1.2%, from NT\$427.6 million in the nine months ended September 30, 2002 to NT\$432.8 million (U.S.\$12.8 million) in the nine months ended September 30, 2003. Operating expenses as a percentage of net sales increased slightly from 8.1% in the nine months ended September 30, 2002 to 8.3% in the nine months ended September 30, 2003. The increase in operating expenses was principally due to:

- **Selling Expenses.** Selling expenses decreased by 16.8% from NT\$233.7 million in the nine months ended September 30, 2002 to NT\$194.5 million (U.S.\$5.8 million) in the nine months ended September 30, 2003 primarily due to reductions in commission expenses and sales persons. Selling expenses as a percentage of net sales decreased to 3.7% in the nine months ended September 30, 2003 from 4.4% in the nine months ended September 30, 2002.

- ▶ **Administrative Expenses.** Administrative expenses increased by 30.7% from NT\$76.9 million in the nine months ended September 30, 2002 to NT\$100.5 million (U.S.\$3.0 million) in the nine months ended September 30, 2003 primarily due to (i) increased expenses in connection with depreciation expense, (ii) increased compensation expenses for administrative personnel and (iii) increased legal and other consultation services and security service fees. Administrative expenses as a percentage of net sales increased from 1.5% in the nine months ended September 30, 2002 to 1.9% in the nine months ended September 30, 2003.
- ▶ **Research and Development Expenses.** Research and development expenses increased by 17.8% from NT\$117.0 million in the nine months ended September 30, 2002 to NT\$137.7 million (U.S.\$4.1 million) in the nine months ended September 30, 2003 due to increased compensation expenses for research and development personnel. Research and development expenses as a percentage of net sales increased from 2.2% in the nine months ended September 30, 2002 to 2.7% in the nine months ended September 30, 2003.

Operating Income and Operating Margin. Operating income decreased by NT\$178.7 million, or 68.9%, from NT\$259.2 million in the nine months ended September 30, 2002 to NT\$80.5 million (U.S.\$2.4 million) in the nine months ended September 30, 2003. Operating margin also decreased, from 4.9% in the nine months ended September 30, 2002 to 1.5% in the nine months ended September 30, 2003. The decrease in operating income was primarily due to the decrease in gross profit and increase in operating expenses mentioned above.

Non-operating Income. Non-operating income decreased by NT\$88.4 million, or 30.5%, from NT\$289.5 million in the nine months ended September 30, 2002 to NT\$201.1 million (U.S.\$6.0 million) in the nine months ended September 30, 2003 mainly due to decreases in the Company's interests in gains of subsidiaries accounted for on an equity basis from NT\$101.0 million in the nine months ended September 30, 2002 to NT\$35.9 million (U.S.\$1.1 million) in the nine months ended September 30, 2003 and to a lesser extent due to a decrease in other income by NT\$30.6 million in the nine months ended September 30, 2003. The decrease in other non-operating income was primarily due to decreases in compensation from customers for canceling orders of previous operating periods.

Non-operating Expense. Non-operating expense increased by NT\$90.5 million, or 194.2%, from NT\$46.6 million in the nine months ended September 30, 2002 to NT\$137.1 million (U.S.\$4.1 million) in the nine months ended September 30, 2003, primarily due to increased interest expense mainly resulted from the issuance of Euro convertible bonds due 2007 in 2002 and increased other non-operating expenses mainly resulted from increased interest expense and inventory write-off of NT\$30.0 million due to obsolescence.

Income Taxes. The Company recorded income tax benefits of NT\$6.5 million (U.S.\$0.2 million) in the nine months ended September 30, 2003, compared to income tax expenses of NT\$65.0 million in the nine months ended September 30, 2002.

Net Earnings. Net earnings decreased by NT\$286.0 million, or 65.4%, from NT\$437.0 million in the nine months ended September 30, 2002 to NT\$151.0 million (U.S.\$4.5 million) in the nine months ended September 30, 2003. Net earnings as a percentage of net sales decreased from 8.3% in the nine months ended September 30, 2002 to 2.9% in the nine months ended September 30, 2003.

Fiscal Year 2002 Compared to Fiscal Year 2001

Net Sales. Net sales increased by NT\$356.8 million, or 4.9%, from NT\$7,294.5 million in fiscal year 2001 to NT\$7,651.3 million (U.S.\$220.2 million) in fiscal year 2002. This increase was primarily due to an increase in sales volume.

Cost of Goods Sold. Cost of goods sold increased NT\$632.4 million, or 11.1%, from NT\$5,702.8 million in fiscal year 2001 to NT\$6,335.2 million (U.S.\$182.3 million) in fiscal year 2002 primarily due to an increase in cost of raw materials resulted from higher sales volume and a slight increase in cost of outsourcing.

Gross Profit. Gross profit decreased by NT\$275.6 million, or 17.3%, from NT\$1,591.7 million in fiscal year 2001 to NT\$1,316.1 million (U.S.\$37.9 million) in fiscal year 2002. Gross margin, or gross profit as a percentage of net sales, decreased from 21.8% in 2001 to 17.2% in 2002. The decreases in gross profit and gross margin were primarily because the average selling prices for the Company's products decreased in 2002 and the increase in cost of goods sold outpaced the increase in net sales.

Operating Expenses. Operating expenses decreased slightly from NT\$936.2 million in fiscal year 2001 to NT\$933.4 million (U.S.\$26.9 million) in fiscal year 2002. Operating expenses as a percentage of net sales also decreased slightly from 12.8% in fiscal year 2001 to 12.2% in fiscal year 2002. The decreases in operating expenses were principally due to:

- ▶ **Selling Expenses.** Selling expenses decreased by 22.3% from NT\$360.7 million in fiscal year 2001 to NT\$280.1 million (U.S.\$8.1 million) in fiscal year 2002 primarily due to a decrease in commission expenses. Selling expenses as a percentage of net sales decreased to 3.7% in fiscal year 2002 from 4.9% in fiscal year 2001.
- ▶ **Administrative Expenses.** Administrative expenses increased by 9.3% from NT\$439.8 million in fiscal year 2001 to NT\$480.5 million (U.S.\$13.8 million) in fiscal year 2002 due to increased depreciation expense. Administrative expenses as a percentage of net sales increased from 6.0% in fiscal year 2001 to 6.3% in fiscal year 2002.
- ▶ **Research and Development Expenses.** Research and development expenses increased by 27.3% from NT\$135.7 million in fiscal year 2001 to NT\$172.7 million (U.S.\$5.0 million) in fiscal year 2002 primarily due to increased compensation expenses for the Company research and development personnel. Research and development expenses as a percentage of net sales increased from 1.9% in fiscal year 2001 to 2.3% in fiscal year 2002.

Operating Income and Operating Margin. Operating income decreased by NT\$253.7 million, or 39.2%, from NT\$647.2 million in fiscal year 2001 to NT\$393.5 million (U.S.\$11.3 million) in fiscal year 2002. Operating margin also decreased, from 8.9% in fiscal year 2001 to 5.1% in fiscal year 2002. The decrease in operating income was primarily due to the decreased gross profits and the slight decreased operating expenses mentioned above.

Non-operating Income. Non-operating income increased by NT\$172.2 million, or 74.8%, from NT\$230.1 million in fiscal year 2001 to NT\$402.3 million (U.S.\$11.6 million) in fiscal year 2002 mainly due to an increase of NT\$133.8 million in currency exchange gains, an increase of NT\$30.6 million in interest income and an increase of NT\$16.6 million in molding income. The increase in currency exchange gains was due to the Company's increased efforts in managing its currency exchange exposure. The increase in interest income was mainly resulted from the increase in cash flow, a substantial amount of which derived from the issuance of Euro convertible bonds due 2007 in 2002.

Non-operating Expense. Non-operating expense increased by NT\$46.0 million, or 58.9%, from NT\$78.1 million in fiscal year 2001 to NT\$124.2 million (U.S.\$3.6 million) in fiscal year 2002, primarily due to increased other non-operating expenses, principally consisting of increased interest expense. These increases were partially offset by a decrease of NT\$25.1 million in inventory provision due to price declines and aging of the inventories from NT\$25.1 million in 2001 to nil in 2002.

Income Taxes. The Company recorded income tax expenses of NT\$121.0 million (U.S.\$3.5 million) in fiscal year 2002, compared to income tax expenses of NT\$173.9 million in fiscal year 2001. The Company's effective tax rate in fiscal year 2002 was approximately 18.0%.

Net Earnings. Net earnings decreased by NT\$74.8 million, or 12.0%, from NT\$625.3 million in fiscal year 2001 to NT\$505.5 million (U.S.\$15.8 million) in fiscal year 2002. Net earnings as a percentage of net sales decreased from 8.6% in fiscal year 2001 to 7.2% in fiscal year 2002.

Fiscal Year 2001 Compared to Fiscal Year 2000

Net Sales. Net sales increased by NT\$81.8 million, or 1.1%, from NT\$7,212.7 million in fiscal year 2000 to NT\$7,294.5 million in fiscal year 2001. This increase was primarily due to an increase in purchase orders from existing customers and an increase in new customers.

Cost of Goods Sold. Cost of goods sold decreased slightly from NT\$5,742.1 million in fiscal year 2000 to NT\$5,702.8 million in fiscal year 2001 despite the increase in net sales during the same period primarily due to reduction in cost of raw materials, cost of outsourcing and the increase in number of employees being made redundant.

Gross Profit. Gross profit increased by NT\$112.8 million, or 7.7%, from NT\$1,470.6 million in fiscal year 2000 to NT\$1,583.3 million in fiscal year 2001. Gross margin, or gross profit as a percentage of net sales, increased from 20.4% in 2000 to 21.7% in 2001. The increases in gross profit and gross margin were primarily due to the combination of increases in net sales and decreases in cost of goods sold.

Operating Expenses. Operating expenses increased by NT\$142.4 million, or 17.9%, from NT\$793.8 million in fiscal year 2000 to NT\$936.2 million in fiscal year 2001. Operating expenses as a percentage of net sales also increased from 11.0% in fiscal year 2000 to 12.8% in fiscal year 2001. The increases in operating expenses were principally due to:

- ▶ **Selling Expenses.** Selling expenses decreased by 20.0% from NT\$451.0 million in fiscal year 2000 to NT\$360.7 million in fiscal year 2001. Selling expenses as a percentage of net sales decreased to 4.9% in fiscal year 2001 from 6.3% in fiscal year 2000.
- ▶ **Administrative Expenses.** Administrative expenses increased by 99.5% from NT\$220.4 million in fiscal year 2000 to NT\$439.8 million in fiscal year 2001 due to the distribution of one time special bonus to employees of managerial level. Administrative expenses as a percentage of net sales increased from 3.1% in fiscal year 2000 to 6.0% in fiscal year 2001.
- ▶ **Research and Development Expenses.** Research and development expenses increased by 10.9% from NT\$122.4 million in fiscal year 2000 to NT\$135.7 million in fiscal year 2001. Research and development expenses as a percentage of net sales increased from 1.7% in fiscal year 2000 to 1.9% in fiscal year 2001.

Operating Income and Operating Margin. Operating income decreased by NT\$29.6 million, or 4.4%, from NT\$676.8 million in fiscal year 2000 to NT\$647.2 million in fiscal year 2001. Operating margin also decreased, from 9.4% in fiscal year 2000 to 8.9% in fiscal year 2001. The decrease in operating income was primarily due to the increase in operating expenses mentioned above.

Non-operating Income. Non-operating income decreased by NT\$37.6 million, or 14.0%, from NT\$267.7 million in fiscal year 2000 to NT\$230.1 million in fiscal year 2001 mainly due to decreases in commission income from NT\$13.6 million in fiscal year 2000 to NT\$1.5 million in fiscal year 2001 and in investment income from NT\$14.8 million in fiscal year 2001 compared to NT\$34.6 million in fiscal year 2000. The decrease in commission income was primarily due to reduction in receipt of commission income from Densai Lambda K.K. The decrease in investment income was primarily due to reduction in net profit of Santa Rita Plant I. These decreases were partially offset by increases in interest income from NT\$45.6 million in fiscal year 2000 to NT\$54.5 million in fiscal year 2001, in foreign exchange income from NT\$13.6 million in fiscal year 2000 to NT\$23.7 million in fiscal year 2001 and in gain on disposal of property and equipment from NT\$1.0 million in fiscal year 2000 to NT\$13.3 million in fiscal year 2001. The increase in interest income was mainly from increase in cash flow. The increase in foreign exchange income was primarily due to the appreciation of U.S. Dollars against NT Dollars and a substantial amount of payment currency from customers being U.S. Dollars. The increase in gain on disposal of property and equipment was principally due to relocation of manufacturing facilities to mainland China.

Non-operating Expense. Non-operating expense increased by NT\$43.1 million, or 123.1%, from NT\$35.0 million in fiscal year 2000 to NT\$78.1 million in fiscal year 2001, primarily due to losses of NT\$25.1 million in inventory provision due to price declines and aging of the inventories and an increase from losses in disposal of property and equipment from NT\$0.1 million in fiscal year 2000 to NT\$3.5 million in fiscal year 2001. These increases were partially offset by a decrease in interest expenses from NT\$13.1 million in fiscal year 2000 to NT\$6.9 million in fiscal year 2001 mainly due to reduction on borrowings.

Income Taxes. The Company recorded income tax expenses of NT\$173.9 million in fiscal year 2001, compared to income tax expenses of NT\$208.9 million in fiscal year 2000. The Company's effective tax rate in fiscal year 2001 was approximately 22%.

Net Earnings. Net earnings decreased by NT\$75.3 million, or 10.7%, from NT\$700.6 million in fiscal year 2000 to NT\$625.3 million in fiscal year 2001. Net earnings as a percentage of net sales decreased from 9.7% in fiscal year 2000 to 8.6% in fiscal year 2001.

Inventories and Receivables

Other than cash and cash equivalents, 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.

On a non-consolidated basis, inventory turnover days were 62 days in fiscal year 2000, 69 days in fiscal year 2001 and 51 days in fiscal year 2002. On a non-consolidated basis, inventory turnover days were 48 days in the nine months ended September 30, 2003 on an annualized basis due to better inventory control and reduction in inventory at the request of customers.

On a non-consolidated basis, receivables turnover days were 91 days in fiscal year 2000, 73 days in fiscal year 2001 and 65 days in fiscal year 2002. On a non-consolidated basis, receivables turnover days were 82 days in the nine months ended September 30, 2003 on an annualized basis. The receivables turnover days in the nine months ended September 30, 2003 increased mainly due to the increase of turnover days for the receivables with Motorola.

Liquidity and Capital Resources

The Company needs cash primarily for working capital, equipment purchases, and manufacturing facility expansion. The Company has historically financed its operations primarily from cash flow from operations, the proceeds of equity securities and Euro convertible bonds offerings and short- and long-term borrowings. At December 31, 2002, the Company had NT\$3,007.7 million (U.S.\$86.6 million) of cash and cash equivalents and NT\$208.5 million (U.S.\$6.0 million) of short-term investments. At September 30, 2003, on a non-consolidated basis, the Company had NT\$1,394.8 million (U.S.\$41.3 million) of cash and cash equivalents. At December 31, 2002, the Company had an aggregate of NT\$8.4 million (U.S.\$0.3 million) short-term loan facilities outstanding and no long-term loan facilities outstanding. In addition, at December 31, 2002, the Company had outstanding Euro convertible bonds due 2007 in the amount of NT\$829.0 million (U.S.\$23.9 million). At September 30, 2003, on a non-consolidated basis, the Company had an aggregate of NT\$500.0 million (U.S.\$14.8 million) in long-term loan facilities outstanding and no short-term loan facilities outstanding. The long-term loan facility is the NT\$500 million loan agreement between the Company and Credit Lyonnais Bank with the term from September 29, 2003 to September 29, 2008. The interest rate for borrowings under this loan agreement is 2.687%.

Net cash provided by operating activities amounted to NT\$846.7 million (U.S.\$24.4 million) in fiscal years 2002. Net cash from operation activities consisted mainly of net earning in fiscal year 2002 at the amount of NT\$550.5 million (U.S.\$15.8 million), which was adjusted by working capital increases including mainly NT\$501.2 million (U.S.\$14.4 million) from decreased inventory and NT\$151.1 million (U.S.\$4.4 million) from increased accounts payable, as well as by working capital decreases including mainly NT\$344.6 million (U.S.\$9.9 million) from increased accounts receivable. The Company's depreciation and amortization for fiscal year 2002 were NT\$116.1 million (U.S.\$3.3 million). On a non-consolidated basis, in the nine months ended September 30, 2003, net cash used in operating activities amounted to NT\$572.6 million (U.S.\$17.0 million).

Net cash used for investing activities was NT\$1,066.2 million (U.S.\$30.7 million) in fiscal year 2002. Net cash used for investing activities in fiscal year 2002 primarily reflected net cash used for investing in long-term investments of NT\$292.9 million (U.S.\$8.4 million) and capital expenditures for acquisition of fixed assets of NT\$720.7 million (U.S.\$20.7 million). The long-term investments and the capital expenditures were primarily funded with net cash provided by operating activities. On a non-consolidated basis, net cash used in investing activities was NT\$262.5 million (U.S.\$7.8 million), reflecting mainly net cash used for investing in long-term investments of NT\$134.1 million (U.S.\$4.0 million) and capital expenditures for acquisition of fixed assets of NT\$185.1 million (U.S.\$5.5 million).

Net cash provided by financing activities was NT\$913.3 million (U.S.\$26.3 million) in fiscal year 2002, mainly reflecting proceeds from the issuance of Euro convertible bonds due 2007 at the amount of NT\$1,678.6 million (U.S.\$48.3 million). On a non-consolidated basis, net cash provided by financing activities was NT\$186.7 million (U.S.\$5.5 million), mainly reflecting proceeds from a long-term loan facilities of NT\$500.0 million (U.S.\$14.8 million).

The Company's capital expenditures in fiscal years 2000, 2001 and 2002 were NT\$483.2 million, NT\$539.1 and NT\$720.7 (U.S.\$20.7 million) million, respectively. The Company's capital expenditures in fiscal years 2000, 2001 and 2002 were primarily for purchases of new equipment and machinery at its manufacturing facility in the PRC and Brazil and for purchases of lands and the construction of the new headquarters in Taiwan. In fiscal year 2003, the Company's planned investments for the capital expenditures of it and its subsidiaries primarily relate to (i) the purchase of new equipments for research and development and production facilities, (ii) the construction of the new headquarters in Taiwan and (iii) the construction of Suzhou Plant. In the nine months ended September 30, 2003, the Company had invested NT\$185.1 million (U.S.\$5.5 million) in capital expenditures.

The Company believes that its existing cash, cash equivalents and short-term investments, together with cash generated by operations, available borrowing capacity, and this offering, will provide sufficient funds to meet its operating and capital requirements over the next 12 months. Thereafter, if cash flow from operations is inadequate to fund growth, the Company may issue additional debt or equity securities or obtain other additional credit facilities. There cannot be 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 the Company.

Inflation

The Company does not believe that inflation in Taiwan had a material impact on its results of operations.

Taxation

The corporate income tax rate in Taiwan that applies to the Company is 25%. The Company benefits from tax incentives, including tax credits for certain research and development and employee training expenses and credits for certain investments in automation equipment and technology. The Company also applies on an annual basis for deducting the profits that it received from its subsidiaries, if available, from the taxable income to further save tax expenses. These tax incentives resulted in tax savings and an increase in deferred income tax assets of approximately NT\$208.9 million, NT\$173.9 million and NT\$121.1 million (U.S.\$3.5 million) in fiscal years 2000, 2001 and 2002, respectively.

The Company's effective tax rates in fiscal years 2000, 2001 and 2002 were approximately 23%, 22% and 18%, respectively.

Market Risk

Market risk is the risk of loss related to adverse changes in market prices, including interest rates and foreign exchange rates, of financial instruments. The Company is exposed to various types of market risks, including changes in interest rates and foreign currency exchange rates, in the normal course of business.

From time to time, the Company uses derivative instruments such as options and forward contracts to hedge its foreign currency exposure to manage risks associated with foreign currency exposures through a controlled program of risk management in accordance with established policies approved by the board of directors and shareholders of the Company.

The Company's primary market risk exposures relate to interest rate movements on borrowings and exchange rate movements on foreign currency denominated working capital, export sales as well as capital expenditures relating to equipment used in manufacturing processes and purchased primarily from Brazil, mainland China, Japan and the United States.

Interest Rate Risk

The Company's major market risk exposure is changing interest rates. The Company's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations. The Company primarily enters into debt obligations to support general corporate purposes including capital expenditures and working capital needs.

Foreign Currency Risk

The Company's transactions are principally in U.S. Dollars, Japanese Yen, Euro, New Taiwan Dollars, Hong Kong Dollars, Brazilian Reis and Renminbi. The Company may in the future enter into short-term, forward exchange contracts and currency options to hedge the impact of foreign currency fluctuations on certain underlying assets, liabilities, and firm commitments for operating expenses and capital expenditures denominated in New Taiwan Dollars, U.S. Dollars, Hong Kong Dollars, Japanese Yen and Renminbi. The purpose of entering into these hedges is to minimize the impact of foreign currency fluctuations on the results of operations. Gains and losses on foreign currency contracts and foreign currency denominated liabilities are recorded in the period of the exchange rate changes.

MANAGEMENT AND EMPLOYEES

Directors

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

The term of office for the directors is three years from the date of appointment. Directors may serve any number of consecutive terms if re-elected and may be removed from office at any time for a valid reason, by a resolution adopted by the holders of 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. 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. 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 within 60 days to elect directors to fill the vacancies.

The following table sets forth the name of each of the Company's current directors, his position in the Company, the number of Shares held, the percentage of Shares held, the business address, and other significant positions in the Company or in unrelated companies held by him or her.

Name	Position	Number of Shares held as of September 30, 2003	Percent of Shares held as of September 30, 2003	Business Address	Other significant positions held
Peter Lin	Chairman	29,990,341	10.26%	No. 567 Fu-Shing III Road Wen Hua Village Gui Shan Shiang Taoyuan County Taiwan, ROC	Chairman of Phihong USA Corporation Chairman of Phihong International Corporation
Shin-Yi Lin	Director	885,000	0.3%	No. 567 Fu-Shing III Road Wen Hua Village Gui Shan Shiang Taoyuan County Taiwan, ROC	
Su-Nu Chien.	Director	3,350,397	1.15%	No. 567 Fu-Shing III Road Wen Hua Village Gui Shan Shiang Taoyuan County Taiwan, ROC	—
Takeo Suzuki ⁽¹⁾ . . .	Director	7,088,412	2.42%	No. 567 Fu-Shing III Road Wen Hua Village Gui Shan Shiang Taoyuan County Taiwan, ROC	Chairman of Densee- Lambda K.K.
Chi-Jeng Chan ⁽²⁾ . . .	Director	782,217	0.27%	No. 567 Fu-Shing III Road Wen Hua Village Gui Shan Shiang Taoyuan County Taiwan, ROC	Assistant Vice President of Concord II Venture Capital Co., Ltd.

Name	Position	Number of Shares held as of September 30, 2003	Percent of Shares held as of September 30, 2003	Business Address	Other significant positions held
Wen-Sang Ho ⁽³⁾	Director	782,217	0.27%	No. 567 Fu-Shing III Road Wen Hua Village Gui Shan Shiang Taoyuan County Taiwan, ROC	Assistant Vice President of Concord II Venture Capital Co., Ltd.
Chiu-Yung Huang	Director	—	—	No. 567 Fu-Shing III Road Wen Hua Village Gui Shan Shiang Taoyuan County Taiwan, ROC	Chairman of Ichia Technologies, Inc.

(1) being nominated by Densei-Lambda K.K.

(2) being nominated by Concord II Venture Capital Co., Ltd.

(3) being nominated by Concord II Venture Capital Co., Ltd.

Supervisors

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

The following table sets forth the name of each of the Company's current supervisors, his or her position in the Company, the number of Shares held, the percentage of Shares, the business address and other significant positions held by him or her.

Name	Position	Number of Shares held as of September 30, 2003	Percent of Shares held as of September 30, 2003	Business Address	Other significant positions held
Su-Feng Chan ⁽¹⁾	Supervisor	1,796,240	0.61%	No. 567 Fu-Shing III Road Wen Hua Village Gui Shan Shiang Taoyuan County Taiwan, ROC	—
Tai-Ming Chang	Supervisor	—	—	No. 567 Fu-Shing III Road Wen Hua Village Gui Shan Shiang Taoyuan County Taiwan, ROC	Chairman of the Board of Cradle Technologies, Inc.

(1) Nominated by Kuan-Eong Investment Co., Ltd.

Directors and supervisors will be deemed “independent” only if they:

- ▶ are not legal persons or the representatives of such legal persons as defined in Article 27 of the ROC Company Law;
- ▶ have more than five years of experience in the fields of business, law, finance or other working experience required by the Company’s business;
- ▶ for at least one year prior to their election, they
 - ▶ are not employees of the Company and are not directors, supervisors or employees of its affiliates unless they are independent directors and independent supervisors of the Company’s parent companies or subsidiaries;
 - ▶ do not directly or indirectly hold 1% or more of the total outstanding shares of the Company or are not one of the top ten individual shareholders of the Company;
 - ▶ are not the spouses or lineal blood relatives within the second degree of relationship of any of the persons in the preceding two subparagraphs;
 - ▶ are not directors, supervisors or employees of corporate shareholders that directly hold 5% or more of the total outstanding shares of the Company or are not one of the top five corporate shareholders of the Company;
 - ▶ are not directors, supervisors, managers or holders of more than 5% of the total outstanding shares of a specific company or institution which has financial or operational transactions with the Company;
 - ▶ are not a professional or an owner, partner, director, supervisor or manager of an enterprise with one single owner, a partnership, a company or an institution or their spouse, each of which provides legal, financial and business advisory services; and
 - ▶ do not concurrently serve as an independent director or independent supervisor for five or more other companies.
- ▶ attend at least three hours of legal, financial or accounting training each year and obtain the relevant certificates.

Executive Officers

The following table sets forth information relating to the Company’s executive officers.

<u>Name</u>	<u>Position</u>	<u>Years with the Company</u>	<u>Business Address</u>
Peter Lin	Chairman	31	No. 567 Fu-Shing III Road Wen Hua Village Gui Shan Shiang Taoyuan County Taiwan, ROC
Jack Kuo	President	5	No. 567 Fu-Shing III Road Wen Hua Village Gui Shan Shiang Taoyuan County Taiwan, ROC
Thomas Hsu	Chief Financial Officer and Vice President, Global Finance & Administration Center Division	2	No. 567 Fu-Shing III Road Wen Hua Village Gui Shan Shiang Taoyuan County Taiwan, ROC

Name	Position	Years with the Company	Business Address
Y.L. Wang	Vice President, Manufacturing Service BU	1	No. 567 Fu-Shing III Road Wen Hua Village Gui Shan Shiang Taoyuan County Taiwan, ROC
Michael Wang	Assistant Manager, Logistic & Supply Chain Management	1	No. 567 Fu-Shing III Road Wen Hua Village Gui Shan Shiang Taoyuan County Taiwan, ROC
Grace Huang	Director, Technical Supporting Division	6	No. 567 Fu-Shing III Road Wen Hua Village Gui Shan Shiang Taoyuan County Taiwan, ROC
Robert Shieh.	Director, R&D Division	19	No. 567 Fu-Shing III Road Wen Hua Village Gui Shan Shiang Taoyuan County Taiwan, ROC

Biographies of Directors, Supervisors and Executive Officers

Peter Lin, aged 55, joined the Company in 1972 and has served as a director and the Chairman of the Company since 1972. Before joining the Company, he served as the Manager in Taiwan Telecommunication Industry Co., Ltd. and sales engineer in Yi-Yo. Mr. Lin majors in electronics engineering from National Chia-Yi Industrial Vocational School in the ROC.

Shin-Yi Lin, aged 60, joined the Company in 1999 and has served as a director of the Company since 1999. Prior to joining the Company, he worked in Kaohsiung Harbor Bureau and Bureau of Water Resources. Mr. Lin graduated from the Accounting and Statistics of Commerce Department of Ta Tung Junior Technological College in the ROC.

Su-Nu Chien, aged 55, joined the Company in 1981 and has served as a director of the Company since 1981. She graduated from National Chia-Yi Industrial Vocational School in the ROC.

Takeo Suzuki, aged 59, has been appointed by Densee-Lambda K.K. as the corporate representative in the Company and nominated as a director of the Company since May 20, 1999. Mr. Suzuki is the Chairman of Densee-Lambda K.K. who has the experience in the industry where the Company is conducting for more than 20 years.

Chi-Jeng Chan, aged 36, has been appointed by Concord II Venture Capital Co., Ltd. as its corporate representative and nominated as a director of the Company since May 20, 1999. Mr. Chan serves as an Assistant Vice President of Concord II Venture Capital. He holds a Master of Business Administration degree from University of Rochester in New York, U.S.A.

Wen-Sang Ho, aged 35, has been appointed by Concord II Venture Capital Co., Ltd. as its corporate representative and nominated as a director of the Company since May 20, 1999. Mr. Ho is an Assistant Vice President of Concord II Venture Capital. He holds a Master of Business Administration degree from National Cheung-Chi University in Taiwan, the ROC.

Chiu-Yung Huang, aged 47, has been elected as an independent director of the Company since June 10, 2002. Mr. Huang currently serves as the Chairman of Ichia Technologies Inc., a company listed on the TSE. Mr. Huang holds a Bachelor's degree in Mechanical Engineering from Long-Hwa Institute of Technology in Taiwan, the ROC.

Su-Fang Chan, aged 50, has been elected as supervisor since 2003. Ms. Chan currently works in HsingTai Color Printing Co., Ltd.

Tai-Ming Chang, aged 49, has been elected as an independent supervisor of the Company since June 10, 2002. Mr. Chang is currently the Chairman of Cradle Technologies, Inc., a company listed on the TSE. Mr. Chang holds a Bachelor's degree in Information Technology from Chung Yuan Christian University in Taiwan, the ROC.

Jack Kuo, aged 45, before taking the position as President, he has served as Tele-Communication BU General Manager of the Company since 1999. Before joining the Company, he was the Marketing Vice President of Clevo Co and a Senior Researcher in Dynatech Technology Corporation. Mr. Kuo holds a Master degree in mechanical from National Cheng Kung University in Taiwan, the ROC.

Thomas Hsu, aged 49, is the Chief Financial Officer and Vice President, Global Finance and Administration Center Division of the Company. Before joining the Company, Mr. Hsu had served as Financial Controller of Winbond Electronics Corp., and the Vice President of The Chase Manhattan Bank, National Association. He holds a Master degree of Business Administration from the University of Michigan at Ann Arbor in the United States.

Y.L. Wang, aged 57, is the Vice President of the Manufacturing Service Business Unit of the Company. Before joining the Company, Mr. Wang served as the president of Merry Electronics Co., Ltd. He holds a bachelor's degree from Department of Electrical Engineering of Tatung Industrial Institute in Taiwan, the ROC.

Michael Wang, aged 47, is the Assistant Manager of the Company's Logistic & Supply Chain Management. Before joining the Company, he served as the vice president of YHI Co., Ltd. Mr. Wang graduated from the Department of Electrical Electronics of Tamkang University in Taiwan, the ROC.

Grace Huang, aged 45, has served as the Director of Technical Supporting Division since 1997. Before joining the Company, Miss Huang served as vice president in AV Electronics Corp. Miss Huang graduated from Tung Nan Institute of Technology with a degree in Electronics.

Robert Shieh, aged 46, has served as Director of R&D Division of the Company since September 1984. Before joining the Company, Mr. Shieh had served as technician in Hsiang Cheng Electric Corp., and technician in Lutron Electric Enterprise Co., Ltd. Mr. Shieh graduated from National Chin-Yi Institute of Technology in Taiwan, the ROC.

Compensation of Directors, Supervisors and Executive Officers

In 2002, the Company paid its directors, supervisors and executive officers approximately NT\$29.4 million in aggregate compensation, including salary and share bonus. The number of Shares distributed as employee bonuses was calculated by dividing the total nominal amount of the bonus by NT\$10, the par value of the Company's Shares, rather than their market value. The market value of the Company's Shares is currently substantially higher than par value.

Employees

Overview

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

	As of December 31,			As of September 30,
	2000	2001	2002	2003
Administrative	45	50	55	48
Research and development	73	87	106	100
Sales & marketing	38	36	41	42
Others	237	52	42	44
Total	393	225	244	234

As of December 31, 2002, all of the Company's employees worked on a full-time basis. The average age of the Company's employees is 35 years old.

As of December 31, 2002, approximately 81.3% of the Company's employees held a college 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 manufacturing operations.

Neither the Company nor any of its subsidiaries has experienced any significant labor disputes in the past three years.

Employee remuneration

The salaries of the Company's employees in the ROC are adjusted based on industry standards, inflation and individual performance. In addition, the Articles of Incorporation of the Company provide that the Company's employees are entitled to employee bonuses. See "Description of The Shares". In addition, ROC law requires that the Company's employees be given pre-emptive rights to subscribe for 10% to 15% of any rights issues or share offerings of the Company. Currently, the Company does not have any share option schemes.

Employee retirement plan

The Company has established an employee retirement plan ("**Retirement Plan**"). The Retirement Plan provides for lump-sum payments to retiring employees in Taiwan based on the length of service, age and certain other factors. The Company deposits funds equal to 2% of employees' total salaries with the Central Trust of China in accordance with the requirements of the ROC Labor Standards Law. Actual payment of retirement benefits are financed by the pension fund and any insufficiency will be paid by the Company.

All Taiwan Stock Exchange listed companies are required to calculate their pension obligations based on actuarial valuation. Pursuant to ROC Financial Accounting Standard Statement No. 18, the Company recognizes 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 mandatory national health insurance and labor insurance for its employees as well as travel insurance which covers the employee's emergency medical needs and accidents.

PRINCIPAL SHAREHOLDERS

In so far as is known to the Company, as of September 30, 2003, there is no person other than a director who, directly or indirectly, beneficially owns 10% or more of the Company's capital.

CHANGES IN ISSUED SHARE CAPITAL

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

Date of Issue	Type of Issue	Par Value of Shares	Number of Issued Shares	Number of Shares Outstanding after Issues
December 1972	Incorporation	100	2,000	2,000
July 1977	Rights issue	100	28,000	30,000
July 1981	Rights issue	100	170,000	200,000
October 1983	Rights issue	100	100,000	300,000
September 1985 . . .	Rights issue	100	100,000	400,000
December 1987	Rights issue	100	200,000	600,000
December 1989	Rights issue and capitalization of stock dividends	10	8,000,000	14,000,000
December 1990	Rights issue and capitalization of stock dividends and legal reserves	10	6,900,000	20,900,000
October 1991	Capitalization of stock dividends	10	2,090,000	22,990,000
October 1997	Rights issue and capitalization of stock dividends and employees' bonus	10	9,173,141	32,163,141
January 1998	Rights issue	10	5,100,000	37,263,141
July 1998	Capitalization of stock dividends and employees' bonus	10	27,736,859	65,000,000
June 1999	Capitalization of stock dividends and employees' bonus	10	42,000,000	107,000,000
May 2000	Capitalization of stock dividends and employees' bonus	10	46,460,000	153,460,000
May 2001	Capitalization of stock dividends and employees' bonus	10	42,590,000	196,050,000
June 2002	Capitalization of stock dividends and employees' bonus	10	39,490,000	235,540,000
June 2003	Capitalization of stock dividends and employees' bonus; conversion of Euro Convertible Bonds to Shares	10	56,841,563	292,381,563

TERMS AND CONDITIONS OF THE BONDS

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

The issue of U.S.\$30,000,000 zero coupon Convertible Bonds Due 2008 (the “**Bonds**”) of Phihong Technology Co., Ltd. (the “**Company**”) was authorized by a resolution of the board of directors of the Company adopted on October 20, 2003. The Bonds are constituted by an indenture (the “**Indenture**”) to be dated as of December 12, 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 December 12, 2003 with the Trustee, The Bank of New York as the registrar and the principal paying, transfer and conversion 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 paying, transfer and conversion agent and replacement agent for the time being are referred to below as the “**Registrar**”, the “**Principal Agent**,” and the “**Replacement Agent**”, respectively, and are referred to together with “**Paying Agent, Transfer Agent and Conversion Agent**” as the “**Agents**”. The statements in these Terms and Conditions (“**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Indenture. Copies of the Indenture and the Agency Agreement are available for inspection during normal business hours at the principal office of the Trustee, being at the date hereof located at 101 Barclay Street, 21st Floor West, New York, N.Y. 10286, U.S.A. and at the specified offices of each of the Agents. The Bondholders are entitled to the benefit of the Indenture and are bound by, and are deemed to have notice of, all the provisions of the Indenture and the Agency Agreement.

1. Status

The Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Company and rank at least *pari passu* among themselves and (subject as aforesaid and other than any obligations preferred by mandatory provisions of law) with all other present and future direct, unconditional, unsubordinated and unsecured obligations of the Company.

2. Form, Denomination and Title

(A) *Form and Denomination*

The Bonds will be issued at par in registered form, in the denomination of U.S.\$10,000 and integral multiples thereof and will be offered, sold and 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 depositary for, and registered in the name of a nominee for, Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”).

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

Title to the Bonds will pass only by transfer and registration in the register of Bondholders. The registered holder of any Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, “Bondholder” and (in relation to a Bond) “holder” mean the person in whose name a Bond is registered.

3. Negative Pledge

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

As used herein, the term “**International Investment Securities**” means bonds, debentures, notes or investment securities of the Company or any other person evidencing indebtedness with a maturity of not less than 1 year from the date thereof which (a) either (i) are by their terms payable, or confer a right to receive payment, in any currency other than New Taiwan Dollars or (ii) are denominated or payable in New Taiwan Dollars and more than 50% of the aggregate principal amount thereof is initially offered or distributed outside Taiwan, the Republic of China (the “**ROC**”) by or with the authorization of the issuer thereof and (b) are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange, quotation system or over-the-counter or other similar securities market outside the ROC.

“**Principal Subsidiary**” means any Subsidiary (i) whose net sales or net operating revenue, as shown by the latest audited accounts (consolidated in the case of a company which itself has subsidiaries) of such Subsidiary, are at least 20% of the consolidated net sales or net operating revenue of the Company and its consolidated Subsidiaries (including existing Subsidiaries and Subsidiaries which may be acquired or formed by the Company from time to time during the terms of the Bonds) 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 are at least 20% of the gross assets of the Company and its consolidated Subsidiaries (including existing Subsidiaries and Subsidiaries which may be acquired or formed by the Company from time to time during the terms of the Bonds) as shown by the latest audited consolidated accounts of the Company.

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

4. Interest

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

5. Transfers of Bonds; Issue of Certificates

(A) *Transfers*

Subject to Condition 5(D) below, a Bond may be transferred upon the surrender at the specified office of any Transfer Agent (including the Transfer Agent in Luxembourg) of the individual Definitive Certificate in respect of the Bond to be transferred, together with the form of transfer endorsed thereon (if such 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 Transfer Agent (the “**Form of Transfer**”), duly completed and executed and any other evidence that such Transfer Agent may require. In the case of a transfer of only part of a holding of Bonds in respect of which a Certificate is issued, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. The Form of Transfer is available at the specified office of the respective Transfer Agents (including the Transfer Agent in Luxembourg).

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

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

For the purpose of this Condition 5, “**Business Day**” means a day (other than a Saturday or Sunday) on which banking institutions are open for business in London, and so long as the Bonds are listed on the Luxembourg Stock Exchange, Luxembourg, and the city in which the specified office of the relevant Transfer Agent with whom a Definitive Certificate is deposited or surrendered in connection with a transfer, conversion or redemption is located.

(C) Formalities Free of Charge

Transfers of the Bonds will be effected without charge by or on behalf of the Company or any Transfer Agent, but only upon payment (or the giving of such indemnity as such Transfer Agent may require) 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 15 days ending on the due date for any payment of principal, premium (if any) and interest (if any) 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)(i)) 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 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 current 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, transfer and conversion agent in Luxembourg and elsewhere.

6. Conversion

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

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

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

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

The 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 hereinafter defined) to convert any Bond into Shares (defined below), credited as fully paid, and may, if a depositary receipt facility has been established and depositary receipts representing the Shares ("DRs") have been issued, and subject to compliance with the terms and conditions of the relevant deposit agreement, direct in the Conversion Notice (as defined in Condition 6(B)(i)) that all or some only of the Shares issuable upon conversion be deposited with a custodian for the relevant DR depositary (the "**DR Depositary**") for issuance of DRs, on and subject to the terms set forth herein (the "**Conversion Right**"). Subject to and upon compliance with the provisions of this Condition, the Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof and as and to the extent provided herein, at any time on or after January 11, 2004 and prior to the close of business on November 12, 2008 (at the place where the Conversion Notice and the individual Definitive Certificate in respect of such Bond (if issued) are deposited for conversion) or, if such date shall not be a Business Day, on the immediately preceding Business Day at such place, 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 date seven days prior to the date fixed for redemption thereof (or if such day shall not be a Business Day at such place on the immediately preceding Business Day at such place) (the "**Conversion Period**"); provided, however, that the Conversion Right 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 (i) 60 days prior to the date of the annual

general meeting of Shareholders (“AGM”), (ii) 30 days prior to a special shareholders’ meeting, (iii) five days prior to a record date for distribution of rights, dividends or other benefits decided by the Company and (iv) at least three Trading Days (as defined in Condition 8(B)) prior to the date that the Company notifies the Taiwan Stock Exchange (“TSE”) of the record date for determination of shareholders’ entitlements to receive cash dividends or stock dividends or other rights or benefits to the date of the relevant record date, or (v) such other period determined by the ROC applicable laws from time to time that the Company is required to close its shareholders’ register. The Company shall procure that the Bondholders are given not less than 10 days’ nor more than 60 days’ prior notice of any Closed Period in accordance with Condition 15.

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

Under current ROC law, a non-ROC converting Bondholder when exercising his Conversion Right to convert the Bonds into Shares is required to register with the TSE and if applicable, to obtain the approval from the Central Bank of China (the “CBC”), if such holder is an offshore foreign institutional investors, that is, a company incorporated outside of the ROC under the laws of such foreign jurisdiction. The non-ROC converting holder of the Bonds is also required (unless the Bondholder has the option under these Conditions to elect, and elects to receive DRs with respect to the Bonds to be converted. In such case, the Shares will be delivered to and deposited with a custodian appointed by the relevant DR Depository) to appoint a local agent in the ROC with such qualifications as are set by the Securities and Futures Commission of the ROC (the “ROC SFC”), to open a securities trading account with a local brokerage firm, pay ROC withholding taxes, remit funds, exercise shareholders’ rights 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). In addition, such non-ROC converting Bondholder must also appoint a custodian bank to hold the securities for safekeeping, make confirmation and settlement, and report all relevant information. Under existing ROC laws and regulations, without opening such accounts, an investor in the Bonds would not be able to receive, hold, sell or otherwise transfer the Shares into which the Bonds may have been converted on the TSE or otherwise.

In addition to the investment permitted under the Overseas Rules, 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 ROC securities may submit a Foreign Investment Approval (“FIA”) application to the Investment Commission of the Ministry Of Economic Affairs (the “Investment Commission”) 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 dividends attributable to such investment.

(ii) *Number of Shares and/or DRs Issuable upon Conversion:* The number of Shares to be issued upon conversion of any Bond will be determined by dividing the principal amount of the Bonds (translated into NT Dollars at the fixed exchange rate of NT\$34.104 = U.S.\$1.00 quoted from the Taipei Forex Inc. on the pricing date of the Bonds (the “Fixed Exchange Rate”)) by the Conversion Price (as hereinafter defined and as may be adjusted in the event of conversion into DRs) in effect on the Conversion Date as defined in Condition 6(B)(ii). The number of DRs to be issued upon conversion of any Bond (if applicable) will be determined by dividing the principal amount of the Bonds by the Conversion Price (as hereinafter defined) in effect on the Conversion Date, and dividing, as the case may be, such quotient by the number of Shares represented by each DR on the Conversion Date.

If a Definitive Certificate or Definitive Certificates in respect of more than one Bond shall be deposited for conversion at any one time by the same Bondholder, the number of Shares (and/or DRs, if applicable) to be issued upon conversion thereof will be calculated on the basis of the aggregate principal amount of the Bonds in respect of which the Definitive Certificate(s) were so deposited. Fractions of Shares (and/or DRs, if applicable) will not be issued upon conversion, and cash adjustments will not be made in respect thereof by the Company. Notwithstanding the foregoing, in the event of a consolidation or reclassification of Shares (and DRs, if applicable) by operation of law or otherwise occurring after December 12, 2003, the Company will upon conversion of the Bonds pay in U.S. Dollars a sum equal to such portion of the principal amount of the Bond or Bonds converted as corresponds to any fraction of a Share (and/or DR, if applicable) not issued as aforesaid if such sum exceeds U.S.\$10. For the purpose of calculating the amount of such payment, the Company shall use the 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 be NT\$22.0 per Share (determined on the date the Bonds are priced (the “**Pricing Date**”), and subject to adjustment in the manner provided in Conditions 6(C), 6(D) and 6(E). The price at which DRs will be issued upon conversion, in the event that the Company establishes a depositary receipt facility, will be determined by multiplying, or dividing, as the case may be, the Conversion Price by the number of Shares represented by each DR on the Conversion Date and will be subject to adjustment in the manner provided in Conditions 6(C), 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 December 12, 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)(i)) are deposited for conversion) on the date upon which the full amount of the monies payable in respect of such Bond has been duly received by the Trustee or the Principal Agent and notice of such receipt has been duly given to the Bondholders.

(B) Conversion Procedure

(i) *Exercise Procedure:* To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at its own expense between 9:00 a.m. and 3:00 p.m. (local time at the specified office referred to below) on any Business Day (as defined below) during the Conversion Period at the specified office of a Conversion Agent outside of the ROC, a notice of conversion (a “**Conversion Notice**”) in duplicate, duly completed and signed, in the then current form obtainable from the specified office of any Conversion Agent, together with the relevant 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 and the relevant individual Definitive Certificate (if issued), deposited outside the hours specified above or on a day which is not a Business Day at the place of the specified office of the relevant Conversion Agent shall for all purposes be deemed to have been deposited with that Conversion Agent between 9:00 a.m. and 3:00 p.m. on the next Business Day.

Bondholders who deposit a Conversion Notice during a Closed Period will not be permitted to convert their Bonds until the Trading Day (as defined in Condition 8(B)) following the last day of the Closed Period which (if all other conditions to convert have been fulfilled) will be the Conversion Date (as defined below) for such Bonds. Such Bondholders or the DR Depositary, as applicable, will not be registered as holders of Shares until the Conversion Date.

If a depositary receipt facility has been established and DRs have been issued, the Conversion Notice shall contain an option for the Bondholder to elect to receive Shares and/or DRs upon such conversion. The Conversion Notice shall contain, *inter alia*, an appointment of a local agent by such converting Bondholder and an irrevocable instruction to exchange for Shares issued pursuant to Condition 6(B)(ii), as soon as Shares are available. A Conversion Notice once deposited may not be withdrawn without the consent in writing of the Company. The Company shall immediately notify in writing to the Conversion Agents, Principal Agent and Trustee of its written consent together with the

relevant Conversion Notice. The price at which such Bonds will be converted will be the Conversion Price (as adjusted in Condition 6(A)(iii) in the event of conversion into DRs) in effect on the Conversion Date.

When used with respect to any conversion of the Bonds, “**Business Day**” means a day on which banking institutions are open for business in London and in the place where the Conversion Agent with whom the relevant individual Definitive Certificate (if issued) and/or the Conversion Notice are deposited is open for business.

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

(iii) *Holder of Record:* In the event Shares are to be received by the Bondholder upon conversion, with effect from the opening of business in the ROC on the Conversion Date, the Company will deem the converting Bondholder (or its designee) as indicated in the Conversion Notice to have become the holder of record of the number of Shares to be issued upon such conversion to such holder (disregarding any retroactive adjustment of the Conversion Price (as adjusted in Condition 6(A)(iii) in the event of conversion into DRs) 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)).

In the event a converting Bondholder has the option under these Conditions to elect, and elects, to receive DRs, with effect from the opening of business in the ROC on the Conversion Date, the Company will deem the relevant DR Depositary or its nominee to have become the holder of record of the number of Shares represented by such DRs to be issued upon such conversion (disregarding any retroactive adjustment of the Conversion Price (as adjusted in Condition 6(A)(iii) in the event of conversion into DRs) referred to below prior to the time such retroactive adjustment shall have become effective) and upon delivery by the relevant DR Depositary to the Bondholder of the number of DRs into which the Bonds are convertible, subject to Condition 6(B)(v), the rights of such converting Bondholder as a Bondholder with respect to such Bonds converted shall cease (except rights arising under Condition 6(B)(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 five Trading Days (as defined in Condition 8(B)) from the Conversion Date).

(v) *Delivery of Shares and/or DRs:* On the Conversion Date, the Company will register the converting Bondholder (or its designee) or the relevant DR Depositary (or its nominee), as applicable, in the Company’s register of shareholders as the owner of the number of Shares to be issued pursuant to Condition 6(B)(iii) upon conversion of such Bonds and, subject to any applicable limitations then imposed by ROC laws and regulations, according to the request made in the relevant Conversion Notice, procure that, as soon as practicable, and in any event within five Trading Days (as defined in Condition 8(B)) from the date the Agent Conversion Notification (as defined in the Agency

Agreement) is received by the Company from the Principal Agent, there be delivered to the local agent appointed by the converting Bondholder (if Shares are to be received by the converting Bondholder), and/or to the relevant custodian, as agent for the relevant DR Depositary (if the converting Bondholder has the option under these Conditions to elect, and elects, to receive DRs), a certificate or certificates for the relevant Shares by electronic credit to the account established by the relevant local agent for the conversion of the Bonds, through the facilities of the Taiwan Securities Central Depositary Co., Ltd., registered in the name specified for that purpose in the relevant Conversion Notice, together with any other property or cash (including, without limitation, cash payable pursuant to Condition 6(A)(ii)) required to be delivered upon conversion and such assignments and other documents (if any) as may be required by law to effect the delivery thereof. If the converting Bondholder has not created the required account, the Company will deliver the Shares after such account has been set up.

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

(vi) *Retroactive Adjustment of Conversion Price:* If the Conversion Date in relation to any Bond shall be on or after a date with effect from which an adjustment to the Conversion Price (as adjusted in Condition 6(A)(iii) in the event of conversion into DRs) takes retroactive effect pursuant to any of the provisions referred to in Condition 6(C) and 6(D) and the Indenture and the relevant Conversion Date falls on a date when the relevant adjustment has not been reflected in the Conversion Price (as adjusted in Condition 6(A)(iii) in the event of conversion into DRs), the Company will, within 20 days after the effective date of such adjustment of the Conversion Price (as adjusted in Condition 6(A)(iii) in the event of conversion into DRs), issue and deliver (to the local agent appointed by the converting Bondholder and/or, if applicable, to the relevant custodian, as agent for the relevant DR Depositary) such number of Shares as is equal to the excess of the number of Shares that would have been required to be issued upon 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 third Trading Day (as defined in Condition 8(B)) prior to the date that the Company notifies the TSE of the record date for determination of shareholders' entitlements to receive cash dividends or stock dividends and subscription of Shares.

(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 (as adjusted in Condition 6(A)(iii) in the event of conversion into DRs) will be subject to adjustment in the manner set forth in the Indenture upon the occurrence of certain events set out in the Indenture, including:

- (i) the making of a free distribution or bonus issue of Shares;

- (ii) subdivisions, consolidations or reclassifications of Shares;
- (iii) the declaration of a dividend in Shares or cash;

Under the terms of the Indenture, no account is to be taken of, or credit given for, the par value of Shares issued in any stock dividend in calculating an appropriate conversion price adjustment, so that the full dilutive effect of stock dividends is provided for.

- (iv) the grant, issue or offer to the holders of Shares of rights or warrants to subscribe for or purchase Shares at less than the then Current Market Price (as defined in the Indenture) or to subscribe for or purchase any securities convertible into or exchangeable for Shares at less than the then Current Market Price;
- (v) the distribution to the holders of Shares of evidences of indebtedness of the Company or of shares of capital stock of the Company (other than Shares) or of assets (other than regular periodic dividends in cash) or of rights or warrants to subscribe for or purchase shares or securities (other than those mentioned in (iv) above);
- (vi) the issue of securities (other than the Bonds, Shares issued upon conversion of Bonds and those mentioned in (iv) above) convertible into or exchangeable for Shares at less than the then Current Market Price or of rights or warrants (other than those mentioned in (iv) above) to subscribe for or purchase Shares at less than the then Current Market Price or to subscribe for or purchase securities convertible into or exchangeable for Shares at less than the then Current Market Price;

Under the terms of the Indenture, no adjustment will be made to the conversion price as a result of the issue of Shares to the shareholders of any company which merges into the Company, in proportions equal to such shareholders' shareholdings in such company immediately prior to the merger.

- (vii) the issue of Shares (other than (a) Shares issued upon conversion of convertible bonds, including the Bonds, (b) Shares to shareholders of any company which merges with the Company upon such merger and in proportion to their shareholdings in such company, or (c) in any of the circumstances described above but including Shares issued under any employee bonus or profit-sharing arrangements) at less than the then Current Market Price; and
- (viii) any other event or circumstance which would have in the determination of the Company or the Trustee an analogous effect to any of the events in (i) to (vii) above including, but not limited to, issues of receipts or certificates entitling holders to receive securities,

in accordance with the formulas stipulated in the Indenture. No adjustment will be made where such adjustment would be less than 1% of the Conversion Price then in effect; provided, however, that any adjustment that otherwise would be required to be made will be carried forward and taken into account in determining any subsequent adjustment. Any adjustment will be notified promptly by the Company to the Bondholders and the Luxembourg Stock Exchange in accordance with Condition 15.

The Trustee will not be obliged to monitor whether any event has occurred which might fall within the events giving rise to adjustment to the Conversion Price as set out in the Indenture or (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 no such event has occurred.

(D) *Conversion Price Reset*

The Conversion Price shall be adjusted (the “**Adjusted Conversion Price**”) on each Reset Date, which shall be December 12, 2004 (the “**First Reset Date**”), December 12, 2005 (the “**Second Reset Date**”) and December 12, 2006 (the “**Third Reset Date**”) (each a “**Reset Date**”), in the event that the average Closing Price (as defined in Condition 8(B)) of the Shares on the TSE (the “**Average Closing Price**”) converted into U.S. Dollars at the then Prevailing Rate (as defined below) for 30 consecutive Trading Days (as defined in Condition 8(B)) immediately prior to (and excluding) the relevant Reset Date 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:

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

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 (as adjusted to reflect any adjustments required under Condition 6(C) above, which may have occurred prior to the relevant 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 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 the Second or Third Reset Date notwithstanding that an adjustment may have been made in respect of a preceding Reset Date.

The “**Prevailing Rate**” for the translation of the Closing Prices shall be the arithmetic average of the closing rate of U.S. Dollars to NT Dollars quoted by Taipei Forex Inc. at the close of business on each day of the 30 consecutive Trading Days (as defined in Condition 8(B)) preceding the relevant reference 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 shall be notified to the Bondholders and the Luxembourg Stock Exchange within ten days of 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. This is set in accordance with the regulations for underwriters’ assistance for public companies in the issuance of securities, which was amended by the Chinese Securities Association and was then filed for recordation with the ROC SFC. The Alternative Reset Date, the alternative Conversion Price (the “**Alternative Conversion Price**”) and the period of exercise (i.e. seven Trading Days) are set based on that regulations.*

The Company may (but shall not be obliged to) grant the Bondholders options, within a seven Trading Day (as defined in Condition 8(B)) period (the “**Alternative Conversion Period**”) starting from the date to be determined by the Company after November 12, 2005, November 12, 2006 and November 12, 2008 (each an “**Alternative Reset Date**”) and before the relevant Put Date (as defined

in Condition 8(C)(i)) or the Maturity Date (as defined in Condition 8(A)), to convert the Bonds into Shares based on the reset Alternative Conversion Price, which would be 88.1%, 86.7% and 90.9% of the then Market Price, respectively.

The above-mentioned “**Market Price**” is the lowest among the average Closing Prices (as defined in Condition 8(B)) of the Shares on the TSE for 10, 15 and 20 Trading Days immediately preceding the Alternative Reset Date.

The Company shall give Bondholders an Alternative Conversion Price reset notice (“**Alternative Reset Notice**”) as soon as practicable after the applicable Alternative Reset Date in accordance with Condition 15 and shall, *inter alia*, state:

- (i) that the Alternative Conversion Price is only in effect during the Alternative Conversion Period;
- (ii) the Market Price;
- (iii) the Alternative Conversion Price; and
- (iv) the Alternative Conversion Period.

The Alternative Conversion Prices will only be applicable within the relevant Alternative Conversion Period described in this Condition 6(E). The Conversion Price will be applicable to any conversion before or after such Alternative Conversion Period.

(F) *Mergers; Disposals*

The Company will not merge, amalgamate or consolidate with or into any other corporation or entity (the Company 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 and the Luxembourg Stock Exchange of such event in accordance with Condition 15 and the Company and such corporation, entity or person shall have executed a indenture supplemental to the Indenture in form and substance satisfactory to the Trustee providing that such corporation, entity or person shall assume the obligations of the Company under the Bonds, the Indenture and the Agency Agreement and providing that each Bond then outstanding shall be convertible into the class and amount of shares and other securities, cash and other property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares (and/or DRs, if applicable) into which such Bond would have been convertible immediately prior to such consolidation, amalgamation, merger, sale or transfer (assuming for such purpose that the Bonds were convertible at the time of such consolidation, amalgamation, merger, sale or transfer) at the Conversion Price (as adjusted in Condition 6(A)(iii) in the event of conversion into DRs) 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. A Supplemental Offering Circular stating such adjustment and related matters shall be filed with the Luxembourg Stock Exchange. The above provisions of this Condition 6(E) will apply in the same way to any subsequent or further consolidations, amalgamations, mergers, sales or transfers.

(G) *Conversion Undertakings*

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

The Company has not at the date of this Offering Circular established or authorized the establishment of any depository receipt facility. Accordingly, conversion into DRs is not currently available. If in the future a depository receipt facility is established or authorized by the Company, the Company will, to the extent permitted by applicable laws and regulations, make arrangements

satisfactory to the Trustee for Shares issued upon conversion of Bonds to be accepted for deposit (at the option of the converting Bondholder) into such depositary receipt facility, subject always to the terms of such depositary facility, which terms may include certification or other requirements as conditions to the acceptance for deposit of Shares issued on conversion of Bonds. There can be no assurance that the Company will in the future establish or authorize any depositary receipt facility or that any arrangements for the deposit of Shares into such depositary receipt facility would be available to all Bondholders.

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

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

7. Payments

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

Payment of principal, premium (if any) and interest (if any) will be made 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 to the registered address of the Bondholder if it does not have a registered account. Payments of principal and premium (if any) will only be made after surrender of the relevant individual Definitive Certificate (if issued) at the specified office of any Agent.

(B) Registered Accounts

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

(C) Fiscal Laws

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

(D) Payment Initiation

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

(E) Payment Delay

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

(F) *Business Days*

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

(G) *Partial Payments*

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

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 depository 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 depository.

8. Redemption, Purchase and Cancellation

(A) *Redemption at Maturity*

Unless previously redeemed, converted or repurchased and cancelled as herein provided, the Company will redeem the Bonds at their principal amount in U.S. Dollars on December 12, 2008. The Bonds may be redeemed in whole or in part prior to that date only as provided in paragraphs (B) and (C) below (but without prejudice to Condition 10).

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

(i) On or at any time after December 12, 2005, the Company may, having given not less than 40 days’ nor more than 60 days’ notice to the Bondholders and the Luxembourg Stock Exchange 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 (defined below) of the Shares translated into U.S. Dollars at the then Prevailing Rate (as defined in Condition 6(D)), of the Shares for each of the 30 consecutive Trading Days (as defined below), the last of which occurs not more than ten 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\$34.104 = 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 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 Trading Day period.

(ii) The Company may, having given not less than 40 days’ nor more than 60 days’ notice to the Bondholders (copying the Luxembourg Stock Exchange) in accordance with Conditions 8(H) and 15 (which notice will be irrevocable), redeem all or part of the Bonds at their principal amount at any time if more than 90% of the Bonds have been previously redeemed, converted or repurchased and cancelled.

Upon the expiry of any such notice, the Company will be bound to redeem the Bonds on a pro rata basis 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 or the stock market on which the Shares are then traded in 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 term “**Closing Price**” for any Trading Day means 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 for the purpose.

(C) Redemption at the Option of Bondholders

(i) 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 December 12, 2005 and December 12, 2006 (each a “**Put Date**”) at 103.23% and 104.88% of their principal amount, respectively.

(ii) *Delisting Put Right:* 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 but not part of the Bonds held by that Bondholder at the principal amount on the 30th Business Day (as defined in Condition 7(F)) after notice has been given by the Company to Bondholders (the “**Delisting Put Date**”), in the event that the Company’s Shares cease being traded or listed on the TSE.

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 (i) not more than 60 nor less than 20 days prior to the relevant Put Date or (ii) in the event that the Company’s Shares cease being traded or listed on the TSE, any day which is not less than ten Business Days (as defined in Condition 7(F)) prior to the Delisting 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 or the Delisting Put Date. For purposes of facilitating the exercise of the option by the Bondholders under Condition 8(C)(i), the Company shall give the Bondholders and the Luxembourg Stock Exchange not more than 45 days’ nor less than 30 days’ notice of the commencement of the period for the deposit of individual Definitive Certificates (if issued) for redemption and the redemption notice in accordance with Condition 15.

(D) Redemption for Taxation Reasons

At any time, the Company may, having given not less than 40 days’ 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 December 12, 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) 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 (b) an opinion addressed to the Trustee by an independent law firm of recognized standing admitted to practice in the ROC or written advice of a qualified tax expert to the effect that the Company has or will become obligated to pay such additional amounts as a result of such change or amendment and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the condition precedents set out in this Condition 8(D), 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 Conditions 8(B) and 8(C) shall not be affected by any notice given subsequently under this Condition 8(D).

(E) *Repurchase*

The Company may at any time and from time to time repurchase Bonds in the open market or otherwise. Bonds so repurchased 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) or (ii), 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 70 days and not less than 25 days prior to the date fixed for redemption.

(G) *Cancellation*

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

(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) Subject to (B) and (C) below, all payments of principal, premium (if any) and interest (if any) by the Company will be made free and clear of and without any deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the government of the ROC or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law.
- (B) Where such withholding or deduction is in respect of ROC withholding tax on premium or interest payments at the rate of up to and including 20%, the Company will increase the amount of premium (if any) or interest (if any) paid by it to the extent required so that the net amount of premium (if any) or interest (if any) received by Bondholders (without prejudice to Condition 7) would be equal to the amounts which would have been receivable in the absence of any such withholding or deduction.
- (C) In the event that any such withholding or deduction in respect of principal or any additional withholding or deduction in excess of 20% in respect of interest (if any) or premium (if any) is required, the Company will pay such additional amounts by way of principal, premium (if any) and interest (if any) as will result in the receipt by the Bondholders of the amounts which would have been receivable in the absence of any such withholding or deduction, except that no such additional amounts shall be payable in respect of any Bond:
 - (i) to, or on behalf of, a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his being connected with the ROC otherwise than merely by holding such Bond or by the receipt of principal in respect of the Bond; or

- (ii) if the individual Definitive Certificate in respect of such Bond (if issued) is surrendered more than 30 days after the relevant date except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant Certificate for payment on the last day of such 30 day period. For this purpose, the “relevant date” in relation to any Bond means (a) the due date for payment in respect thereof or (b) (if the full amount of the monies payable on such due date has not been received by the Trustee or the Principal Agent on or prior to such due date) the date on which notice is duly given to the Bondholders that such monies have been so received.

- (D) References in these Conditions to principal, premium or interest shall be deemed also to refer to any increased or additional amounts which may be payable in respect thereof under this Condition or any undertaking given in addition to or substitution for it under the Indenture.

10. Events of Default

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

- (i) there is failure to pay the principal of or any premium on any of the Bonds within 15 Business Days after the same shall become due and payable in accordance with these Conditions; or

- (ii) the Company defaults in performance or observance of or compliance with any of its other obligations (other than the covenant to pay the principal, premium (if any) or interest (if any) in respect of the Bonds set out in the Bonds) and the default is not remedied within 30 days after written notice shall have been given to the Company by the Trustee requiring such default to be remedied; or

- (iii) any other present or future indebtedness of the Company, or any of its Principal Subsidiaries, for or in respect of monies borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of an event of default (howsoever described), or any such indebtedness is not paid when due or, as the case may be, within any applicable grace period originally provided for, or the Company or any of its Principal Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee or indemnity or arrangement or obligation having a like or similar effect (howsoever described) for any monies borrowed or raised by any person, provided that the aggregate amount of the relevant indebtedness and guarantees in respect of which one or more events mentioned above in this paragraph (iii) have occurred and is continuing equals or exceeds U.S.\$5,000,000 or its equivalent in any other currency (determined as provided below), and provided further that where two or more of the Company and/or its Principal Subsidiaries are liable for the payment of the same relevant indebtedness or guarantee (whether liable jointly and severally, by way of guarantee, surety or otherwise), any such amount shall be counted once only; or

- (iv) an execution by a court having jurisdiction is levied or enforced or sued out, or other legal enforcement process is levied or sued out upon, commenced or issued upon, against or in respect of the whole or any substantial part of the undertaking, property, assets or revenues of the Company and in any such case is not discharged or stayed within 60 days of having been so levied, sued out, commenced or issued; or 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 any of the Principal Subsidiaries and in any such case is not discharged or stayed within 60 days of having been so levied, sued out, commenced or issued; or

- (v) any person entitled to the benefit thereof shall institute appropriate legal proceedings to enforce any Encumbrance upon the whole or any substantial part of the assets or revenues of the Company; or 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 any Principal Subsidiary of the Company; or

(vi) the Company becomes bankrupt or insolvent, or consents to or suffers the appointment of an administrator, liquidator (except for the purpose of and followed by a voluntary solvent reorganization, merger, consolidation, amalgamation or other similar arrangement the terms of which have previously been approved by an Extraordinary Resolution of the Bondholders) or receiver (or other similar official) in bankruptcy or insolvency of the Company or in respect of the whole or any substantial part of the undertakings, property, assets or revenues of the Company or the Company 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 any of the Company's Principal Subsidiaries becomes bankrupt or insolvent, or consents to or suffers the appointment of an administrator, liquidator (except for the purpose of and followed by a voluntary solvent reorganization, merger, consolidation, amalgamation or other similar arrangement the terms of which have previously been approved by an Extraordinary Resolution of the Bondholders) or receiver (or other similar official) in bankruptcy or insolvency of any of the Company's Principal Subsidiaries or in respect of the whole or any substantial part of the undertakings, property, assets or revenues of any of the Company's Principal Subsidiaries or any of the Company's Principal Subsidiaries stops, suspends or threatens to stop or suspend payment of all or a material part of (or of 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 for the winding-up or dissolution of the Company (except for the purpose of and followed by a solvent reconstruction, merger, consolidation, amalgamation or other similar arrangement the terms of which are approved by an Extraordinary Resolution of the Bondholders); or an order issued by a court with competent jurisdiction is made or an effective resolution passed by any of the Company's Principal Subsidiaries for the winding-up or dissolution of any of the Company's Principal Subsidiaries (except for the purpose of and followed by a solvent reconstruction, merger, consolidation, amalgamation or other similar arrangement the terms of which are approved by an Extraordinary Resolution of the Bondholders); or

(viii) the Company shall merge, amalgamate or consolidate with any other corporation or entity (with the Company not being the continuing entity) or shall sell or dispose of substantially all its business or assets whether as a single transaction or a number of transactions, related or not, to any person, unless the Company shall have notified the Bondholders of such event in accordance with Condition 15 (with a copy of such notice sent to the Luxembourg Stock Exchange) and the Company and such corporation, entity or person shall have executed an indenture supplemental to the Indenture in form and substance satisfactory to the Trustee providing that such corporation, entity or person shall assume the obligations of the Company under the Bonds, the Indenture and the Agency Agreement and providing that each Bond then outstanding shall be convertible into the class and amount of Shares and other securities, cash and other property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares into which such Bond would have been convertible immediately prior to such consolidation, amalgamation, merger, sale or transfer (assuming for such purpose that the Bonds were convertible at the time of such consolidation, amalgamation, merger, sale or transfer) at the Conversion Price as adjusted from time to time pursuant to the Indenture; 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 governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or a substantial part of the assets or shares of any of the Company's 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 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, and overdue interest on the amounts due, from the date on which such amounts first become due, shall be payable, to the extent permitted by law, at the rate of 3% per annum.

The term “**Business Day**” for the purpose of this Condition 10 means a day on which commercial banks and foreign exchange markets are open for business in Taipei, Taiwan, the ROC.

11. Prescription

Claims in respect of (a) principal and premium (if any) and (b) interest (if any) will become unenforceable after 10 years (in the case of (a)) and 5 years (in the case of (b)), respectively, from the relevant date for payment in respect thereof.

Under ROC law, claims in respect of (a) principal and (b) premium (if any and deemed as interest) and default interest will become unenforceable after 15 years and 5 years, respectively, from the relevant date for payment in respect thereof.

12. Enforcement

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

13. Meetings of Bondholders, Modification and Waiver

(A) Meetings

The Indenture contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds or the provisions of the Indenture. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing over 50% in principal amount of the Bonds for the time being outstanding or, at any such meeting which has been adjourned, two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the maturity date of the Bonds or the put right of the Bondholders under Condition 8(C), (ii) to reduce or cancel the amount of principal, premium or interest payable in respect of the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify or cancel the right to convert the Bonds into Shares (except in accordance with Condition 6(B) and 13(B)) or to modify the circumstances in which the Bonds may be redeemed or converted at the option of the Company or to shorten the Conversion Period, (v) to modify the provisions relating to the 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, in which cases the consent of each Bondholder is required. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and will be conclusive and binding upon all future Bondholders.

The Indenture provides that a written resolution signed by or on behalf of the holders of not less than 90% of the aggregate principal amount of Bonds outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

(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 the 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 duty under the Conditions and Indenture (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 or the Replacement Agent located in Luxembourg 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 NT\$34,104 for each U.S.\$1.00 of the principal amount of such Bond determined based on the Fixed Exchange Rate). 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 and/or secured 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 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 rules of that exchange so require, 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 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.

(B) Jurisdiction

The courts of the State of New York sitting in the Borough of Manhattan, The City of New York, and the federal courts of the United States sitting in the Borough of Manhattan, The City of New York, are to have jurisdiction to settle any disputes 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 Law Debenture Corporate Services Inc. at 767 Third Avenue, New York, New York 10017 as its authorized agent for service of process in New York in any Proceedings.

THE FORM OF THE BONDS

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

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

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

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

The holder of a registered Bond in definitive certificated form may transfer or exchange such Bond by surrendering it at the office or agency maintained by the Company for such purpose in the City of 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 offices of the Principal Agent at One Canada Square, 48th Floor, London E14 5AL, United Kingdom or such other offices may be notified by the Principal Agent 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, premium (if any) and interest (if any) in respect of Bonds represented by the Global Certificate will be made without presentation or if no further payment is to be made in respect of the Bonds, against presentation and surrender of the Global Certificate to or to the order of the Principal Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose.

Notices

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

Redemption at the Option of 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) 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 alternative clearing system on behalf of which the Bonds evidenced by the Global Certificate may be held) (the “**Alternative Clearing System**”) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, 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 the material provisions of the Company's articles of incorporation ("**Articles of Incorporation**"), 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

As of September 30, 2003, the authorized share capital of the Company was NT\$5,200,000,000, divided into 520,000,000 Shares with a par value of NT\$10 per Share, 80,000,000 Shares out of the total authorized share capital have been reserved for issuance of employee stock option, convertible bonds with warrants and preferred shares with warrants. As of September 30, 2003, the paid-in capital was NT\$2,923,815,630, all of which are issued, outstanding and fully paid in registered form.

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

There are no material provisions in the Articles of Incorporation regarding changes in the Company's authorized share capital and in the rights of the Shares.

The Company has one class of Shares. Pursuant to the ROC Company Law, a company may not issue preferred stock unless authorized by its articles of incorporation. There is no such authorization in the Articles of Incorporation of the Company.

Other than the Bonds offered hereby and 1% Euro convertible bonds due 2007, the Company has not issued any warrants, options, convertible debt securities, exchangeable securities or debt securities with warrants attached.

Dividends and Distribution

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

The ROC Company Law also requires that out of a company's annual earnings, less prior years' losses, if any, and outstanding tax, 10% of which shall be set aside as legal reserve. Allocation to legal reserve need not be made when the accumulated legal reserve equals the paid-in capital. Apart from the aforesaid legal reserve, a company may, by the provisions of its articles of incorporation or with the unanimous agreement of all shareholders, appropriate another sum as a special reserve. Pursuant to the Articles of Incorporation of the Company, the Company has set aside the required legal reserve and appropriate a special reserve for reduction in shareholders' equity. In addition, the Articles of Incorporation provide that the balance of the earnings may be wholly or partially retained to meet the operating needs of the Company as decided by the board of directors, and thereafter any remainder profits of the Company will be distributed as follows: (1) 85% to 92% for dividends, (2) 5% for remuneration of all directors and supervisors, and (3) 3% to 10% for employee bonuses. The Articles of Incorporation further provide that the dividends may be distributed in cash only when the cash flow from the Company's operating activities in the preceding fiscal year is positive, and when no major capital expenditure is planned within one year in the future. However, the Articles of Incorporation provide that dividends distributed in cash shall be no less than 10% of the total dividends.

At each annual ordinary shareholders' meeting, the board of directors of the Company submits to the shareholders for their approval of any proposal for the distribution of dividends 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 holders of the Shares outstanding and fully paid as of the relevant record date are entitled to share equally in any dividend or other distribution so approved.

In addition, if the Company does not have losses, the Company is 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.

New Shares and Preemptive Rights

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

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. The specific terms and arrangements for such Share issuances will be determined at the time of the Share issuances. Any new Shares that remain unsubscribed at the expiration of the subscription period may be offered to the public or privately placed by the Company. The foregoing provisions regarding preemptive rights of existing shareholders and employees do not apply to Shares issued upon the conversion of the Bonds.

In addition, in accordance with the ROC Securities and Exchange Law, when the Company intends to offer new Shares for cash, it 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.

Meetings of Shareholders

The ordinary meeting of shareholders of the Company is held in Gui-Shan Shiang, Tao-Yuan County, Taiwan from 2003, as determined by the board of directors, within six months of the end of each calendar year. Extraordinary meetings of shareholders may be convened by resolution of the board of directors whenever they consider it necessary, and they must do so if requested in writing by shareholders holding not less than 3% of the paid-in capital who have held these Shares for more than one year. Extraordinary meetings of shareholders may also be convened by a supervisor of the Company in the case where the board of directors did not or could not convene the shareholders' meeting, or when the supervisor, for the benefit of the Company, deems necessary. Notice in writing of ordinary and extraordinary shareholders' meetings stating the place, time and purpose thereof must be dispatched to each shareholder of the Company at least 30 days and 15 days, respectively, prior to the date set for the meeting. Also, according to the regulations of the ROC SFC, the Company is required to publish notices of shareholders' meetings in a national daily newspaper (which is expected to be the *Economic Daily News*).

Voting Rights

Under the ROC Company Law and the Company's Articles of Incorporation, a shareholder has one vote for each common share except for treasury shares.

Except as otherwise provided by law, a resolution can be adopted by the holders of at least a majority of the Shares represented at a shareholders' meeting at which the holders of a majority of all issued and outstanding Shares are present. In accordance with the ROC Company Law, the election of directors and supervisors at a shareholders' meeting is by means of cumulative voting unless the Articles of Incorporation of a company provide otherwise. In all matters, except for the election of directors and supervisors, a shareholder must cast all of his votes when voting on any of these matters. The Articles of Incorporation do not provide other election methods. Ballots for the election of directors are casted 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. Any shareholder who has a personal interest in a matter to be discussed at the shareholders' meeting, the outcome of which may impair the company's interests, shall not vote or exercise voting rights on behalf of another shareholder on such matter. Under the

ROC Company Law, the approval by the holders of 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 presented is required for major corporation actions, including:

- ▶ amendment to the Articles of Incorporation;
- ▶ transfer of the whole or a substantial part of the Company's business or assets;
- ▶ execute, amend or terminate any contract that leases the Company's whole business, mandates the Company's operation to other persons, or operates the business frequently 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 of a company;
- ▶ the merger or division; and
- ▶ the removing of directors or supervisors.

In addition, the distribution of any stock dividend by the Company shall be further subject to the approval by or registration with the ROC SFC.

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.

In addition, according to the Corporate Merger and Acquisition Act, as effective on February 8, 2002, if a company intends to transfer all or substantially all of its business or assets to its subsidiary, subject to the qualifications set forth in the said act, such transaction only needs to be approved by majority board resolution rather than super majority vote by the shareholders in the shareholders' meeting as required by the ROC Company Law.

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

Under the ROC Company Law, the Company may set a record date and shall close the register of shareholders for a specified period immediately prior to and including the record date in order to determine the shareholders and pledgees that are entitled to rights pertaining to the Shares. The specified period required for the respective record date is as follows:

- ▶ ordinary shareholders' meeting — sixty days;
- ▶ extraordinary shareholders' meeting — thirty days; and
- ▶ relevant record date for distribution of dividends, bonuses or other interests — five days.

Annual Financial Statements

Under the ROC Company Law, for a period of at least 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 Gui Shan Shiang, Tao-Yun County, Taiwan, for inspection by the shareholders. According to the regulations of the ROC SFC, the Company is required to publish its annual, semi-annual and quarterly non-consolidated financial statements in a national daily newspaper (which is expected to be the *Economic Daily News*), which are also available in the office of the paying, transfer and conversion agent in London.

Transfers of Common Shares

Under the ROC Company Law, a public company, such as the Company, may issue individual share certificates, one master or no certificate at all to evidence common shares. Under the ROC Company Law, when individual share certificates are issued and delivered to the shareholders, the transfer of the Shares (in registered form) is effected by endorsement and delivery of share certificates. If the Company decides to issue one master certificate to represent the total outstanding and issued shares, the transfer of the Shares will be carried out on the book-entry system. 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 Shares 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 current ROC Company Law, a company may purchase up to 5% of its issued common shares to transfer to employees in accordance with a resolution of its board of directors, passed by a majority vote, at a meeting with at least two-thirds of the directors present.

In addition, under the ROC Securities and Exchange Law as amended and effective on June 12, 2002, the Company 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 by a tender offer for the following purposes:

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

The total Shares so 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 pursuant to the first two purposes above shall be transferred to the intended transferees within three years after the purchase, otherwise the Shares shall be cancelled. To cancel the Shares pursuant to the third purpose above, the Company shall complete amendment registration for such cancellation within six months after the purchase.

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, 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.

In addition to the share purchase restriction, the ROC Company Law further provides that subsidiaries of the Company may not acquire the Company's Shares or the shares of the Company's majority-owned subsidiaries if the majority of the outstanding voting shares or paid-in capital of such subsidiary is directly or indirectly held by the Company.

Liquidation Rights

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

Transfer Restrictions

The number of Shares that 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 the Company can sell or transfer on the TSE daily is limited by the ROC Securities and Exchange Law. Further, they may sell or transfer the Shares on the TSE only after reporting to the ROC SFC at least three days before the transfer, provided that such reporting is not required if the number of Shares transferred does not exceed 10,000.

Limitation on Shareholdings in the Company and Reporting Obligations

The ROC 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 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 acquires more than 10% of the issued and outstanding Shares of the Company shall report to the ROC SFC, within ten days from the acquisition date, the acquisition purpose, funding sources and other information required by the ROC SFC.

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

Withholding Tax on Payments of Premium and Interest

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

Dividends on the Shares

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

Capital Gains

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

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

Securities Transaction Tax

The ROC Government imposes a securities transaction tax that will apply to sales of the Shares. The transaction tax, which is payable by the seller, is generally levied on sales of Shares at the rate of 0.3% of the transaction price. According to the amended Statute for Upgrading Industries effective as of February 1, 2002, no securities transaction tax will be imposed on the sale of the Bonds. Such tax credit is valid until December 31, 2009.

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

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

Estate Tax and Gift Tax

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

Tax Treaty

At present, the ROC has income tax treaties with Indonesia, Singapore, New Zealand, Australia, South Africa, Gambia, United Kingdom, Swaziland, Malaysia, Macedonia, Vietnam and The Netherlands. 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. The ROC government has announced a plan to suspend or terminate the tax treaty with South Africa in reaction to South Africa's decision to discontinue its diplomatic recognition of the ROC.

Tax Reform

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

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

Preemptive Rights

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

UNDERWRITING

Grand Cathay Securities (Hong Kong) Limited and Chinatrust Commercial Bank, Ltd. (acting through its offshore banking branch) (the “**Lead Managers**”), Grand Cathay Securities Corp. and KGI Securities Co., Ltd. (together with the Lead Managers, the “**Managers**”) have, pursuant to a Subscription Agreement dated as of December 9, 2003 (the “**Subscription Agreement**”), severally and not jointly agreed with the Company to subscribe and purchase the Bonds at the issue price of 100% of their principal amount less the combined management and underwriting commission and selling fee of 1.8% on the aggregate principal amount of the Bonds.

The respective obligations of the Managers to subscribe for the Bonds are subject to termination if certain conditions are not met prior to the time of delivery of the Global Certificate which is expected to be 5:00 p.m., Hong Kong time, on December 12, 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 Managers 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 Managers may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the issue price of the Bonds.

Selling Restrictions

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

United States

Each 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, U.S. persons. The Bonds are being offered and sold outside the United States to non-U.S. 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, directly or indirectly, 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 and will not issue any invitation or advertisement relating to the Bonds in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are intended to be disposed of to persons outside Hong Kong or only to persons whose business involves the acquisition, disposal or holding, of securities, whether as principal or agent.

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 Managers may offer and sell such Bonds or Shares pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Securities and Exchange Law of Japan and other applicable laws and regulations of Japan. As used in this paragraph, “resident of Japan” means any person who resides in Japan, including any corporation or other entity organized under the laws of Japan.

Singapore

Each 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. Accordingly, each Manager has represented and agreed that it has not offered or sold and will not offer or sell any Bonds nor has it circulated or distributed nor will it circulate or distribute this Offering Circular or any other offering document or material relating to the Bonds, directly or indirectly, (i) to persons in Singapore other than under circumstances in which such offer or sale does not constitute an offer or sale of the Bonds to the public in Singapore or (ii) to the public or any member of the public in Singapore other than pursuant to, and in accordance with the conditions of, an exemption invoked under subdivision 4 of Division 1 of Part XIII of the Securities and Futures Act, Chapter 289 of Singapore and to persons to whom the Bonds may be offered or sold under such exemption.

LEGAL MATTERS

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

INDEPENDENT AUDITORS

The financial statements of the Company as of and for the years ended December 31, 2001 and 2000 have been audited by Reality United Firm, independent auditors. The financial statements of the Company as of and for the years ended December 31, 2002 have been audited by Deloitte & Touche, independent auditors. The financial statements of the Company as of and for the years ended December 31, 2002 and 2001 included in this Offering Circular include financial statements as of and for the year ended December 31, 2002 that have been audited by Deloitte & Touche and financial statements as of and for the year ended December 31, 2001 that have been audited by Reality United Firm and adjusted by Deloitte & Touche.

The financial statements of the Company for the nine months ended September 30, 2003 and 2002 included in this Offering Circular have been reviewed by Deloitte & Touche, independent auditors, as stated in their report 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 30435973. The Company's registered office and the principal place of business is located at No. 568, Fu-Shing III Road, Wen Hua Village, Gui-Shan Shiang, Tao-Yuan County, Taiwan ROC.

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, including GTSM Monthly Review and Status of Securities Listed on Taiwan Stock Exchange, 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 October 20, 2003 and by the ROC SFC on November 25, 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 Trade and Companies Register (Registre de Commerce et des Sociétés) in Luxembourg, where such documents will be available for inspection and where copies thereof can be obtained upon request. According to Chapter VI, Article 3, point A/II/2 of the Rules and Regulations of the Luxembourg Stock Exchange the Bonds shall be freely tradable and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled. 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.

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;
- ▶ a copy of the annual reports of the independent accountants, containing the Audited Consolidated Financial Statements of the Company as at and for the years ended December 31, 2002 and 2001;
- ▶ a copy of the annual reports of the independent accountants, containing the Audited Non-Consolidated Financial Statements of the Company as at and for the years ended December 31, 2002 and 2001;

- ▶ a copy of the quarterly reports of independent accountants, containing the unaudited non-consolidated financial statements of the Company as at and for the nine months ended September 30, 2003 and 2002;
- ▶ the Subscription Agreement relating to the Bonds; and
- ▶ the Indenture constituting the Bonds (which includes the form of the Global Certificate) and the Agency Agreement.

In addition, copies of this Offering Circular and the most recent audited consolidated and audited non-consolidated annual financial statements of the Company and the Company's audited non-consolidated 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*).

Change in Independent Auditors

The independent auditors of the Company have been changed from Reality United Firm, a local accounting firm to Deloitte & Touche, an international accounting firm as from April 13, 2003, in pace with the Company's intention to achieve presence in global market.

Material Change

Except as disclosed herein, there has been no material change in the financial position of the Company since December 31, 2002, the date of the latest audited consolidated financial statements contained herein.

Governing Law

The Subscription Agreement, the 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	018223619
ISIN	XS0182236199

Litigation

Except as disclosed in this Offering Circular neither the Company, nor any of its subsidiary, is involved in any legal or arbitration proceedings which may have, or have had in the past twelve months, a significant adverse effect on the Company or the financial position of the Group, nor is the Company aware that any such proceedings pending or threatened. See "Business — Legal Proceedings".

Depository Receipt Facility

The Company has not at the date of this Offering Circular established or authorized the establishment of any depository receipt facility. Accordingly, conversion into DRs is not currently available.

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.

Subject	ROC GAAP	U.S. GAAP
Bonuses to Employees, Directors and Supervisors.	Under ROC GAAP, employee bonuses and remuneration of directors and supervisors paid in accordance with the Company's articles of incorporation as a part of the distribution of earnings are recorded as an appropriation from retained earnings in the period the distribution of earnings is approved at the Company's shareholders' meeting. If employee bonuses are paid through the issuance of Shares, the amount transferred from retained earnings is based on the par value of the shares issued. The remuneration of directors and supervisors must be paid in cash and may not be paid through the issuance of Shares.	U.S. GAAP requires that all such bonuses and remuneration be recorded as compensation expense at a defined measurement date. In addition, if the employee bonuses are paid in the form of shares, the fair value of the shares issued is used to determine the amount of the expense.
Shareholder Bonuses	Shareholder bonuses (stock dividends) of the Company are recorded as a reduction to its retained earnings for the par value of the share issued, and a like amount recorded to the capital stock account.	Stock dividends are recorded as a reduction to retained earnings based on the fair value of the share issued, and a like amount recorded to the capital stock and capital surplus accounts.
Capital Surplus	The following items are treated by the Company as capital surplus under ROC GAAP: (a) any premium on issuance of capital stock; (b) any after-tax gain on disposal of fixed assets; (c) any donated surplus; (d) any revaluation increment of fixed assets; 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 above (b) accounting treatments were in effect until December 28, 2001. Thereafter, with the enactment of a new business accounting law, the accounting for such transactions has become similar to U.S. GAAP.	Under U.S. GAAP, items (a) and (c) of the preceding column are reported as additional paid-in capital. Under U.S. GAAP, item (b) remains a component of retained earnings. Items (d) and (e) of the preceding column are not permitted. In addition, costs relating to the listing of a company's equity share are offset against the proceeds as opposed to being expensed in the income statement.

Subject	ROC GAAP	U.S. GAAP
Depreciation of Property, Plant and Equipment . .	In practice, depreciation is generally provided using the guideline service lives as prescribed by the ROC Tax Authorities plus one additional year as salvage value. ROC SFC regulations applicable to public companies require that when property, plant and equipment has been fully depreciated over the prescribed service life and the underlying asset continues to be used, the remaining book value (i.e., the salvage value portion) is depreciated over the asset's remaining economic life.	Depreciation is provided over the asset's estimated useful life. Once an asset has been fully depreciated, there is no additional depreciation if the asset continues to be used in the business.
Investments in Debt and Equity Securities	Investments in debt and marketable equity securities are stated at the lower of amortized cost or market value. Long-term investments in non-listed equity securities that represent less than 20% of the investee's common stock ownership are stated at cost, subject to a permanent impairment test. Stock dividends received are recorded as an increase in voting stock and not as investment income.	Investments in debt and marketable equity securities are classified in one of three categories: trading, held-to-maturity, or available-for-sale. Debt and marketable equity securities classified as trading securities are reported at fair value with unrealized gains and losses included in earnings; debt securities classified as held-to-maturity securities are reported at amortized cost; and, debt and marketable equity securities classified as available-for-sale securities are reported at fair value with unrealized gains and losses reported in accumulated comprehensive income. The accounting for long-term investments in non-listed equity securities is similar under U.S. GAAP as under ROC GAAP. Stock dividends received are recorded as investment income based on the fair value of the stock.
Retained Earnings Tax . . .	Companies in the ROC are subject to a 10% tax on the profits retained and earned after December 31, 1997. If the retained profits are distributed to the shareholders in the following year, the tax can be avoided. Under ROC GAAP, income tax expense is recorded in the statement of income in the following year if the earnings are not distributed to the shareholders.	Under U.S. GAAP, income tax expense related to the 10% retained profit tax is recorded in the statement of income in the year that the profits were earned based on management's estimate of the amount of profits to be retained.
Consolidation Policy	Subsidiaries whose total sales and total assets are less than 10% of the parent company are not required to be consolidated.	All subsidiaries controlled by the parent are required to be consolidated unless control is temporary.
Total Comprehensive Income	No display of total comprehensive income is required.	Total comprehensive income is required to be displayed for all years in which an income statement is presented. Comprehensive income comprises net income and other comprehensive income such as unrealized gains and losses on securities and foreign currency translation adjustments.

Subject	ROC GAAP	U.S. GAAP
Acquisition of Businesses.	Under ROC GAAP, if a company acquires an enterprise by issuing shares of its stock in exchange for 100% of the outstanding shares of the enterprise's stock, the fair value of the net assets acquired may be used to determine the fair value of the acquired enterprise. Under this method of accounting, the shares of stock issued by the acquirer are recorded at the fair value of the net assets acquired. No goodwill is recognized by the acquirer under this method. If a company acquires an enterprise using cash as the purchase consideration. The difference between the purchase consideration and the fair value of the net assets acquired is accounted for as a consolidation debit asset and amortized to income over five to twenty years. Also, ROC GAAP has no specific accounting practice related to the recognition of liabilities in connection with an acquisition of a business.	Under U.S. GAAP, business combinations subsequent to July 1, 2001 are accounted for based on the "purchase" method. The difference between purchase consideration and historical net assets acquired is allocated based on the fair values of the net assets and other identifiable intangible assets acquired, with any residual accounted for as goodwill. In such allocation of purchase consideration, purchased research and development costs would be expensed upon consummation of the acquisition. In an acquisition resulting in the exchange of shares of stock, the purchase consideration is measured based on the fair value of exchanged stock of either the acquirer or acquiree, whichever stock has a more readily determinable market value. The income of the acquirer includes the operations of the acquiree subsequent to the acquisition.
Presentation of Non-consolidated Financial Statement	Under ROC Securities and Futures Commission requirements, non-consolidated financial statements of the Company are presented as the primary financial statements and consolidated financial statements as supplemental financial statements. The Company's investment in its subsidiaries is accounted for under the equity method of accounting in the non-consolidated financial statements. The net income from the Company's subsidiaries is included in investment income as a one-line item in the non-operating section of the non-consolidated statement of income. The Company's investment in its subsidiaries is included in long-term equity investments as a one-line item in the non-consolidated balance sheet.	Under U.S. GAAP, parent-company-only non-consolidated financial statements are not allowed to be presented as the primary financial statements.
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.
Accounting for Derivative Financial	There are no definitive accounting standards, other than certain disclosure requirements, under ROC GAAP which address accounting for derivative financial instruments such as foreign currency options, futures, interest rate or foreign currency swaps.	Under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities", as amended, accounting for derivative financial instruments is in large part determined by the purpose for which the instrument was entered into.
Accounting for pensions .	ROC Statement of Financial Accounting Standards ("SFAS") No. 18 "Accounting for Pensions", is similar to U.S. SFAS No. 87 and provides accounting regulations regarding an employer's accounting for employee retirement plans, including pension of companies covered by the Labor Standards Law which require contribution of a percentage of wages and salaries costs to an independent fund. ROC SFAS No.18 is effective for financial statements in the year ended December 31, 1995. In the year of adoption, certain additional disclosures are required related to pension-related assets and liabilities as determined pursuant to an actuarial valuation; however, net periodic pension cost is not calculated pursuant to an actuarial valuation until the year ended December 31, 1996, pension expense under ROC GAAP was generally calculated as a fixed percentage of total annual salaries and wages.	Under U.S. GAAP, the annual pension provision is recognized in accordance with SFAS No. 87. U.S. SFAS No. 87 is substantially similar to ROC SFAS No.18. However, the unrecognized transitional asset/liability balance, representing the initial difference between the projected benefit obligation and the fair value of the plan assets upon adoption of ROC SFAS No.18, would be different under U.S. SFAS No. 87, as U.S. SFAS No. 87 would have been implemented prior to December 31, 1995

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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.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
PHIHONG ENTERPRISE CO., LTD. AND SUBSIDIARIES:

We have audited the consolidated balance sheet of Phihong Enterprise Co., Ltd. and subsidiaries (the "Company") as of December 31, 2002 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended (all expressed in New Taiwan dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Company for the year ended December 31, 2001 were audited by other auditors whose report, dated April 4, 2002, expressed an unqualified opinion with modification on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of China and "Guidelines for Certified Public Accountants' Examinations of and Reports on Financial Statements". 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 provides a reasonable basis for our opinion.

In our opinion, the 2002 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2002, and the consolidated results of its operations and cash flows for the year then ended in conformity with "Regulations Governing the Preparation of Financial Statements of Public Companies" and accounting principles generally accepted in the Republic of China.

Our audits also comprehended the translation of the 2002 New Taiwan dollars amounts into United States dollars amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. The translation of the 2002 consolidated financial statement amounts into United States dollars has been made solely for the convenience of readers outside the Republic of China.

Deloitte & Touche

Taipei, Taiwan
The Republic of China

January 31, 2003

The accompanying financial statements, which have been translated into English for the convenience of readers outside the Republic of China, 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 other than the Republic of China. Accordingly, the accompanying consolidated balance sheet of Phihong Enterprise Co., Ltd. and subsidiaries and the related consolidated statements of income, changes in stockholders' equity and cash flows as of and for the year ended December 31, 2002 are not designed for those who are not informed about accounting principles, procedures and practices in the Republic of China. The standards, procedures and practices utilized in the Republic of China to audit such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China.

These English financial statements expressed in thousands of New Taiwan Dollars were translated from the financial statements prepared originally in the Chinese language. The preparations of the financial statements, in both Chinese and English, are the responsibility of the Company's management. Auditor's responsibility is to express their opinion based on the audits of the financial statements prepared by management. Therefore, the Company's management should take the full responsibility of the financial statements originally in Chinese, as well as the translation of the Chinese version financial statements into the English version of financial statements.

PHIHONG ENTERPRISE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

(In Thousands of New Taiwan Dollars and United States Dollars)

	2002		2001
	NTD	USD	NTD
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (<i>Notes 2 and 3</i>)	\$3,007,730	\$ 86,553	\$2,413,461
Short-term investments (<i>Notes 2 and 4</i>)	208,484	6,000	69,934
Notes receivable (<i>Notes 2 and 5</i>)	5,047	145	6,100
Accounts receivable (<i>Notes 2 and 6</i>)	1,513,121	43,543	1,171,237
Accounts receivable — affiliates (<i>Notes 2, 6 and 19</i>)	20,745	597	17,385
Other receivables	135,154	3,889	34,953
Other receivables — affiliates (<i>Note 19</i>)	554	16	10,402
Inventories (<i>Notes 2 and 7</i>)	717,234	20,640	1,212,650
Other current assets	100,094	2,880	75,185
Total current assets	5,708,163	164,263	5,011,307
 LONG-TERM EQUITY INVESTMENTS (<i>Notes 2 and 8</i>)	 741,684	 21,343	 521,565
 PROPERTY, PLANT AND EQUIPMENT (<i>Notes 2 and 9</i>):			
Cost	1,835,392	52,817	711,640
Revalued appreciation	32,305	930	32,305
Subtotal	1,867,697	53,747	743,945
Less accumulated depreciation	(254,214)	(7,315)	(173,029)
Prepayments on purchase of equipment	236,312	6,800	660,115
Property, plant and equipment, net.	1,849,795	53,232	1,231,031
 INTANGIBLE ASSETS (<i>Notes 2 and 13</i>):			
Deferred pension cost	2,490	72	13,368
 OTHER ASSETS:			
Refundable deposits.	20,393	587	17,637
Deferred charges (<i>Note 2</i>)	88,862	2,557	27,951
Others	15,005	432	20,039
Total other assets	124,260	3,576	65,627
 TOTAL	 \$8,426,392	 \$242,486	 \$6,842,898

See notes to consolidated financial statements.

PHIHONG ENTERPRISE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS — (Continued)

DECEMBER 31, 2002 AND 2001

(In Thousands of New Taiwan Dollars and United States Dollars)

	2002		2001
	NTD	USD	NTD
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Note 10)	\$ 8,393	\$ 242	\$ 267,760
Short-term bills (Note 11)	—	—	254,455
Notes payable	645,454	18,574	599,039
Notes payable — affiliates (Note 19)	18,661	537	31,977
Accounts payable	1,091,120	31,399	939,990
Accounts payable — affiliates (Note 19)	17,203	495	17,490
Income tax payable (Notes 2 and 18)	101,651	2,925	85,331
Other payables (Note 19)	303,306	8,728	243,699
Other current liabilities	<u>27,454</u>	<u>790</u>	<u>17,198</u>
Total current liabilities	<u>2,213,242</u>	<u>63,690</u>	<u>2,456,939</u>
LONG-TERM LIABILITIES:			
Bonds payable (Notes 2 and 12)	<u>829,036</u>	<u>23,857</u>	<u>—</u>
RESERVE FOR LAND VALUE INCREMENT TAX	<u>22,317</u>	<u>642</u>	<u>22,317</u>
OTHER LIABILITIES:			
Accrued pension cost (Notes 2 and 13)	41,636	1,198	41,363
Advance deposits received	143	4	—
Deferred income tax liability (Notes 2 and 18)	493,000	14,187	561,806
Others (Note 2)	<u>81</u>	<u>3</u>	<u>24,281</u>
Total other liabilities	<u>534,860</u>	<u>15,392</u>	<u>627,450</u>
Total liabilities	<u>3,599,455</u>	<u>103,581</u>	<u>3,106,706</u>
STOCKHOLDERS' EQUITY:			
Capital stock (Note 14)	2,571,195	73,991	1,960,500
Capital surplus (Note 2)	857,401	24,674	172,926
Retained earnings (Note 15)	1,319,580	37,974	1,318,044
Cumulative translation adjustments (Note 2)	165,103	4,751	284,722
Treasury stock (Notes 2 and 16)	<u>(86,342)</u>	<u>(2,485)</u>	<u>—</u>
Total stockholders' equity	<u>4,826,937</u>	<u>138,905</u>	<u>3,736,192</u>
TOTAL	<u><u>\$8,426,392</u></u>	<u><u>\$242,486</u></u>	<u><u>\$6,842,898</u></u>

See notes to consolidated financial statements.

PHIHONG ENTERPRISE CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2002 AND 2001**

(In Thousands of New Taiwan Dollars and United States Dollars, Except Per Share Data)

	2002		2001
	NTD	USD	NTD
GROSS SALES AND REVENUES EARNED	\$7,779,964	\$223,883	\$7,365,944
LESS SALES RETURNS AND ALLOWANCES	(128,651)	(3,702)	(71,478)
NET SALES AND REVENUES EARNED	7,651,313	220,181	7,294,466
COST OF GOODS SOLD	6,335,212	182,308	5,702,767
GROSS PROFIT	1,316,101	37,873	1,591,699
REALIZED (UNREALIZED) GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	10,779	310	(8,351)
REALIZED GROSS PROFIT	1,326,880	38,183	1,583,348
OPERATING EXPENSES			
Selling expenses	280,125	8,061	360,737
General and administrative expenses	480,539	13,828	439,781
Research and development expenses	172,731	4,971	135,670
Total operating expenses	933,395	26,860	936,188
INCOME FROM OPERATIONS	393,485	11,323	647,160
NON-OPERATING INCOME:			
Interest income	85,054	2,448	54,492
Investment income, net (<i>Note 8</i>)	14,955	430	14,757
Gain on disposal of property, plant and equipment	565	16	13,280
Foreign exchange gains, net	157,428	4,530	23,651
Mold development revenue	37,909	1,091	21,331
Others	106,410	3,062	102,593
Total non-operating income	402,321	11,577	230,104
NON-OPERATING EXPENSES:			
Interest expense	27,041	778	6,936
Loss on disposal of property, plant and equipment	1,430	41	3,517
Losses on inventory devaluation	—	—	25,128
Others	95,711	2,754	42,556
Total non-operating expenses	124,182	3,573	78,137
INCOME BEFORE INCOME TAX	671,624	19,327	799,127
PROVISION FOR INCOME TAX (<i>Notes 2 and 18</i>)	(121,119)	(3,485)	(173,855)
NET INCOME	<u>\$ 550,505</u>	<u>\$ 15,842</u>	<u>\$ 625,272</u>
	NTD		NTD
	Before Tax	After Tax	Before Tax
EARNINGS PER SHARE (<i>Notes 2 and 17</i>):			
Basic	<u>\$2.79</u>	<u>\$2.28</u>	<u>\$0.08</u>
Diluted	<u>\$2.72</u>	<u>\$2.22</u>	<u>\$0.08</u>
	<u>\$2.79</u>	<u>\$2.28</u>	<u>\$0.07</u>
	<u>\$2.72</u>	<u>\$2.22</u>	<u>\$ —</u>

See notes to consolidated financial statements.

PHIHONG ENTERPRISE CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2002 AND 2001
(In Thousands of New Taiwan Dollars and United States Dollars)**

Capital Surplus													
Capital Stock	Additional Paid-in Common Stock	Additional Paid-in Capital — Bond Conversion	Revaluation Increment on Property, Plant and Equipment	Gain on Disposal of Property, Plant and Equipment	Effect of Transactions			Interest Payable from Bond Conversion	Retained Earnings		Treasury Stock	Total	
					Long-term Equity Investments	Unappropriated Earnings	Cumulative Translation Adjustments						
									Legal Reserve	Unappropriated Earnings			Cumulative Translation Adjustments
NTD													
BALANCE, JANUARY 1, 2001	\$1,534,600	\$150,000	\$ —	\$9,987	\$11,174	\$1,765	\$ —	\$ —	\$186,097	\$1,035,848	\$138,171	\$ —	\$3,067,642
Appropriation and distribution of 2000 net income:													
Legal reserve									69,931	(69,931)			—
Bonuses to directors and supervisors										(26,543)			(26,543)
Bonuses to employees	42,250									(42,250)			—
Stock dividends	383,650									(383,650)			—
Cash dividends										(76,730)			(76,730)
Translation adjustments on foreign long-term equity investments											146,551		146,551
Net income for 2001										625,272			625,272
BALANCE, DECEMBER 31, 2001	1,960,500	150,000	—	9,987	11,174	1,765	—	—	256,028	1,062,016	284,722	—	3,736,192
Capital surplus — gain on disposal of property, plant and equipment transferred to retained earnings (Note 2)					(11,174)					11,174			—
Appropriation and distribution of 2001 net income:													
Legal reserve									63,645	(63,645)			—
Bonuses to directors and supervisors										(28,008)			(28,008)
Bonuses to employees	42,010									(42,010)			—
Stock dividends	352,890									(352,890)			—
Cash dividends										(137,235)			(137,235)
Convertible bonds converted into common stock (Note 14)	215,795		681,911				13,738						911,444
Translation adjustments on foreign long-term equity investments											(119,619)		(119,619)
Treasury stock buy back (Note 16)											(86,342)		(86,342)
Net income for 2002										550,505			550,505
BALANCE, DECEMBER 31, 2002	\$2,571,195	\$150,000	\$681,911	\$9,987	\$ —	\$1,765	\$13,738	\$13,738	\$319,673	\$ 999,907	\$165,103	\$(86,342)	\$4,826,937
													(Continued)

(Continued)

See notes to consolidated financial statements.

PHIHONG ENTERPRISE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (Continued)
YEARS ENDED DECEMBER 31, 2002 AND 2001
(In Thousands of New Taiwan Dollars and United States Dollars)

Capital Surplus												
Capital Stock	Additional Paid-in Common Stock	Additional Paid-in Capital — Bond Conversion	Revaluation Increment on Property, Plant and Equipment	Gain on Disposal of Property, Plant and Equipment	Effect of Transactions Relating to				Interest Payable from Bond Conversion	USD	Total	
					Investments	Long-term Equity	Retained Earnings					Treasury Stock
							Legal Reserve	Unappropriated Earnings				
BALANCE, DECEMBER 31, 2001	\$56,417	\$4,317	\$ —	\$287	\$322	\$51	\$ —	\$7,368	\$30,562	\$8,193	\$ —	\$107,517
Capital surplus — gain on disposal of property, plant and equipment transferred to retained earnings (Note 2)					(322)				322			—
Appropriation and distribution of 2001 net income:												
Legal reserve								1,831	(1,831)			
Bonuses to directors and supervisors									(807)			(807)
Bonuses to employees	1,209								(1,209)			—
Stock dividends	10,155								(10,155)			—
Cash dividends									(3,949)			(3,949)
Convertible bonds converted into common stock (Note 14)	6,210		19,624				395					26,229
Translation adjustments on foreign long-term equity investments										(3,442)		(3,442)
Treasury stock buy back (Note 16)											(2,485)	(2,485)
Net income for 2002									15,842			15,842
BALANCE, DECEMBER 31, 2002	\$73,991	\$4,317	\$19,624	\$287	\$ —	\$51	\$395	\$9,199	\$28,775	\$4,751	\$(2,485)	\$138,905
												(Concluded)

(Concluded)

See notes to consolidated financial statements.

PHIHONG ENTERPRISE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002 AND 2001
(In Thousands of New Taiwan Dollars and United States Dollars)

	2002		2001
	NTD	USD	NTD
OPERATING ACTIVITIES:			
Net income.	\$550,505	\$15,842	\$ 625,272
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization.	116,135	3,342	83,782
Amortization for the issuing costs of convertible bonds	2,966	85	—
Loss on doubtful accounts	2,692	77	357
(Recovery from) loss on inventory devaluation	(5,802)	(167)	25,128
Investment income recognized under equity method.	(14,955)	(430)	(14,757)
Cash dividends received from investees recognized under equity method	15,083	434	11,897
(Realized) unrealized gross profit from inter-affiliate transactions	(10,779)	(310)	8,351
Net loss (gain) on disposal of property, plant and equipment.	865	25	(9,763)
Changes in assets and liabilities provided (used) cash:			
Short-term investments.	(138,550)	(3,987)	(36,940)
Notes receivable	1,053	30	5,443
Accounts receivable.	(344,576)	(9,916)	605,494
Accounts receivable — affiliates.	(3,360)	(97)	(3,884)
Other receivables	(90,263)	(2,597)	31,810
Other receivables — affiliates.	9,848	283	(1,246)
Inventories	501,218	14,424	4,356
Other current assets.	(46,881)	(1,349)	(19,031)
Deferred income tax asset — current	21,972	632	(22,346)
Forward foreign exchange receivable, net — trading	(9,938)	(286)	—
Option contract premium received, net — trading	15,280	440	—
Deferred pension cost	10,878	313	3,959
Other assets	7,461	215	—
Notes payable.	46,415	1,335	(68,389)
Notes payable — affiliates	(13,316)	(383)	31,977
Accounts payable	151,130	4,349	38,946
Accounts payable — affiliates.	(287)	(8)	15,825
Income tax payable	16,320	470	85,331
Other payables	44,257	1,273	(122,282)
Other current liabilities	10,256	295	6,222
Deferred income tax liability	(68,806)	(1,980)	62,588
Foreign exchange adjustment on convertible bonds	63,338	1,823	—
Interest expenses compensation payable	19,431	559	—
Reserve for retirement plan.	273	8	8,724
Other liabilities.	(13,137)	(378)	(19,896)
Total adjustments	296,221	8,524	711,656
Net cash provided by operating activities	\$846,726	\$24,366	\$1,336,928

(Continued)

See notes to consolidated financial statements.

PHIHONG ENTERPRISE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)
YEARS ENDED DECEMBER 31, 2002 AND 2001
(In Thousands of New Taiwan Dollars and United States Dollars)

	2002		2001
	NTD	USD	NTD
INVESTING ACTIVITIES:			
Forward foreign exchange payable, net — hedging	\$ 70	\$ 2	\$ —
Increase in long-term equity investments	(292,940)	(8,430)	(418,905)
Proceeds from disposal of long-term equity investments	50,000	1,439	—
Acquisition of property, plant and equipment	(720,688)	(20,739)	(539,082)
Proceeds from disposal of property, plant and equipment	711	20	18,453
Increase in refundable deposits	(2,756)	(79)	(367)
Decrease in pledged time certificates of deposits	—	—	2,832
Increase in deferred charges	(100,550)	(2,894)	(24,105)
Net cash used in investing activities	(1,066,153)	(30,681)	(961,174)
FINANCING ACTIVITIES:			
(Decrease) increase in short-term borrowings	(259,367)	(7,464)	130,066
(Decrease) increase in short-term bills	(254,455)	(7,322)	254,455
Issuance of convertible bonds	1,678,600	48,305	—
Bonuses to directors and supervisors	(28,008)	(806)	(26,543)
Cash dividends	(137,235)	(3,949)	(76,730)
Increase in treasury stock	(86,342)	(2,485)	—
Increase in advance deposits received	143	4	—
Net cash provided by financing activities	913,336	26,283	281,248
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(99,640)	(2,867)	122,274
NET INCREASE IN CASH AND CASH EQUIVALENTS	594,269	17,101	779,276
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,413,461	69,452	1,634,185
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$3,007,730</u>	<u>\$86,553</u>	<u>\$2,413,461</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest (excluding interest capitalized)	<u>\$ 24,204</u>	<u>\$ 697</u>	<u>\$ 7,329</u>
Income tax	<u>\$ 143,885</u>	<u>\$ 4,141</u>	<u>\$ 99,732</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Translation adjustments on foreign long-term equity investments	<u>\$ (19,979)</u>	<u>\$ (575)</u>	<u>\$ 24,277</u>
Stock dividends and transfer of bonuses to capital stock	<u>\$ 394,900</u>	<u>\$11,364</u>	<u>\$ 425,900</u>
Convertible bonds converted into common stock	<u>\$ 911,444</u>	<u>\$26,229</u>	<u>\$ —</u>

(Concluded)

See notes to consolidated financial statements.

PHIHONG ENTERPRISE CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2002 AND 2001

**(Amounts are Expressed in Thousands of New Taiwan Dollars, United States Dollars or
Other Specified Currency, Except per Share Data)**

1. ORGANIZATION AND OPERATIONS

Phihong Enterprise Co., Ltd. (“Phihong”) was incorporated on December 12, 1972, and is primarily engaged in the manufacturing and sale of AC/DC power adapters, charger bases, power supply modules, UPS’s for computers, ballast, etc. In February 2000, Phihong received authorization to have its stock listed on the Over-the-Counter Exchange in Taiwan. In September 2001, Phihong’s stock was authorized to trade on the Taiwan Stock Exchange.

Phihong USA Corp. (“PHA”), a 100%-owned subsidiary of Phihong, was incorporated in the USA in 1997, and is engaged as an agent in the sale of power supplies and provision of related customer services.

Phihong International Corp. (“PHI”), a 100%-owned subsidiary of Phihong, was incorporated in the British Virgin Islands in 1996, and is engaged as an agent in the sale of power supplies and making additional investments in its subsidiaries in China to manufacture various power supplies.

Phitek International Co., Ltd. (“PHK”), a 100%-owned subsidiary of Phihong, was incorporated in the British Virgin Islands in 1999, and is engaged as an agent in the sale of power supplies and making additional investment in its subsidiary in China to manufacture various power supplies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Phihong and its subsidiaries: PHI including Phihong (Dongguan) Electronics Co., Ltd., Phihong Electronics (Shanghai) Co., Ltd., Phitek (Tianjin) Electronics Co., Ltd., and Value Dynamic Investment Ltd., PHK including Phitek (Dongguan) Electronics Co., Ltd., and PHA, (collectively, the “Company”). All significant intercompany balances and transactions have been eliminated.

The financial statements of Phihong Japan Corp., Guang-Lai Investment Co., Ltd., Hon-Sheng Investment Co., Ltd., Phihong PWM Brasil Ltda. and E.P.I. Technology (H.K.) Co., Ltd. as permitted under the accounting principles generally accepted in the Republic of China (“ROC”), were not consolidated herein because total assets and total sales of each individual company were less than 10% of Phihong’s total assets and total sales, and the aggregate assets and sales of those companies were less than 30% of Phihong’s total assets and total sales.

Cash and Cash Equivalents

Cash includes cash on hand and unrestricted bank deposits. Cash equivalents refer to time certificates of deposit and commercial paper, which can be readily converted into cash without significant penalty or the value will not be significantly affected by variations of interest rates.

Short-term Investments

Short-term investments are stated at the lower of aggregate cost or market. The cost of short-term investments sold is determined on the weighted-average method. Stock dividends received are not recognized as income, instead they are reflected as an increase in the number of shares held.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based upon the management’s evaluation of the collectibility and past loss experience of notes and accounts receivable and intercompany receivables, and other pertinent factors.

Inventories

Inventories are stated at the lower of cost or market, with cost being determined based on the weighted-average method. Market values for raw materials are determined by replacement cost, while work-in-process and finished goods are determined by their net realizable values.

Long-Term Equity Investments

Investments in companies where the Company's ownership interest is 20% or more, or where the Company can exercise significant influence, are accounted for under the equity method. When the equity method is used, the difference between the underlying equity in net assets of the investee and the cost of the investment as of acquisition date is amortized on a straight line basis over a ten-year period. Other long-term equity investments are accounted for under the cost method.

If an investee company's loss is temporary and there is evidence to demonstrate that the loss will be recovered soon, the Company will recognize the investment loss continuously. When the carrying value of a long-term equity investment becomes negative due to the recognition of an investee company's net loss, the negative carrying value of long-term equity investment is reclassified as other liabilities.

Property, Plant and Equipment

Property, plant and equipment are stated at cost plus revalued appreciation less accumulated depreciation. Expenditures that would increase the value or extend the useful lives of property, plant and equipment are capitalized. Interest costs are capitalized starting with the first expenditure related to construction of asset, and capitalization continues until such asset is substantially completed and ready for its intended use.

For land revaluation, an estimated land value increment tax equal to between 40% and 60% of the appreciation amount must be recorded as long-term land value incremental tax payable. The remainder of the appreciation amount is credited to capital surplus. For revaluation of properties other than land, a new basis of such assets for depreciation purposes is established.

When assets are retired or disposed of, their costs and related accumulated depreciation are removed from the accounts. Any resulting gain or loss is credited to non-operating income or charged to non-operating expense.

In accordance with the Approval Documents Jing-Sun No. 09102050200 of Ministry of Economic Affairs, Phihong reversed its capital reserve from gain on disposal of property, plant and equipment accumulated as of December 31, 2000 to retained earnings. An additional legal reserve has been appropriated accordingly.

Depreciation is provided on the straight-line basis over the following estimated useful lives of the related assets, with an additional year or 10% of its cost for salvage:

<u>Items</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	5–50 years
Machinery and equipment	5–10 years
Transportation equipment	5 years
Furniture, fixtures and office equipment	3–8 years
Others	5–15 years

An additional service life and a new residual value will be determined for any depreciable asset which is still in use after the end of its initially prescribed useful life. Depreciation is computed on the straight-line method.

Deferred Charges

Deferred charges, except the issuing costs of convertible bonds, which are amortized over the term of the bonds, are amortized on a straight-line basis over three years.

Convertible Bonds

The convertible bonds, issued by Phihong, contains put rights. Each holder has the right, at the holder's option and on specified dates, to require Phihong to repurchase all or any portion of such holder's bonds. The interest compensation, which is the amount of the agreed put price over face value of such bonds, will be recognized as a liability under the interest method from the issue date to the date the put right expires. As at the balance sheet, the convertible bonds are classified as current liabilities or long-term liabilities based on the earlier date of the repurchase date or the maturity date.

When the holder exercises the conversion right, the net amount of the unamortized issuing costs, accrued interest, accrued interest compensation and face value of convertible bonds will be the cost basis of issued entitlement certificates. The difference of the net carrying amount of the convertible bonds over the par value of the entitlement certificates should be recognized as capital surplus.

Retirement Plan

Phihong has a retirement plan covering all eligible employees. The benefits are based primarily upon an employee's years of service and average compensation for the six-month period before retirement. Contributions to the plan are assessed at 2% of monthly employee salaries and wages.

Phihong adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 18, "Accounting for Pension", which requires that pension expense shall be computed at actuarial basis.

Deferred (Debits) Credits

Deferred (debits) credits represent those unrealized (loss) profit resulting from transactions between the Company and its affiliated companies accounted for under equity method.

Foreign Currency Transactions

Foreign currency transactions of the Phihong are recorded in New Taiwan dollars at the exchange rates prevailing on the respective transaction date. Gains or losses, caused by different foreign exchange rates applied when foreign currency receivables and payables are settled, are credited or charged to income. Assets and liabilities denominated in foreign currencies are translated at the exchange rates of balance sheet date, and resulting gains or losses are credited or charged to income.

Foreign subsidiaries maintain their accounting records by their individual functional currency. For consolidation purposes, the financial statements are translated into New Taiwan dollars at balance sheet date.

Cumulative Translation Adjustments

Long-term equity investments denominated in foreign currencies are restated to New Taiwan dollars at the balance-sheet-date exchange rates. The related translation adjustments are reported as a separate component of stockholders' equity.

Income Tax

The Company adopted the provisions of SFAS No. 22, "Accounting for Income Tax," which require an asset and liability approach to account for income tax. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized, if needed.

Under the Amended Income Tax Law of ROC, undistributed earnings of Phihong from 1998 onward are subject to 10% additional income tax which will be shown as income tax expense in the following year when the decision to retain the earnings is made by the shareholders in their meeting.

Treasury Stock

Treasury stock is recorded at purchase cost, while fair value is adopted when stocks are received from donation. When the Company does not dispose or write off these stocks, their cost is listed as a deduction of stockholders' equity.

When treasury stock is retired, the book value of the treasury stock and the proportionate part of capital surplus-stock issuance premium are written-off. If the book value of the treasury stock is more than the total of the par value and related stock issuance premium, the difference is charged to the capital surplus of the same class of stock. If the capital surplus is not sufficient, retained earnings is debited instead. If the book value of the treasury stock is less than the total of the par value and related stock issuance premium, the difference is credited to the capital surplus of the same class of stock.

Earnings per Share

Basic earnings per share are calculated by dividing net earnings applicable by the weighted average number of common stocks outstanding. On a diluted basis, both net earnings and shares outstanding are adjusted to reflect the conversion of convertible bonds from the date of issue.

Derivative Financial Instruments

Forward exchange contracts that are designated and effective as a hedge of net foreign assets or liabilities positions are recorded on the respective transaction date. The discounts or premiums (the differences between the contract rates and the spot rates on the date of purchase multiplied by principal amount of foreign currencies) involved in all forward contracts are separately accounted for and amortized to income over the duration of the contracts.

Forward exchange contracts designated for trading purposes are recorded at the contracted forward rate on the date the contract was entered into. A gain or loss is computed by multiplying the foreign currency amount by the difference between the forward rate available for the remaining maturity of the contract and the contracted forward rate.

Receivables or payables from forward exchange contracts are shown on the accompanying balance sheets in the net balance.

The premiums which shall be received or paid while foreign exchange options contracts were entered into, are deferred and recognized as revenue or expense as such contracts expired.

Non-Derivative Financial Instruments

The recognition, valuation, and measurement of non-derivative financial assets and liabilities are made in accordance with the above accounting policies and accounting principles generally accepted in the Republic of China.

Convenience Translation of New Taiwan Dollars

The consolidated financial statements are originally stated in New Taiwan Dollars, the currency of the country where Phihong is incorporated and operates. The translation of New Taiwan dollar amounts into United States dollar amounts are included solely for the convenience of readers outside the ROC and has been made at the rate of NT\$34.75 to US\$1 (the exchange rate of December 31, 2002). Such translation should not be construed as representation that the New Taiwan dollar amounts could be converted into United States dollars at the above or any other rate.

Reclassifications

The following reclassifications have been made in the 2001 financial statements to conform to the 2002 presentation:

- (a) Other current assets — income tax refund receivable of \$20,039 at December 31, 2001 was reclassified to other assets — others.
- (b) The book value of long-term equity investments with a negative net worth of \$(2,713) at December 31, 2001 was reclassified to other liabilities — others.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2002 and 2001 consist of the following:

	2002		2001
	NTD	USD	NTD
Cash on hand	\$ 675	\$ 19	\$ 1,265
Checking accounts	6,288	181	1,848
Savings accounts	68,199	1,962	168,835
Foreign-currency savings accounts	984,036	28,318	753,412
Time certificates of deposit	1,928,560	55,498	1,488,101
Short-term bills	19,972	575	—
Total	<u>\$3,007,730</u>	<u>\$86,553</u>	<u>\$2,413,461</u>

4. SHORT-TERM INVESTMENTS

The carrying value and market value of short-term investments at December 31, 2002 and 2001 are summarized as follows:

	2002				2001	
	Carrying Value		Market Value		Carrying Value	Market Value
	NTD	USD	NTD	USD	NTD	NTD
Overseas open-ended mutual fund	\$104,243	\$3,000	\$108,988	\$3,136	\$69,934	\$69,934
Euro Convertible bonds	104,241	3,000	104,632	3,011	—	—
Total	<u>\$208,484</u>	<u>\$6,000</u>	<u>\$213,620</u>	<u>\$6,147</u>	<u>\$69,934</u>	<u>\$69,934</u>

The market value of shares of overseas open-ended mutual funds are determined by the net fund value at the end of December. Euro convertible bonds are determined at closing price, at the end of December.

No investment devaluation allowance was provided at December 31, 2002.

5. NOTES RECEIVABLE

Notes receivable at December 31, 2002 and 2001 consist of the following:

	2002		2001
	NTD	USD	NTD
Notes receivable	\$5,047	\$145	\$6,100
Less allowance for doubtful accounts	—	—	—
Net	<u>\$5,047</u>	<u>\$145</u>	<u>\$6,100</u>

6. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2002 and 2001 consist of the following:

	2002		2001
	NTD	USD	NTD
Accounts receivable	\$1,531,684	\$44,077	\$1,187,108
Less allowance for doubtful accounts	(18,563)	(534)	(15,871)
Net	1,513,121	43,543	1,171,237
Accounts receivable — affiliates (<i>Note 19</i>)	20,745	597	17,385
Total	<u>\$1,533,866</u>	<u>\$44,140</u>	<u>\$1,188,622</u>

7. INVENTORIES

Inventories at December 31, 2002 and 2001 consist of the following:

	2002		2001
	NTD	USD	NTD
Raw materials	\$329,819	\$ 9,491	\$ 271,131
Work-in-process	202,188	5,818	367,169
Finished goods	220,787	6,354	612,442
Materials in transit	—	—	3,270
Total	752,794	21,663	1,254,012
Less valuation allowance	(35,560)	(1,023)	(41,362)
Net	<u>\$717,234</u>	<u>\$20,640</u>	<u>\$1,212,650</u>

As of December 31, 2002 and 2001, insurance coverage for inventories amounted to \$334,380 and \$609,292, respectively.

8. LONG-TERM EQUITY INVESTMENTS

Long-term equity investments at December 31, 2002 and 2001 consist of the following:

	2002				2001	
	Original	Carrying Value		Ownership	Carrying	Ownership
	Cost	NTD	USD	Percentage	Value	Percentage
	NTD				NTD	
Accounted for under the equity method:						
Pihong Japan Corp.	\$ 22,550	\$ 9,907	\$ 285	100.00	\$ 1	100.00
Guang-Lai Investment Co., Ltd. . . .	300,000	296,104	8,521	99.99	200,195	99.99
Hon-Sheng Investment Co., Ltd. . . .	300,000	299,307	8,613	99.99	200,195	99.99
Pihong PWM Brasil Ltda.	8,258	44,816	1,290	60.00	54,752	60.00
E.P.I. Technology (H.K.) Co., Ltd. . .	18,822	6,501	187	48.00	16,422	48.00
Accounted for under the cost method:						
AsiaTech Taiwan Venture Fund . . .	17,431	17,431	501	—	—	—
WK Technology Fund VIII Limited . .	—	—	—	—	50,000	—
Prepayments on investments — FIC Do Brasil Ltda.	67,618	67,618	1,946	—	—	—
Total	<u>\$734,679</u>	<u>\$741,684</u>	<u>\$21,343</u>		<u>\$521,565</u>	

Long-term equity investment income (loss) for the years ended December 31, 2002 and 2001 is summarized as follows:

	2001		2001
	NTD	USD	NTD
Phihong Japan Corp.	\$ 3,240	\$ 93	\$(10,865)
Guang-Lai Investment Co., Ltd.	(4,091)	(118)	195
Hon-Sheng Investment Co., Ltd.	(887)	(25)	195
Phihong PWM Brasil Ltda.	26,417	760	27,632
E.P.I. Technology (H.K.) Co., Ltd.	(9,724)	(280)	(2,400)
Total	<u>\$14,955</u>	<u>\$430</u>	<u>\$14,757</u>

Guang-Lai Investment Co., Ltd. and Hon-Sheng Investment Co., Ltd. were incorporated in October 2001. Both of them are primarily engaged in investing activities.

Phihong Japan Corp. (“PHJ”) was incorporated in Japan in 2000 and is engaged as an agent in the sale of the Company’s products and provision of related customer service. In April 2002, the Company made additional investments in Phihong Japan Corp. of \$22,550 (JPY¥80,000). Due to the continuous operating losses, the net value of PHJ became negative in 2001. The Company considered its operating losses as temporary, accordingly, the negative carrying value has been recorded as a deferred credit, except \$1 was included in long-term equity investments.

Phihong PWM Brasil Ltda. was incorporated in Brasil and is engaged in the manufacturing and sale of various power supplies.

E.P.I. Technology (H.K.) Co., Ltd. was incorporated in Hong Kong in 2001. The Company made additional investments in Chuohong (Shen Zhen), to manufacture electronic components of fax machines through E.P.I. in mainland China.

The Company plans to make investments in AsiaTech Taiwan, Venture Fund by US\$1,000. The company has paid \$17,431 (US\$500) as at December 31, 2002.

In August 2002, the Company made investments in FIC Do Brasil Ltda., which is mainly engaged in manufacture of and sale of personal computer related products of \$67,618 (US\$2,000). As the legal registration process is not completed, its was included in prepayments on investment as at December 31, 2002.

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2002 and 2001 consist of the following:

	2002					2001
	Cost	Reassessed Value Increment	Accumulated Depreciation	Carrying Value		Carrying Value
	NTD	NTD	NTD	NTD	USD	NTD
Land	\$ 677,794	\$32,305	\$ —	\$ 710,099	\$20,435	\$ 39,758
Buildings and improvements	574,055	—	71,309	502,746	14,468	136,070
Machinery and equipment	361,304	—	112,130	249,174	7,170	213,225
Transportation equipment	24,312	—	8,777	15,535	447	19,427
Furniture, fixtures and office equipment	94,566	—	33,363	61,203	1,761	22,702
Other equipment	103,361	—	28,635	74,726	2,150	139,734
Prepayments on purchase of land. . .	15,654	—	—	15,654	451	568,821
Prepayments on purchase of equipment and construction in progress	220,658	—	—	220,658	6,350	91,294
Total	<u>\$2,071,704</u>	<u>\$32,305</u>	<u>\$254,214</u>	<u>\$1,849,795</u>	<u>\$53,232</u>	<u>\$1,231,031</u>

Phihong recorded the appreciation in value of land in 1993 to reflect the value appraised and published by the government. Reserve for land value increment tax, payable upon sale of land, is presented under long-term liabilities.

In March 1999, Phihong bought a parcel of land from Formosa Plastics Corp. and Nan Ya Plastics Corp. at \$466,712. Phihong has fully paid the amount and the title of land has been transferred to Phihong on February 26, 2002.

In October 2001, Phihong bought a parcel of land with a factory from Yue-Jie Co., Ltd. at \$190,000. Phihong has fully paid the amount and the title of land and factory has been transferred to Phihong on January 14, 2002.

At December 31, 2001, certain property, plant and equipment were pledged to secure short-term borrowings. The carrying value of the collateralized real properties are as follows:

	NTD
Land	\$39,758
Buildings and improvements	<u>7,373</u>
Total	<u><u>\$47,131</u></u>

At December 31, 2002 and 2001, insurance coverage for property, plant and equipment, excluded land and prepayments on purchase of equipment, amounted to \$986,647 and \$569,104, respectively.

10. SHORT-TERM BORROWINGS

Short-term borrowings at December 31, 2002 and 2001 consist of the following:

		2002			2001	
		Annual	Balance		Annual	Balance
		Interest Rate	NTD	USD	Interest Rate	NTD
Unsecured loans	5.31%		<u>\$8,393</u>	<u>\$242</u>	1.00%–6.25%	<u>\$267,760</u>

11. SHORT-TERM BILLS

Short-term bills at December 31, 2002 and 2001 consist of the following:

		2002			2001	
		Annual	Balance		Annual	Balance
		Interest Rate	NTD	USD	Interest Rate	NTD
Short-term bills — Commercial paper, credit . . .	—		<u>\$—</u>	<u>\$—</u>	1.90%–2.10%	<u>\$254,455</u>

12. BONDS PAYABLE

Bonds payable as at December 31, 2002 consist of the following:

	NTD	USD
Convertible bonds	\$809,605	\$23,298
Add interest compensation	<u>19,431</u>	<u>559</u>
Total	<u><u>\$829,036</u></u>	<u><u>\$23,857</u></u>

Convertible Bonds

(a) Date of issuance: July 2, 2002

(b) Par value: US\$10

- (c) Location of issuance: Luxemburg
- (d) Price of issuance: 100%
- (e) Total amount: US\$50,000
- (f) Interest rate: 1.00% per annum; 1.25% per annum (considering the income tax effect)
- (g) Date of maturity: July 2, 2007
- (h) Conversion price:

The initial price at which shares will be issued upon conversion is \$50 per share at the issue date. The above conversion price will be adjusted accordingly if there is a capital increase in cash or dividend distribution by Phihong. At December 31, 2002, the current adjusted conversion price is \$41.60 per share.

- (i) Redemption at the option of the Company:

On or at any time after July 2, 2004, Phihong may, having given not less than 40 nor more than 60 days' notice to the bondholders, redeem all or part of the bonds at their principal amount plus accrued interest, if any, if the closing price of the shares of Phihong translated into U.S. Dollars at the prevailing rate, for each of the 30 consecutive trading days is at least 130 percent of the conversion price then in effect, translated into U.S. Dollars at the fixed exchange rate on each trading day.

On or at any time after July, 2004, Phihong may, having given not less than 30 nor more than 60 days' notice to the bondholders, redeem all or part of the bonds at their principal amount if 90 percent of the bonds have been previously redeemed, repurchased, or converted and cancelled.

At any time, Phihong may, having given not less than 30 nor more than 60 days' notice to the bondholders, redeem all but not some of the bonds at their principal amount, where withholding or deduction in respect of the R.O.C. withholding tax on premium or interest payments is in excess of 20 percent.

- (j) Redemption at the option of bondholders:

Phihong will, at the option of the bondholder, redeem all or part of the bonds on July 2, 2004 at a put price calculated by compounding the principal amount with the interest rate of 4.64% and on July 2, 2005 at the principal amount.

13. PENSION PLAN

Phihong has a defined benefit pension plan covering all employees. The benefits are primarily based upon an employee's years of service and average compensation for the last six months before retirement.

Net pension cost for the year 2002 consists of the following:

	NTD	USD
Service cost	\$ 8,173	\$235
Interest cost	4,719	136
Expected return on plan assets	(1,431)	(41)
Amortization of net transition obligation	1,670	48
Amortization of pension gain	647	18
Net pension cost	<u>\$13,778</u>	<u>\$396</u>

The following sets forth the actuarial assumptions and plan's status at December 31, 2002:

Weighted-average discount rate	4.00%	
Assumed rate of increase in salary.	3.00%	
Expected rate of return on plan assets	4.00%	
	NTD	USD
Actuarial present value of benefit obligation:		
Vested benefits	\$(24,786)	\$ (713)
Nonvested benefits	<u>(48,766)</u>	<u>(1,403)</u>
Accumulated benefit obligation	(73,552)	(2,116)
Additional benefits at future salaries	<u>(20,658)</u>	<u>(595)</u>
Projected benefit obligation	(94,210)	(2,711)
Plan assets at fair value	<u>31,916</u>	<u>918</u>
Projected benefit obligation in excess of plan assets	(62,294)	(1,793)
Net transition obligation not yet recognized	15,032	433
Net pension gain not yet recognized	8,116	234
Additional accrued pension liability recognized	<u>(2,490)</u>	<u>(72)</u>
Minimum pension liability	<u>\$(41,636)</u>	<u>\$(1,198)</u>

14. CAPITAL STOCK

Phihong's outstanding capital stock at December 31, 2001 amounted to \$1,960,500, divided into 196,050,000 common shares with a par value of \$10 each.

In July 2002, Phihong issued an additional \$394,900 common stock through stock dividends and bonuses to employees. In 2002, Phihong's bondholders converted bonds into common shares of \$215,795. Consequently, as of December 31, 2002, Phihong's outstanding capital amounted to \$2,571,195, divided into 257,119,474 common shares with a par value of \$10 each. Among the capital stock as at December 31, 2002, 80,822 shares from converted bonds were not yet registered with the government.

PHA's outstanding capital stock at December 31, 2002 amounted to US\$6,200 (NT\$207,203).

PHI's outstanding capital stock at December 31, 2002 amounted to US\$5,526 (NT\$143,312).

PHK's outstanding capital stock at December 31, 2002 amounted to US\$2,000 (NT\$63,286).

15. RETAINED EARNINGS

According to the Company Law of the R.O.C. and Phihong's Articles of Incorporation, 10% of Phihong's annual earnings, after paying tax and offsetting deficit, if any, should first be appropriated as legal reserve until such reserve equals to the amount of Phihong's capital, and then appropriate necessary special reserve as regulated by laws or domestic authorities.

Any remaining balance, unless to be retained partially by Phihong or resolved otherwise by the stockholders, shall then be appropriated as follows:

- a. 3%–10% as bonuses to employees,
- b. 5% bonuses to directors and supervisors, and
- c. 85%–92% as dividends to stockholders, while stock dividends are in prior consideration. If the year of earnings distribution generated an operating cash inflow and no major capital investment in the following year is planned, of such dividends, not less than 10% of distributed earnings can be paid by cash.

Phihong's appropriation and distribution of 2002 retained earnings has not been proposed by the board of directors as at January 31, 2003, the date of the independent auditors' report. Regarding the 2002 retained earnings proposition by the board of directors and the approval by the stockholders' meeting, please refer to the Market Observation Post System ("MOPS") of Taiwan Stock Exchange.

Phihong's board of directors and shareholders have proposed and approved the 2001 earnings distribution of 4,201,000 shares to employees (represents 2.14% of the outstanding common shares at the year end of 2001) and of \$28,008 as bonuses to directors and supervisors. In 2001, the earnings per share after income tax (before retroactive adjustment for stock dividend in 2002) was \$3.19; however, if the earnings distribution to employees, directors and supervisors are accounted for as expenses, the pro-forma earnings per share after income tax is \$2.83.

According to PHA's Articles of Incorporation, PHA's distribution of annual earnings, after paying tax and offsetting a deficit, if any, should be determined by the board of directors after considering the operating needs, while stock dividends as preferred consideration.

According to PHI's and PHK's Articles of Incorporation, PHI's and PHK's annual earnings, after offsetting deficit, if any. For the remaining balance, the board of directors should determine the earnings distribution after considering the operating needs.

16. TREASURY STOCK

The changes of treasury stock of 2002 is summarized as follows (in shares):

<u>Reason</u>	<u>2002.01.01</u>	<u>Increase</u>	<u>Decrease</u>	<u>2002.12.31</u>
Buy the stock back to distribute to employees	—	2,895,000	—	2,895,000

According to the Stock Exchange Law of the R.O.C., the shares of treasury stock should not be over 10% of Phihong's issued and outstanding shares and the amount of treasury stock should not be over the total of retained earnings and realized additional paid-in capital. The highest number of shares of treasury stock that Phihong held in 2002 was 2,895,000 shares with total amount \$86,342. And pursuant to the Stock Exchange Law, the limit on shares and amount of treasury stock that Phihong applied for buying back on December 24, 2002 was based on the financial data as of September 30, 2002. The ceiling shares and amount were 25,703,865 shares and \$2,049,096, respectively. If it was accounted according to the financial data as of December 31, 2002, the ceiling shares and amount were 25,711,947 shares and \$2,165,229, respectively. As at December 31, 2002, the treasury stock of Phihong was 2,895,000 shares with cost of \$86,342.

The treasury stock of Phihong should not be pledged and does not have the same right as the common stock.

17. EARNINGS PER SHARE

	Year Ended December 31, 2002								
	Income Before Income Tax		Income After Income Tax		The Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share			
	NTD	USD	NTD	USD		Before Income Tax	After Income Tax		
						NTD	USD	NTD	USD
Primary earnings per share									
— Net income .	\$671,624	\$19,327	\$550,505	\$15,842	240,965	<u>\$2.79</u>	<u>\$0.08</u>	<u>\$2.28</u>	<u>\$0.07</u>
Effect of dilutive potential common shares									
— Convertible bonds	<u>23,564</u>	<u>678</u>	<u>17,659</u>	<u>508</u>	<u>14,718</u>				
Dilutive earnings per shares									
— Net income plus the effect of dilutive potential common shares .	\$695,188	\$20,005	\$568,164	\$16,350	255,683	\$2.72	\$0.08	\$2.22	\$0.06

For the year ended December 31, 2001, the weighted average number of shares used in the calculation of earnings per share has been restated for the retroactive effect of the stock dividends issued in 2002.

18. INCOME TAX

The Company's provision for income tax for the year ended December 31, 2002 is as follows:

	NTD	USD
Income tax expense — current year	\$156,716	\$4,509
Investment tax credits	(37,500)	(1,079)
Adjustments of deferred tax liabilities and prior years' income tax expense	<u>1,903</u>	<u>55</u>
Income tax expense — net	<u>\$121,119</u>	<u>\$3,485</u>

The components of deferred tax asset (liability) as of December 31, 2002 are as follows:

	NTD	USD
Deferred tax asset (liability):		
Unrealized inventory devaluation losses	\$ 8,900	\$ 256
Unrealized gain on disposal of property, plant and equipment	2,400	69
Unrealized bad debt losses	100	3
Unrealized pension expense	10,000	288
Unrealized profit from inter-affiliate transactions	600	17
Unrealized exchange losses	9,500	273
Long-term equity investments income	<u>(505,400)</u>	<u>(14,543)</u>
Deferred tax liability	(473,900)	(13,637)
Deferred tax asset — current	<u>(19,100)</u>	<u>(550)</u>
Deferred tax liability — noncurrent	<u>\$ (493,000)</u>	<u>\$ (14,187)</u>

Current income tax expense for the year ended December 31, 2002 and income tax payable as of December 31, 2002 is reconciled as follows:

	NTD	USD
Income tax expense at statutory rate of 25%	\$165,309	\$4,757
Long-term equity investments income accounted for by the equity method	(24,187)	(696)
Interest expense of convertible bonds	1,174	34
Other	<u>14,420</u>	<u>415</u>
Current income tax expense	156,716	4,510
Reversal of deferred income tax (asset) liability:		
Investment tax credits	(37,500)	(1,079)
Other	<u>33,463</u>	<u>963</u>
Income tax payable	152,679	4,394
Less temporary tax payments and withholding income tax	(58,917)	(1,696)
Add prior year's income tax payable	<u>7,889</u>	<u>227</u>
Income tax payable as at December 31, 2002	<u>\$101,651</u>	<u>\$2,925</u>

Temporary tax payments of \$12,247 as at December 31, 2002 was the balance of prior year's withholding income tax.

Phihong's income tax returns for the years through 2000, except 1999, have been examined and approved by the tax authority. In the 1998 income tax return filing, the tax authority did not allow Phihong to credit certain research and development expenditures, which resulted in additional income tax of \$7,889. Phihong was not satisfied with the tax assessment and, accordingly, filed an appeal for review. However, Phihong has accrued such income tax liability due to the consideration of conservatism.

The information of the integrated income tax system of Phihong as of December 31, 2002 is as follows:

	NTD	USD
Balance of Imputation Credit Account	\$ 94,904	\$ 2,731
Undistributed earnings for the years of 1997 and before	141,379	4,069
Undistributed earnings for the years of 1998 and after	858,528	24,706
Expected IC ratio on distributable earnings for the year of 2003	20.91%	
Actual IC ratio of earnings distribution for the year of 2002	17.39%	

The expected IC ratio on distributable earnings for the year of 2003 has considered the income tax payable for 2002.

19. RELATED PARTY TRANSACTIONS

Names and relationships of the related earnings parties are as follows:

Name	Relationship
Phihong Japan Corp.	The Company holds a 100.00% ownership interest
Guang-Lai Investment Co., Ltd.	The Company holds a 99.99% ownership interest
Hong-Sheng Investment Co., Ltd.	The Company holds a 99.99% ownership interest
Phihong PWM Brasil Ltda.	The Company holds a 60.00% ownership interest
Densei-Lambda K.K.	One of the directors of the Company
Axis Corp. ("Axis")	The Company's chairman is one of the directors of Axis
Cheng-Hsieh Chang.	The Company's general manager

The Company's major transactions with the related parties are summarized as follows:

Sales

Sales to related parties for the years ended December 31, 2002 and 2001 are summarized as follows:

	2002			2001	
	NTD	USD	Percentage to Net Sales	NTD	Percentage to Net Sales
Phihong PWM Brasil Ltda.	\$107,993	\$3,108	1.41	\$128,629	1.76
Other	<u>777</u>	<u>22</u>	<u>0.01</u>	<u>685</u>	<u>0.01</u>
Total	<u>\$108,770</u>	<u>\$3,130</u>	<u>1.42</u>	<u>\$129,314</u>	<u>1.77</u>

The price that the Company sold its goods to affiliates is determined by each other considering the product type, cost and market price, etc.

Cost of Sales — Purchases

Purchases from related parties for the years ended December 31, 2002 and 2001 are summarized below:

	2002			2001	
	NTD	USD	Percentage to Net Sales	NTD	Percentage to Net Sales
Axis Corp.	\$ 90,511	\$2,605	1.82	\$128,402	2.76
Other	<u>11,711</u>	<u>337</u>	<u>0.24</u>	<u>19,521</u>	<u>0.42</u>
Total	<u>\$102,222</u>	<u>\$2,942</u>	<u>2.06</u>	<u>\$147,923</u>	<u>3.18</u>

The purchase price for both related parties and unrelated parties are similar.

Accounts Receivable

Accounts receivable from affiliates as at December 31, 2002 and 2001 are summarized as follows:

	2002			2001	
	NTD	USD	%	NTD	%
Phihong PWM Brasil Ltda.	<u>\$20,745</u>	<u>\$597</u>	<u>1.35</u>	<u>\$17,385</u>	<u>1.46</u>

Notes Payable

Notes payable due to related party as at December 31, 2002 and 2001 are summarized as follows:

	2002			2001	
	NTD	USD	%	NTD	%
Axis Corp.	<u>\$18,661</u>	<u>\$537</u>	<u>2.81</u>	<u>\$31,977</u>	<u>5.07</u>

Accounts Payable

Accounts payable due to related parties as at December 31, 2002 and 2001 are summarized as follows:

	2002			2001	
	NTD	USD	%	NTD	%
Axis Corp.	\$17,203	\$495	1.55	\$16,204	1.69
Other	—	—	—	1,286	0.14
Total	<u>\$17,203</u>	<u>\$495</u>	<u>1.55</u>	<u>\$17,490</u>	<u>1.83</u>

Other Receivables

Other receivables from affiliates as at December 31, 2002 and 2001 are as follows:

	2002			2001	
	NTD	USD	%	NTD	%
Phihong PWM Brasil Ltda.	\$516	\$15	0.38	\$ 6,552	14.45
Phihong Japan Corp.	—	—	—	3,808	8.39
Other	<u>38</u>	<u>1</u>	<u>0.03</u>	<u>42</u>	<u>0.09</u>
Total	<u>\$554</u>	<u>\$16</u>	<u>0.41</u>	<u>\$10,402</u>	<u>22.93</u>

Other Payable

Other payable to affiliates as at December 31, 2002 and 2001 are as follows:

	2002			2001	
	NTD	USD	%	NTD	%
Phihong Japan Corp.	<u>\$3,264</u>	<u>\$94</u>	<u>1.13</u>	<u>\$—</u>	<u>—</u>

Property Transactions

Sales of property, plant and equipment to related parties for the years ended December 31, 2002 and 2001 are as follows:

Related Party	Items	2002					
		Book Value		Selling Price		Gain (Loss)	
		NTD	USD	NTD	USD	NTD	USD
Phihong PWM Brasil Ltda.	Machinery and equipment	<u>\$188</u>	<u>\$5</u>	<u>\$196</u>	<u>\$6</u>	<u>\$8</u>	<u>\$—</u>
Related Party	Items	2001					
				NTD			
				Book Value	Selling Price	Gain (Loss)	
Phihong PWM Brasil Ltda.	Machinery and equipment			\$233	\$ 892	\$659	
Cheng-Hsieh Chang.	Transaction equipment			<u>710</u>	<u>400</u>	<u>(310)</u>	
Total				<u>\$943</u>	<u>\$1,292</u>	<u>\$349</u>	

Commission Income

	2002			2001	
	NTD	USD	%	NTD	%
Densei-Lambda K.K.	<u>\$3,300</u>	<u>\$95</u>	<u>100.00</u>	<u>\$1,548</u>	<u>100.00</u>

Commission Expenses

	2002			2001	
	NTD	USD	Percentage to Total Commission Expenses	NTD	Percentage to Total Commission Expenses
Phihong Japan Corp.	<u>\$13,243</u>	<u>\$381</u>	<u>17.40</u>	<u>\$588</u>	<u>0.61</u>

20. PLEDGED PROPERTIES

At December 31, 2001, the carrying value of following assets are pledged to secure loans from banks:

	NTD
Land	\$39,758
Buildings	<u>7,373</u>
Total	<u>\$47,131</u>

21. COMMITMENTS AND CONTINGENCIES

On December 10, 2002, Phihong entered into a Real Estate Sales Agreement with Mr. Liu Sie Lung, a non-related party, to sell the plant and office building in San Chung City at a total price of \$50,000. As at December 31, 2002, Phihong has received 40% of the total price. Phihong expected to change the title to Mr. Liu in March 2003, and complete the transaction in May 2003.

22. SUBSEQUENT EVENTS

In January, 2003, Phihong PWM Brasil Ltda., the Company's subsidiary, invested US\$1,250 to acquire 21.15% ownership interest of First International Computer Do Brasil Ltda. ("FICDBL"); consequently, the Company, which had invested US\$2,000 in FICDBL, and its subsidiaries hold 55% ownership interest of FICDBL in total.

On December 26, 2002, Phihong applied for an investment of a new subsidiary in Soochow, China, at US\$8,500. Such investment application has been approved by the investment commission of MOEA on January 17, 2003.

23. OTHERS

In accordance with SFAS No. 27, "Disclosure of Financial Instruments," derivative financial instruments of the Company at December 31, 2002 are summarized as follows:

Type		Contract Amount	Date of Maturity
Forward exchange contracts:			
Trading purpose	Purchase	EUR10,000	2003.01.16
Trading purpose	Sale	EUR10,000	2003.01.16
Hedge purpose	Sale	USD10,000	2003.01.06
Option contracts:			
Trading purpose	Sell put option	USD20,000	2003.06.18
Trading purpose	Sell call option	USD28,500	2003.03.06–2003.06.18
Trading purpose	Sell call option	EUR10,000	2003.02.06
Trading purpose	Sell put option	EUR47,000	2003.02.06–2003.02.14
Trading purpose	Buy call option	EUR10,000	2003.02.06
Trading purpose	Buy put option	EUR 7,000	2003.02.10

The counter parties of the contracts referred to above are all commercial or investment banks or brokers with high credit ratings and thus, the credit risks are considered insignificant.

Market Risk

With respect to option contracts, the Company has followed the “Guidelines for Derivatives Trading” to control the related risks.

Liquidity Risk and Cash Flow Risk

The Company has the ability to meet its financial obligations under the derivative contracts and thus, liquidity risks virtually do not exist.

Foreign exchange rates embedded in the derivative contracts are fixed at the inception and thus, cash flow risks are insignificant.

Type, Objective and Strategy for Derivative Instruments

Type	Objective	Strategy
Forward exchange contracts	Trading	—
Forward exchange contracts	To hedge foreign currency exposure of assets and liabilities	A derivative with the characteristic that the change in the derivative’s fair value is in inverse relationships, with the change in the hedge item’s fair value is employed to offset loss or gain on the hedged item attributable to the risk being hedged
Option contracts	Trading	—

Reporting of Derivative Instruments in the Financial Statements

As of December 31, 2002, the receivable and payable derived from forward exchange contracts are summarized as follows:

	NTD	USD
Forward exchange receivable — foreign currencies	\$349,416	\$10,055
Forward exchange payable — bought	<u>339,478</u>	<u>9,769</u>
Forward exchange receivable, net (recorded as current assets — other receivables)	<u>\$9,938</u>	<u>\$286</u>
Forward exchange payable — foreign currencies	\$703,731	\$20,251
Forward exchange receivable — sold	<u>703,661</u>	<u>20,249</u>
Forward exchange payable, net (recorded as current liabilities — other payables)	<u>\$ 70</u>	<u>\$ 2</u>

Foreign exchange gain of the Company from derivative financial instruments for the year ended December 31, 2002 amounted to \$50,318, which was reported as exchange gains.

Fair Value of Financial Instruments

The fair value of non-derivative financial instruments at December 31, 2002 is summarized as follows:

Items	Carrying Value		Fair Value	
	NTD	USD	NTD	USD
Assets:				
Cash and cash equivalents	\$3,007,730	\$86,553	\$3,007,730	\$86,553
Short-term investment	208,484	6,000	213,620	6,147
Notes receivable	5,047	145	5,047	145
Accounts receivable	1,513,121	43,543	1,513,121	43,543
Accounts receivable — affiliates	20,745	597	20,745	597
Other receivables	135,154	3,889	135,154	3,889
Other receivables — affiliates	554	16	554	16
Long-term equity investments	741,684	21,343	738,138	21,241
Other financial assets	20,393	587	20,393	587
Liabilities:				
Short-term borrowings	8,393	242	8,393	242
Notes payable	645,454	18,574	645,454	18,574
Notes payable — affiliates	18,661	537	18,661	537
Accounts payable	1,091,120	31,399	1,091,120	31,399
Accounts payable — affiliates	17,203	495	17,203	495
Income tax payable	101,651	2,925	101,651	2,925
Other payables	303,306	8,728	303,306	8,728
Bonds payable	829,036	23,857	829,036	23,857
Other financial liabilities	41,717	1,200	41,717	1,200

The fair value of derivative financial instruments at December 31, 2002 is summarized as follows:

	Carrying Value		Fair Value	
	NTD	USD	NTD	USD
Forward exchange contract receivable	\$9,938	\$286	\$9,938	\$286
Forward exchange contract payable	70	2	70	2
Unrealized losses of option transaction	—	—	542	16

Approaches and assumptions employed in assessing the fair value of financial instruments are summarized as follows:

- (a) Financial instruments classified as current assets and liabilities, cash and cash equivalents, notes receivable, accounts receivable, accounts receivable — affiliates, short-term borrowings, notes payable, notes payable — affiliates, accounts payable, accounts payable — affiliates, and other financial instruments etc., whose maturity dates are short-term, accordingly, recognize carrying value as fair value.
- (b) Short-term investments and long-term equity investments, provided market prices are available, are valued at market prices. Otherwise, available financial or other useful information is employed to compute fair value.
- (c) Refundable deposits and advance deposits from customers, is stated at discounted value.
- (d) The fair value of a derivative is set at the amount of cash inflow or outflow that would have been derived if the underlying contract were settled at balance sheet date. Most derivative financial instruments have their fair value available from financial institutions that publish them.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
PHIHONG ENTERPRISE CO., LTD.:

We have audited the balance sheet of Pihong Enterprise Co., Ltd. (the "Company") as of December 31, 2002 and the related statements of income, changes in stockholders' equity and cash flows for the year then ended (all expressed in New Taiwan dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company for the year ended December 31, 2001 were audited by other auditors whose report, dated April 4, 2002, expressed an unqualified opinion with modification on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of China and "Guidelines for Certified Public Accountants' Examinations of and Reports on Financial Statements". 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 provides a reasonable basis for our opinion.

In our opinion, the 2002 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of China and "Regulations Governing the Preparation of Financial Statements of Public Companies".

We have also audited the consolidated financial statements of the Company and its subsidiaries for the year ended December 31, 2002 (not accompanied herein) on which we have issued our report with unqualified opinion thereon dated January 31, 2003.

Our audits also comprehended the translation of the 2002 New Taiwan dollars amounts into United States dollars amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. The translation of the 2002 financial statement amounts into United States dollars has been made solely for the convenience of readers outside the Republic of China.

Deloitte & Touche
Taipei, Taiwan
The Republic of China

January 31, 2003

The accompanying financial statements, which have been translated into English for the convenience of readers outside the Republic of China, 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 other than the Republic of China. Accordingly, the accompanying balance sheet of Pihong Enterprise Co., Ltd. and the related statements of income, changes in stockholders' equity and cash flows as of and for the year ended December 31, 2002 are not designed for those who are not informed about accounting principles, procedures and practices in the Republic of China. The standards, procedures and practices utilized in the Republic of China to audit such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China.

These English financial statements expressed in thousands of New Taiwan Dollars were translated from the financial statements prepared originally in the Chinese language. The preparations of the financial statements, in both Chinese and English, are the responsibility of the Company's management. Auditor's responsibility is to express their opinion based on the audits of the financial statements prepared by management. Therefore, the Company's management should take the full responsibility of the financial statements originally in Chinese, as well as the translation of the Chinese version financial statements into the English version of financial statements.

PHIHONG ENTERPRISE CO., LTD.

BALANCE SHEETS
DECEMBER 31, 2002 AND 2001
(In Thousands of New Taiwan Dollars and United States Dollars)

	2002		2001
	NTD	USD	NTD
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (<i>Notes 2 and 3</i>)	\$2,043,146	\$ 58,796	\$2,016,783
Notes receivable (<i>Notes 2 and 4</i>)	5,047	145	6,100
Accounts receivable (<i>Notes 2 and 5</i>)	1,294,671	37,257	1,008,992
Accounts receivable — affiliates (<i>Notes 2, 5 and 18</i>)	200,467	5,769	91,846
Other receivables	62,106	1,787	25,098
Other receivables — affiliates (<i>Note 18</i>)	61,574	1,772	241,469
Inventories (<i>Notes 2 and 6</i>)	669,938	19,279	1,107,546
Other current assets	34,799	1,001	52,865
Total current assets	4,371,748	125,806	4,550,699
LONG-TERM EQUITY INVESTMENTS (<i>Notes 2 and 7</i>)	3,944,653	113,515	3,302,585
PROPERTY, PLANT AND EQUIPMENT (<i>Notes 2 and 8</i>):			
Cost	829,422	23,868	145,677
Revalued appreciation	32,305	930	32,305
Subtotal	861,727	24,798	177,982
Less accumulated depreciation	(75,857)	(2,183)	(64,070)
Prepayments on purchase of equipment	41,056	1,181	465,755
Property, plant and equipment, net.	826,926	23,796	579,667
INTANGIBLE ASSETS (<i>Notes 2 and 12</i>)			
Deferred pension cost	2,490	72	13,368
OTHER ASSETS:			
Refundable deposits.	11,922	343	10,305
Deferred charges (<i>Note 2</i>)	38,315	1,103	23,035
Others	12,247	352	20,039
Total other assets	62,484	1,798	53,379
TOTAL	\$9,208,301	\$264,987	\$8,499,698

See notes to financial statements.

PHIHONG ENTERPRISE CO., LTD.

BALANCE SHEETS — (Continued)

DECEMBER 31, 2002 AND 2001

(In Thousands of New Taiwan Dollars and United States Dollars)

	2002		2001
	NTD	USD	NTD
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Note 9)	\$ —	\$ —	\$ 204,785
Short-term bills (Note 10)	—	—	254,455
Notes payable	645,454	18,574	599,040
Notes payable — affiliates (Note 18)	18,661	537	31,977
Accounts payable	1,015,259	29,216	840,099
Accounts payable — affiliates (Note 18)	1,005,697	28,941	1,947,574
Income tax payable (Notes 2 and 17)	92,468	2,661	85,159
Other payables (Note 18)	184,691	5,315	142,189
Other current liabilities	21,983	633	6,562
Total current liabilities	2,984,213	85,877	4,111,840
LONG-TERM LIABILITIES			
Bonds payable (Notes 2 and 11)	829,036	23,857	—
RESERVE FOR LAND VALUE INCREMENT TAX (Note 8)	22,317	642	22,317
OTHER LIABILITIES:			
Accrued pension cost (Notes 2 and 12)	41,636	1,198	41,363
Deferred income tax liability (Notes 2 and 17)	493,000	14,187	561,806
Deferred credits (Note 2)	11,162	321	26,180
Total other liabilities	545,798	15,706	629,349
Total liabilities	4,381,364	126,082	4,763,506
STOCKHOLDERS' EQUITY:			
Capital stock (Note 13)	2,571,195	73,991	1,960,500
Capital surplus (Note 2)	857,401	24,674	172,926
Retained earnings (Note 14)	1,319,580	37,974	1,318,044
Cumulative translation adjustments (Note 2)	165,103	4,751	284,722
Treasury stock (Notes 2 and 15)	(86,342)	(2,485)	—
Total stockholders' equity	4,826,937	138,905	3,736,192
TOTAL	\$9,208,301	\$264,987	\$8,499,698

See notes to financial statements.

PHIHONG ENTERPRISE CO., LTD.

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2002 AND 2001
(In Thousands of New Taiwan Dollars and United States Dollars, Except Per Share Data)

	2002		2001
	NTD	USD	NTD
GROSS SALES AND REVENUES EARNED	\$7,526,201	\$216,581	\$6,919,170
LESS SALES RETURNS AND ALLOWANCES	(128,651)	(3,702)	(63,523)
NET SALES AND REVENUES EARNED	7,397,550	212,879	6,855,647
COST OF GOODS SOLD	6,435,117	185,183	5,828,196
GROSS PROFIT	962,433	27,696	1,027,451
REALIZED (UNREALIZED) GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	15,176	437	(1,274)
REALIZED GROSS PROFIT	977,609	28,133	1,026,177
OPERATING EXPENSES:			
Selling expenses	312,663	8,997	349,279
General and administrative expenses	116,027	3,339	142,227
Research and development expenses	160,532	4,620	129,824
Total operating expenses	589,222	16,956	621,330
INCOME FROM OPERATIONS	388,387	11,177	404,847
NON-OPERATING INCOME:			
Interest income	25,902	745	49,457
Investment income, net (Note 7)	130,361	3,751	278,308
Gain on disposal of property, plant and equipment.	1,792	52	1,378
Foreign exchange gains, net	67,901	1,954	22,164
Mold development revenue	44,861	1,291	25,146
Others	68,613	1,974	104,593
Total non-operating income	\$ 339,430	\$ 9,767	\$ 481,046
NON-OPERATING EXPENSES:			
Interest expense	\$ 26,467	\$ 762	\$ 6,935
Loss on disposal of property, plant and equipment.	540	15	2,224
Losses on inventory devaluation	—	—	40,000
Others	55,805	1,606	39,962
Total non-operating expenses	82,812	2,383	89,121
INCOME BEFORE INCOME TAX	645,005	18,561	796,772
PROVISION FOR INCOME TAX (Notes 2 and 17).	(94,500)	(2,719)	(171,500)
NET INCOME	\$550,505	\$15,842	\$625,272
	NTD		USD
	Before Tax	After Tax	Before Tax
EARNINGS PER SHARE (Notes 2 and 16):			
Basic	\$2.68	\$2.28	\$0.08
Diluted	\$2.61	\$2.22	\$0.07
	Before Tax	After Tax	Before Tax
	\$3.38	\$2.65	\$3.38
	\$3.38	\$2.65	\$3.38

See notes to financial statements.

PHIHONG ENTERPRISE CO., LTD.

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2002 AND 2001
(In Thousands of New Taiwan Dollars and United States Dollars)**

	Capital Surplus										Treasury Stock	Total
	Capital Stock	Additional Paid-in Capital — Common Stock	Additional Paid-in Capital — Bond Conversion	Revaluation Increment on Property, Plant and Equipment	Gain on Disposal of Property, Plant and Equipment	Effect of Transactions Relating to Long-term Equity Investments			Interest Payable from Bond Conversion	Cumulative Translation Adjustments		
						NTD						
						Legal Reserve	Unappropriated Earnings					
BALANCE, JANUARY 1, 2001	\$1,534,600	\$ 150,000	\$ —	\$ 9,987	\$11,174	\$1,765	\$ —	\$186,097	\$1,035,848	\$138,171	\$ —	\$3,067,642
Appropriation and distribution of 2000 net income:												
Legal reserve								69,931	(69,931)			—
Bonuses to directors and supervisors . .	42,250								(26,543)			(26,543)
Bonuses to employees	383,650								(42,250)			—
Stock dividends									(383,650)			—
Cash dividends									(76,730)			(76,730)
Translation adjustments on foreign long-term equity investments												
Net income for 2001									625,272	146,551		146,551
BALANCE, DECEMBER 31, 2001	1,960,500	150,000	—	9,987	11,174	1,765	—	256,028	1,062,016	284,722	—	3,736,192
Capital surplus — gain on disposal of property, plant and equipment transferred to retained earnings (Note 2)					(11,174)				11,174			—
Appropriation and distribution of 2001 net income:												
Legal reserve								63,645	(63,645)			—
Bonuses to directors and supervisors . .									(28,008)			(28,008)
Bonuses to employees	42,010								(42,010)			—
Stock dividends	352,890								(352,890)			—
Cash dividends									(137,235)			(137,235)
Convertible bonds converted into common stock (Note 13)	215,795		681,911				13,738					911,444
Translation adjustments on foreign long-term equity investments										(119,619)		(119,619)
Treasury stock buy back (Note 15)											(86,342)	(86,342)
Net income for 2002									550,505			550,505
BALANCE, DECEMBER 31, 2002	\$2,571,195	\$ 150,000	\$681,911	\$ 9,987	\$ —	\$1,765	\$13,738	\$319,673	\$ 999,907	\$165,103	\$86,342	\$4,826,937

(Continued)

See notes to financial statements.

PHIHONG ENTERPRISE CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (Continued)
YEARS ENDED DECEMBER 31, 2002 AND 2001
(In Thousands of New Taiwan Dollars and United States Dollars)

	Capital Surplus							Treasury Stock	Total			
	Capital Stock	Additional Paid-in Capital-Common Stock	Additional Paid-in Capital-Bond Conversion	Revaluation Increment on Property, Plant and Equipment	Gain on Disposal of Property, Plant and Equipment	Effect of Transactions Relating to Long-term Equity Investments	Interest Payable from Bond Conversion					
										Legal Reserve	Unappropriated Earnings	Cumulative Translation Adjustments
BALANCE, JANUARY 1, 2002	\$56,417	\$4,317	\$ —	\$287	\$ 322	\$51	\$ —	\$7,367	\$30,562	\$8,193	\$ —	\$107,516
Capital surplus — gain on disposal of property, plant and equipment transferred to retained earnings (<i>Note 2</i>)					(322)				322			—
Appropriation and distribution of 2001 net income:												
Legal reserve								1,832	(1,832)			
Bonuses to directors and supervisors . .									(806)			(806)
Bonuses to employees	1,209								(1,209)			—
Stock dividends	10,155								(10,155)			—
Cash dividends									(3,949)			(3,949)
Convertible bonds converted into common stock (<i>Note 13</i>)	6,210		19,624				395					26,229
Translation adjustments on foreign long-term equity investments										(3,442)		(3,442)
Treasury stock buy back (<i>Note 15</i>)											(2,485)	(2,485)
Net income for 2002									15,842			15,842
BALANCE, DECEMBER 31, 2002	\$73,991	\$4,317	\$19,624	\$287	\$ —	\$51	\$ 395	\$9,199	\$28,775	\$4,751	\$ (2,485)	\$138,905

(Concluded)

See notes to financial statements.

PHIHONG ENTERPRISE CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002 AND 2001
(In Thousands of New Taiwan Dollars and United States Dollars)

	2002		2001
	NTD	USD	NTD
OPERATING ACTIVITIES:			
Net income.	\$ 550,505	\$ 15,842	\$ 625,272
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization.	38,836	1,118	31,944
Amortization for the issuing costs of convertible bonds	2,966	85	—
(Recovery from) loss on inventory devaluation	(5,802)	(167)	40,000
Investment income recognized under equity method.	(130,361)	(3,751)	(278,308)
Cash dividends received from investees recognized under equity method	15,083	434	11,897
(Realized) unrealized gross profit from inter-affiliate transactions	(15,176)	(437)	1,274
Net (gain) loss on disposal of property, plant and equipment.	(1,252)	(37)	845
Changes in assets and liabilities provided (used) cash:			
Notes receivable	1,053	30	5,357
Accounts receivable.	(285,679)	(8,221)	187,738
Accounts receivable — affiliates	(108,621)	(3,126)	334,062
Other receivables	(7,031)	(202)	34,997
Other receivables — affiliates	(36,379)	(1,047)	(249,112)
Inventories	443,410	12,760	(54,302)
Other current assets.	(3,907)	(112)	188
Deferred income tax asset — current	21,972	632	(22,346)
Forward foreign exchange receivable, net — trading	(9,938)	(286)	—
Option contract premium received, net — trading	15,280	440	—
Deferred pension cost	10,878	313	3,959
Temporary income tax payment	(12,247)	(352)	—
Notes payable.	46,414	1,336	(68,389)
Notes payable — affiliates	(13,316)	(383)	31,977
Accounts payable	175,160	5,040	178,734
Accounts payable — affiliates	(941,877)	(27,104)	233,219
Income tax payable	7,309	210	33,714
Other payables	10,859	312	(20,043)
Other current liabilities	15,421	444	1,106
Deferred income tax liability	(68,806)	(1,980)	62,588
Foreign exchange adjustment on convertible bonds	63,338	1,823	—
Interest expenses compensation payable	19,431	559	—
Reserve for retirement plan.	273	8	8,724
Total adjustments	(752,709)	(21,661)	509,823
Net cash (used in) provided by operating activities	\$ (202,204)	\$ (5,819)	\$1,135,095

(Continued)

See notes to financial statements.

PHIHONG ENTERPRISE CO., LTD.

STATEMENTS OF CASH FLOWS — (Continued)
YEARS ENDED DECEMBER 31, 2002 AND 2001
(In Thousands of New Taiwan Dollars and United States Dollars)

	2002		2001
	NTD	USD	NTD
INVESTING ACTIVITIES:			
Forward foreign exchange payable, net — hedging	\$ 70	\$ 2	\$ —
Increase in long-term equity investments	(466,555)	(13,426)	(471,411)
Proceeds from disposal of long-term equity investments	50,000	1,439	—
Acquisition of property, plant and equipment	(277,922)	(7,998)	(271,095)
Proceeds from disposal of property, plant and equipment	15,276	440	41,620
(Increase) decrease in refundable deposits.	(1,618)	(47)	156
Decrease in pledged time certificates of deposits	—	—	2,833
Increase in deferred charges	(58,459)	(1,682)	(20,280)
Net cash used in investing activities	(739,208)	(21,272)	(718,177)
FINANCING ACTIVITIES:			
(Decrease) increase in short-term borrowings	(204,785)	(5,893)	67,091
(Decrease) increase in short-term bills	(254,455)	(7,322)	254,455
Issuance of convertible bonds	1,678,600	48,305	—
Bonuses to directors and supervisors	(28,008)	(806)	(26,543)
Cash dividends	(137,235)	(3,949)	(76,730)
Increase in treasury stock	(86,342)	(2,485)	—
Net cash provided by financing activities	967,775	27,850	218,273
NET INCREASE IN CASH AND CASH EQUIVALENTS	26,363	759	635,191
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,016,783	58,037	1,381,592
CASH AND CASH EQUIVALENTS, END OF YEAR	\$2,043,146	\$58,796	\$2,016,783
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest (excluding interest capitalized)	\$ 23,467	\$ 675	\$ 7,329
Income tax	\$ 126,232	\$ 3,633	\$ 97,545
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Translation adjustments on foreign long-term equity investments	\$ (119,619)	\$ (3,442)	\$ 146,551
Stock dividends and transfer of bonuses to capital stock	\$ 394,900	\$ 11,364	\$ 425,900
Convertible bonds converted into common stock	\$ 911,444	\$ 26,229	\$ —

(Concluded)

See notes to financial statements.

PHIHONG ENTERPRISE CO., LTD.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2002 AND 2001

**(Amounts are Expressed in Thousands of New Taiwan Dollars, United States Dollars of
Other Specified Currency, Except per Share Data)**

1. ORGANIZATION AND OPERATIONS

Phihong Enterprise Co., Ltd. (the "Company") was incorporated on December 12, 1972, and is primarily engaged in the manufacturing and sale of AC/DC power adapters, charger bases, power supply modules, UPS for computers, ballast, etc.. As of December 31, 2002, the Company's outstanding capital amounted to \$2,571,195. In February 2000, the Company received authorization to have its stock listed on the Over-the-Counter Exchange. In September 2001, the Company's stock was authorized to trade on the Taiwan Stock Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash includes cash on hand and unrestricted bank deposits. Cash equivalents refer to time certificates of deposit and commercial paper, which can be readily converted into cash without significant penalty or the value will not be significantly affected by variation of interest.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based upon the management's evaluation of the collectibility and, past loss experience of notes and accounts receivable and intercompany receivables, and other pertinent factors.

Inventories

Inventories are stated at the lower of cost or market, with cost being determined based on the weighted-average method. Market values for raw materials are determined by replacement cost, while work-in-process and finished goods are determined by their net realizable values.

Long-Term Equity Investments

Investments in companies where the Company's ownership interest is 20% or more, or where the Company can exercise significant influence, are accounted for under the equity method. When the equity method is used, the difference between the underlying equity in net assets of the investee and the cost of the investment as of acquisition date is amortized on a straight line basis over a ten-year period. Other long-term equity investments are accounted for under the cost method.

If an investee company's loss is temporary and there is evidence to demonstrate that the loss will be recovered soon, the Company will recognize the investment loss continuously. When the carrying value of a long-term equity investment becomes negative due to the recognition of an investee company's net loss, the negative carrying value of long-term equity investment is reclassified as other liabilities.

Subsidiaries, which are owned 50% or more by the Company, are not consolidated if both amounts of total assets and total sales of individual subsidiary are smaller than 10% of that of the Company.

Property, Plant and Equipment

Property, plant and equipment are stated at cost plus revalued appreciation less accumulated depreciation. Expenditures that would increase the value or extend the useful lives of property, plant and equipment are capitalized. Interest costs are capitalized starting with the first expenditure related

to construction of asset, and capitalization continues until such asset is substantially completed and ready for its intended use. Depreciation is provided on the straight-line basis over the estimated useful lives of the related assets, with an additional year for salvage.

For land revaluation, an estimated land value increment tax equal to between 40% and 60% of the appreciation amount must be recorded as long-term land value incremental tax payable. The remainder of the appreciation amount is credited to capital surplus. For revaluation of properties other than land, a new basis of such assets for depreciation purposes is established.

When assets are retired or disposed of, their costs and related accumulated depreciation are removed from the accounts. Any resulting gain or loss is credited to non-operating income or charged to non-operating expense.

In accordance with the Approval Documents Jing-Sun No. 09102050200 of Ministry of Economic Affairs, the Company reversed its capital reserve from gain on disposal of property, plant and equipment accumulated as of December 31, 2000 to retained earnings. An additional legal reserve has been appropriated accordingly.

An additional service life and a new residual value will be determined for any depreciable asset which is still in use after the end of its initially prescribed useful life. Depreciation is computed on the straight-line method.

Deferred Charges

Deferred charges, except the issuing costs of convertible bonds, which are amortized over the term of the bonds, are amortized on a straight-line basis over three years.

Convertible Bonds

The convertible bonds, issued by the Company, contains put right. Each holder has the right, at the holder's option and on specified dates, to require the company to repurchase all or any portion of such holder's bonds. The interest compensation, which is the amount of agreed put price over face value of such bonds, will be recognized as a liability under the interest method from the issue date to the date the put right expires. As at the balance sheet, the convertible bonds are classified as current liabilities or long-term liabilities based on the earlier date of the repurchase date or the maturity date.

When the holder exercises the conversion right, the net amount of the unamortized issuing costs, accrued interest, accrued interest compensation and face value of convertible bonds will be the cost basis of issued entitlement certificates. The difference of the net carrying amount of the convertible bonds over the par value of the entitlement certificates should be recognized as capital surplus.

Retirement Plan

The Company has a retirement plan covering all eligible employees. The benefits are based primarily upon an employee's years of service and average compensation for the six-month period before retirement. Contributions to the plan are assessed at 2% of monthly employee salaries and wages.

The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 18, "Accounting for Pension", which requires that pension expense shall be computed at actuarial basis.

Deferred Credits

Deferred credits represent those unrealized profit resulting from transactions between the Company and its affiliated companies accounted for under equity method.

Foreign Currency Transactions

Foreign currency transactions are recorded in New Taiwan dollars at the exchange rates prevailing on the respective transaction date. Gains or losses, caused by different foreign exchange rates applied when foreign currency receivables and payables are settled, are credited or charged to income. Assets and liabilities denominated in foreign currencies are translated at the exchange rates of balance sheet date, and resulting gains or losses are credited or charged to current income.

Income Tax

The Company adopted the provisions of SFAS No. 22, "Accounting for Income Tax," which require an asset and liability approach to account for income tax. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized, if needed.

Under the Amended Income Tax Law of ROC, undistributed earnings of the Company from 1998 onward are subject to 10% additional income tax which will be shown as income tax expense in the following year when the decision to retain the earnings is made by the shareholders in their meeting.

Cumulative Translation Adjustments

Long-term equity investments denominated in foreign currencies are restated to New Taiwan dollars at the balance-sheet-date exchange rates. The related translation adjustments are reported as a separate component of stockholders' equity.

Treasury Stock

Treasury stock is recorded at purchase cost, while fair value is adopted when stocks are received from donation. When the Company does not dispose or write off these stocks, their cost is listed as a deduction of stockholders' equity.

When treasury stock is retired, the book value of the treasury stock and the proportionate part of capital surplus-stock issuance premium are written-off. If the book value of the treasury stock is more than the total of the par value and related stock issuance premium, the difference is charged to the capital surplus of the same class of stock. If the capital surplus is not sufficient, retained earnings is debited instead. If the book value of the treasury stock is less than the total of the par value and related stock issuance premium, the difference is credited to the capital surplus of the same class of stock.

Earnings per Share

Basic earnings per share are calculated by dividing net earnings applicable by the weighted average number of common stocks outstanding. On a diluted basis, both net earnings and shares outstanding are adjusted to reflect the conversion of convertible bonds from the date of issue.

Derivative Financial Instruments

Forward exchange contracts that are designated and effective as a hedge of net foreign assets or liabilities positions are recorded on the respective transaction date. The discounts or premiums (the differences between the contract rates and the spot rates on the date of purchase multiplied by principal amount of foreign currencies) involved in all forward contracts are separately accounted for and amortized to income over the duration of the contracts.

Forward exchange contracts designated for trading purposes are recorded at the contracted forward rate on the date the contract was entered into. A gain or loss is computed by multiplying the foreign currency amount by the difference between the forward rate available for the remaining maturity of the contract and the contracted forward rate.

Receivables or payables from forward exchange contracts are shown on the accompanying balance sheets in the net balance.

The premiums which shall be received or paid while foreign exchange options contracts were entered into, are deferred and recognized as revenue or expense as such contracts expired.

Non-Derivative Financial Instruments

The recognition, valuation, and measurement of non-derivative financial assets and liabilities are made in accordance with the above accounting policies and accounting principles generally accepted in the Republic of China.

Convenience Translation of New Taiwan Dollars

The Financial statements are originally stated in or translated to New Taiwan Dollars, the currency of the country in which the Company is incorporated and operates. The translation of New Taiwan dollar amounts into United States dollar amounts are included solely for the convenience of readers outside the ROC and has been made at the rate of NT\$34.75 to US\$1 (the exchange rate of December 31, 2002). Such translation should not be construed as representation that the New Taiwan dollar amounts could be converted into United States dollars at the above or any other rate.

Reclassifications

The following reclassifications have been made to the 2001 financial statements to conform to the 2002 presentation:

- (a) Other current assets — income tax refund receivable of \$20,039 at December 31, 2001 was reclassified to other assets — others.
- (b) The book value of long-term equity investments with a negative net worth of \$(2,713) at December 31, 2001 was reclassified to other liabilities — deferred credits.
- (c) Other assets — deferred debits of \$749 at December 31, 2001 was reclassified as a deduction of other liabilities — deferred credits.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2002 and 2001 consist of the following:

	2002		2001
	NTD	USD	NTD
Cash on hand	\$ 675	\$ 19	\$ 1,265
Checking accounts	6,288	181	1,848
Savings accounts	68,199	1,963	168,835
Foreign-currency savings accounts	193,211	5,560	356,734
Time certificates of deposit	1,754,801	50,498	1,488,101
Short-term bills	19,972	575	—
Total	<u>\$2,043,146</u>	<u>\$58,796</u>	<u>\$2,016,783</u>

4. NOTES RECEIVABLE

Notes receivable at December 31, 2002 and 2001 consist of the following:

	2002		2001
	NTD	USD	NTD
Notes receivable	\$5,047	\$145	\$6,100
Less allowance for doubtful accounts	—	—	—
Net	<u>\$5,047</u>	<u>\$145</u>	<u>\$6,100</u>

5. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2002 and 2001 consist of the following:

	2002		2001
	NTD	USD	NTD
Accounts receivable.	\$1,310,099	\$37,701	\$1,024,506
Less allowance for doubtful accounts.	(15,428)	(444)	(15,514)
Net	1,294,671	37,257	1,008,992
Accounts receivable — affiliates (<i>Note 18</i>).	200,467	5,769	91,846
Total	<u>\$1,495,138</u>	<u>\$43,026</u>	<u>\$1,100,838</u>

6. INVENTORIES

Inventories at December 31, 2002 and 2001 consist of the following:

	2002		2001
	NTD	USD	NTD
Raw materials.	\$328,998	\$ 9,468	\$ 271,131
Work-in-process	198,187	5,703	361,863
Finished goods	178,313	5,131	512,644
Materials in transit	—	—	3,270
Total	705,498	20,302	1,148,908
Less valuation allowance	(35,560)	(1,023)	(41,362)
Net	<u>\$669,938</u>	<u>\$19,279</u>	<u>\$1,107,546</u>

As of December 31, 2002 and 2001, insurance coverage for inventories amounted to \$334,380 and \$250,000, respectively.

7. LONG-TERM EQUITY INVESTMENTS

Long-term equity investments at December 31, 2002 and 2001 consist of the following:

	2002				2001	
	Original	Carrying Value		Ownership	Carrying	Ownership
	Cost	NTD	USD	Percentage	Value	Percentage
	NTD				NTD	
Accounted for under equity method:						
Phihong International Corp.	\$ 143,312	\$2,661,347	\$ 76,585	100.00	\$2,692,009	100.00
Phihong USA Corp.	207,203	233,071	6,707	100.00	54,556	100.00
Phitek International Co., Ltd.	63,286	75,984	2,186	100.00	34,455	100.00
Phihong Japan Corp.	22,550	9,907	285	100.00	1	100.00
Guang-Lai Investment Co., Ltd. . . .	300,000	296,104	8,521	99.99	200,195	99.99
Hon-Sheng Investment Co., Ltd. . . .	300,000	299,307	8,613	99.99	200,195	99.99
Phihong PWM Brasil Ltda.	8,258	44,816	1,290	60.00	54,752	60.00
E.P.I. Technology (H.K.) Co., Ltd. .	18,822	6,501	187	48.00	16,422	48.00
Accounted for under cost method:						
AsiaTech Taiwan Venture Fund . . .	17,431	17,431	502	—	—	—
WK Technology Fund VIII Limited. .	—	—	—	—	50,000	3.33
Prepayments on investments:						
Phihong International Corp.	232,567	232,567	6,693		—	—
First International Computer Do Brasil Ltda.	67,618	67,618	1,946		—	—
Total	<u>\$1,381,047</u>	<u>\$3,944,653</u>	<u>\$113,515</u>		<u>\$3,302,585</u>	

Long-term equity investment income (loss) for the years ended December 31, 2002 and 2001 is summarized as follows:

	2002		2001
	NTD	USD	NTD
Phihong International Corp.	\$ 70,032	\$2,015	\$293,170
Phihong USA Corp.	5,107	147	3,323
Phitek International Co., Ltd.	40,267	1,159	(32,942)
Phihong Japan Corp.	3,240	93	(10,865)
Guang-Lai Investment Co., Ltd.	(4,091)	(118)	195
Hon-Sheng Investment Co., Ltd.	(887)	(25)	195
Phihong PWM Brasil LTDA.	26,417	760	27,632
E.P.I. Technology (H.K.) Co., Ltd.	(9,724)	(280)	(2,400)
Total	<u>\$130,361</u>	<u>\$3,751</u>	<u>\$278,308</u>

Phihong International Corp. (“PHI”) was incorporated in the British Virgin Islands in 1996. The Company made additional investments in Phihong (Dongguan), Phihong (Shanghai) and Phitek (Tianjin) to manufacture various power supplies through PHI in Mainland China. In 2002, under the approval of the investment commission of the MOEA, the Company made additional investments by cash of \$196,609 (US\$5,669) and machinery at equipment of \$35,958 (HK\$8,404), totaling \$232,567 to PHI and its subsidiaries in mainland China. As the legal registration process is not completed, such investments is recorded as “prepayment on investments.”

Phitek International Co., Ltd. (“PHK”) was incorporated in the British Virgin Islands in 1999. The Company made additional investments in Phitek (Dongguan) to manufacture various power supplies through PHK in Mainland China.

Phihong USA Corp. (“PHA”) was incorporated in the USA in 1997, and is engaged as an agent in the sale of the Company’s products and provision of related customer services. In December 2002, the Company made an additional investment in Phihong USA Corp. of \$207,203 (US\$6,200).

Guang-Lai Investment Co., Ltd. and Hon-Sheng Investment Co., Ltd. were incorporated in October 2001. Both of them are primarily engaged in investing activities.

Phihong Japan Corp. (“PHJ”) was incorporated in Japan in 2000 and is engaged as an agent in the sale of the Company’s products and provision of related customer service. In April 2002, the Company made additional investments in Phihong Japan Corp. of \$22,550 (JPY¥80,000). Due to the continuous operating losses, the net value of PJC became negative in 2001. The Company considered its operating losses as temporary, accordingly, the negative carrying value has been recorded as a deferred credit, except \$1 was included in long-term equity investments.

Phihong PWM Brasil Ltda. was incorporated in Brasil in 2000 and is engaged in the manufacturing and sale of various power supplies.

E.P.I. Technology (H.K.) Co., Ltd. was incorporated in Hong Kong in 2001. The Company made additional investments in Chuohong (Shen Zhen), to manufacture electronic components of fax machines through E.P.I. in mainland China.

The Company plans to make investments in AsiaTech Taiwan, Venture Fund by US\$1,000. The company has paid \$17,431 (US\$500) as at December 31, 2002.

In August 2002, the Company made investments in First International Computer Do Brasil Ltda., which is mainly engaged in manufacture of and sale of personal computer related products of \$67,618 (US\$2,000). As the legal registration process is not completed, its was included in prepayments on investment as at December 31, 2002.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2002 and 2001 consist of the following:

	2002					2001
	Cost	Reassessed Value Increment	Accumulated Depreciation	Carrying Value		Carrying Value
	NTD	NTD	NTD	NTD	USD	NTD
Land	\$589,350	\$32,305	\$ —	\$621,655	\$17,889	\$ 39,758
Buildings and improvements	124,320	—	20,161	104,159	2,997	7,373
Machinery and equipment	68,669	—	32,953	35,716	1,028	43,943
Transportation equipment	7,414	—	2,320	5,094	147	6,336
Furniture, fixtures and office equipment	37,158	—	18,019	19,139	551	16,318
Other equipment	2,511	—	2,404	107	3	184
Prepayments on purchase of equipment	41,056	—	—	41,056	1,181	465,755
Total	<u>\$870,478</u>	<u>\$32,305</u>	<u>\$75,857</u>	<u>\$826,926</u>	<u>\$23,796</u>	<u>\$579,667</u>

The Company recorded the appreciation in value of land in 1993 to reflect the value appraised and published by the government. Reserve for land value increment tax, payable upon sale of land, is presented under long-term liabilities.

In March 1999, the Company bought a parcel of land from Formosa Plastics Corp. and Nan Ya Plastics Corp. at \$466,712. The Company has fully paid the amount and the title of land has been transferred to the Company on February 26, 2002.

In October 2001, the Company bought a parcel of land with a factory from Yue-Jie Co., Ltd. at \$190,000. The Company has fully paid the amount and the title of land and factory has been transferred to the Company on January 14, 2002.

At December 31, 2001, certain property, plant and equipment were pledged to secure short-term borrowings. The carrying value of the collateralized real properties are as follows:

	NTD
Land	\$39,758
Buildings and improvements	<u>7,373</u>
Total	<u>\$47,131</u>

At December 31, 2002 and 2001, insurance coverage for property, plant and equipment, excluded land and prepayments on purchase of equipment, amounted to \$207,166 and \$69,625, respectively.

9. SHORT-TERM BORROWINGS

Short-term borrowings at December 31, 2002 and 2001 consist of the following:

	2002		2001	
	Annual Interest Rate	Balance		Annual Interest Rate
		NTD	USD	
Unsecured loans	—	<u>\$—</u>	<u>\$—</u>	1.00%~6.25%
				<u>\$204,785</u>

10. SHORT-TERM BILLS

Short-term bills at December 31, 2002 and 2001 consist of the following:

		2002		2001	
	Annual Interest Rate	Balance		Annual Interest Rate	Balance
		NTD	USD		NTD
Short-term bills — Commercial paper, credit . . .	—	\$—	\$—	1.90%~2.10%	\$254,455

11. BONDS PAYABLE

Bonds payable as at December 31, 2002 consist of the following:

	NTD	USD
Convertible bonds	\$809,605	\$23,298
Add interest compensation	<u>19,431</u>	<u>559</u>
Total	<u>\$829,036</u>	<u>\$23,857</u>

Convertible Bonds

- (a) Date of issuance: July 2, 2002
- (b) Par value: US\$10
- (c) Location of issuance: Luxemburg
- (d) Price of issuance: 100%
- (e) Total amount: US\$50,000
- (f) Interest rate: 1.00% per annum; 1.25% per annum (considering the income tax effect)
- (g) Date of maturity: July 2, 2007
- (h) Conversion price —

The initial price at which shares will be issued upon conversion is \$50 per share at the issue date. The above conversion price will be adjusted accordingly if there is a capital increase in cash or dividend distribution by the Company. At December 31, 2002, the current adjusted conversion price is \$41.60 per share.

- (i) Redemption at the option of the Company:

On or at any time after July 2, 2004, the Company may, having given not less than 40 nor more than 60 days' notice to the bondholders, redeem all or part of the bonds at their principal amount plus accrued interest, if any, if the closing price of the shares of the Company translated into U.S. Dollars at the prevailing rate, for each of the 30 consecutive trading days is at least 130 percent of the conversion price then in effect, translated into U.S. Dollars at the fixed exchange rate on each trading day.

On or at any time after July, 2004, the Company may, having given not less than 30 nor more than 60 days' notice to the bondholders, redeem all or part of the bonds at their principal amount if 90 percent of the bonds have been previously redeemed, repurchased, or converted and cancelled.

At any time, the Company may, having given not less than 30 nor more than 60 days' notice to the bondholders, redeem all but not some of the bonds at their principal amount, where withholding or deduction in respect of ROC withholding tax on premium or interest payments is in excess of 20 percent.

(j) Redemption at the option of bondholders —

The Company will, at the option of the bondholder, redeem all or part of the bonds on July 2, 2004 at a put price calculated by compounding the principal amount with the interest rate of 4.64% and on July 2, 2005 at the principal amount.

12. PENSION PLAN

The Company has a defined benefit pension plan covering all employees. The benefits are primarily based upon an employee's years of service and average compensation for the last six months before retirement.

Net pension cost for the year 2002 consists of the following:

	NTD	USD
Service cost	\$ 8,173	\$235
Interest cost	4,719	136
Expected return on plan assets	(1,431)	(41)
Amortization of net transition obligation	1,670	48
Amortization of pension gain	<u>647</u>	<u>18</u>
Net pension cost	<u>\$13,778</u>	<u>\$396</u>

The following sets forth the actuarial assumptions and plan's status at December 31, 2002:

Weighted-average discount rate		4.00%
Assumed rate of increase in salary		3.00%
Expected rate of return on plan assets		4.00%
	NTD	USD
Actuarial present value of benefit obligation:		
Vested benefits	\$(24,786)	\$ (713)
Nonvested benefits	<u>(48,766)</u>	<u>(1,403)</u>
Accumulated benefit obligation	(73,552)	(2,116)
Additional benefits at future salaries	<u>(20,658)</u>	<u>(595)</u>
Projected benefit obligation	(94,210)	(2,711)
Plan assets at fair value	<u>31,916</u>	<u>918</u>
Projected benefit obligation in excess of plan assets	(62,294)	(1,793)
Net transition obligation not yet recognized	15,032	433
Net pension gain not yet recognized	<u>8,116</u>	<u>234</u>
Accrued pension cost	(39,146)	(1,126)
Additional accrued pension liability recognized	<u>(2,490)</u>	<u>(72)</u>
Minimum pension liability	<u>\$(41,636)</u>	<u>\$(1,198)</u>

13. CAPITAL STOCK

The Company's outstanding capital stock at December 31, 2001 amounted to \$1,960,500, divided into 196,050,000 common shares with a par value of \$10 each.

In July 2002, the Company issued an additional \$394,900 common shares through stock dividends and bonuses to employees. In 2002, the Company's bondholders converted bonds into common shares of \$215,795. Consequently, as of December 31, 2002, the Company's outstanding capital amounted to \$2,571,195, divided into 257,119,474 common shares with a par value of \$10 each. Among the capital stock as at December 31, 2002, 80,822 shares from converted bonds were not yet registered with the government.

14. RETAINED EARNINGS

According to the Company Law of the R.O.C. and the Company's Articles of Incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, should first be appropriated as legal reserve until such reserve equals to the amount of the Company's capital, and then appropriate necessary special reserve as regulated by laws or domestic authorities.

Any remaining balance, unless to be retained partially by the Company or resolved otherwise by the stockholders, shall then be appropriated as follows:

- a. 3%~10% as bonuses to employees,
- b. 5% bonuses to directors and supervisors, and
- c. 85%~92% as dividends to stockholders, while stock dividends are in prior consideration. If the year of earnings distribution generated an operating cash inflow and no major capital investment in the following year is planned, of such dividends, not less than 10% of distributed earnings can be paid by cash.

The Company's appropriation and distribution of 2002 retained earnings has not been proposed by the board of directors as at January 31, 2003, the date of the independent auditors' report. Regarding the 2002 retained earnings proposition by the board of directors and the approval by the stockholders' meeting, please refer to the Market Observation Post System ("MOPS") of Taiwan Stock Exchange.

The Company's board of directors and shareholders have proposed and approved the 2001 earnings distribution of 4,201,000 shares to employees (represents 2.14% of the outstanding common shares at the year end of 2001) and of \$28,008 as bonuses to directors and supervisors. In 2001, the earnings per share after income tax (before retroactive adjustment for stock dividend in 2002) was \$3.19; however, if the earnings distribution to employees, directors and supervisors are accounted for as expenses, the pro-forma earnings per share after income tax is \$2.83.

15. TREASURY STOCK

The changes of treasury stock of 2002 is summarized as follows (in shares):

<u>Reason</u>	<u>2002.01.01</u>	<u>Increase</u>	<u>Decrease</u>	<u>2002.12.31</u>
Buy the stock back to distribute to employees	—	2,895,000	—	2,895,000

According to the Stock Exchange Law of the R.O.C, the shares of treasury stock should not be over 10% of the Company's issued and outstanding shares and the amount of treasury stock should not be over the total of retained earnings and realized additional paid-in capital. The highest number of shares of treasury stock that the Company held in 2002 was 2,895,000 shares with total amount \$86,342. And pursuant to the Stock Exchange Law, the limit on shares and amount of treasury stock that the Company applied for buying back on December 24, 2002 was based on the financial data as of September 30, 2002. The ceiling shares and amount were 25,703,865 shares and \$2,049,096, respectively. If it was accounted according to the financial data as of December 31, 2002, the ceiling shares and amount were 25,711,947 shares and \$2,165,229, respectively. As at December 31, 2002, the treasury stock of the Company was 2,895,000 shares with cost of \$86,342.

According to the Stock Exchange Law of the R.O.C., the treasury stock of the Company should not be pledged and does not have the same right as the common stock.

16. EARNINGS PER SHARE

	Year Ended December 31, 2002								
	Income Before Income Tax		Income After Income Tax		The Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share			
	NTD	USD	NTD	USD		Before Income Tax	After Income Tax		
						NTD	USD	NTD	USD
Basic earnings per share — Net income.	\$645,005	\$18,561	\$550,505	\$15,842	240,965	<u>\$2.68</u>	<u>\$0.08</u>	<u>\$2.28</u>	<u>\$0.07</u>
Effect of dilutive potential common shares — Convertible bonds .	<u>23,564</u>	<u>678</u>	<u>17,659</u>	<u>508</u>	<u>14,718</u>				
Dilutive earnings per shares — Net income plus the effect of dilutive potential common shares	\$668,569	\$19,239	\$568,164	\$16,350	255,683	\$2.61	\$0.07	\$2.22	\$0.06

For the year ended December 31, 2001, the weighted average number of shares used in the calculation of earnings per share has been restated for the retroactive effect of the stock dividends issued in 2002.

17. INCOME TAX

The provision for income tax for the year ended December 31, 2002 is as follows:

	NTD	USD
Income tax expense — current year.	\$130,097	\$3,744
Investment tax credits	(37,500)	(1,079)
Adjustments of deferred tax liabilities and prior years' income tax expense.	<u>1,903</u>	<u>55</u>
Income tax expense — net	<u>\$ 94,500</u>	<u>\$2,720</u>

The components of deferred tax asset (liability) as of December 31, 2002 are as follows:

	NTD	USD
Deferred tax asset (liability):		
Unrealized inventory devaluation losses	\$ 8,900	\$ 256
Unrealized gain on disposal of property, plant and equipment	2,400	69
Unrealized bad debt losses	100	3
Unrealized pension expense	10,000	288
Unrealized profit from inter-affiliate transactions.	600	17
Unrealized exchange losses.	9,500	273
Long-term equity investments income	<u>(505,400)</u>	<u>(14,543)</u>
Deferred tax liability	(473,900)	(13,637)
Deferred tax asset — current	<u>(19,100)</u>	<u>(550)</u>
Deferred tax liability — noncurrent	<u>\$(493,000)</u>	<u>\$(14,187)</u>

Current income tax expense for the year ended December 31, 2002 and income tax payable as of December 31, 2002 is reconciled as follows:

	NTD	USD
Income tax expense at statutory rate of 25%	\$152,848	\$4,399
Long-term equity investments income accounted for by the equity method	(24,187)	(696)
Interest expense of convertible bonds	1,174	34
Other	<u>262</u>	<u>7</u>
Current income tax expense	130,097	3,744
Reversal of deferred income tax (asset) liability:		
Investment tax credits	(37,500)	(1,079)
Other	<u>33,463</u>	<u>963</u>
Income tax payable	126,060	3,628
Less temporary tax payments and withholding income tax	(41,481)	(1,194)
Add prior year's income tax payable	<u>7,889</u>	<u>227</u>
Income tax payable as at December 31, 2002	<u>\$ 92,468</u>	<u>\$2,661</u>

Temporary tax payments of \$12,247 as at December 31, 2002 was the balance of prior year's withholding income tax.

The income tax returns for the years through 2000, except 1999, have been examined and approved by the tax authority. In the 1998 income tax return filing, the tax authority did not allow the Company to credit certain research and development expenditures, which resulted in additional income tax of \$7,889. The Company was not satisfied with the tax assessment and, accordingly, filed an appeal for review. However, the Company has accrued such income tax liability due to the consideration of conservatism.

The information of the integrated income tax system as of December 31, 2002 is as follows:

	NTD	USD
Balance of Imputation Credit Account	\$ 94,904	\$ 2,731
Undistributed earnings for the years of 1997 and before	141,379	4,069
Undistributed earnings for the years of 1998 and after	858,528	24,706
Expected IC ratio on distributable earnings for the year of 2003	20.91%	
Actual IC ratio of earnings distribution for the year of 2002	17.39%	

The expected IC ratio on distributable earnings for the year of 2003 has considered the income tax payable for 2002.

18. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are as follows:

Name	Relationship
Phihong USA Corp.	The Company holds a 100.00% ownership interest
Phihong International Corp.	The Company holds a 100.00% ownership interest
Phitek International Co., Ltd.	The Company holds a 100.00% ownership interest
Phihong Japan Corp.	The Company holds a 100.00% ownership interest
Phihong PWM Brasil Ltda.	The Company holds a 60.00% ownership interest
Guang-Lai Investment Co., Ltd.	The Company holds a 99.99% ownership interest
Hong-Sheng Investment Co., Ltd.	The Company holds a 99.99% ownership interest
Densei-Lambda K.K.	One of the directors of the Company
Axis Corp. ("Axis")	The Company's chairman is one of the directors of Axis
Cheng-Hsieh Chang.	The Company's general manager

The Company's major transactions with the related parties are summarized as follows:

Sales

Sales to related parties for the years ended December 31, 2002 and 2001 are summarized as follows:

	2002			2001	
	NTD	USD	Percentage to Net Sales	NTD	Percentage to Net Sales
Phihong USA Corp.	\$581,911	\$16,746	7.87	\$551,855	8.05
Other.	108,770	3,130	1.47	253,119	3.69
Total	<u>\$690,681</u>	<u>\$19,876</u>	<u>9.34</u>	<u>\$804,974</u>	<u>11.74</u>

The price that the Company sold its finished goods to affiliates is determined by each other in considering the product type, cost and market price, etc.

Cost of Sales — Purchases

Purchases from related parties for the years ended December 31, 2002 and 2001 are summarized below:

	2002			2001	
	NTD	USD	Percentage to Net Purchases	NTD	Percentage to Net Purchases
Axis Corp.	\$ 90,511	\$2,605	1.82	\$128,402	2.77
Phihong USA Corp.	31,804	915	0.64	124,485	2.69
Other.	11,711	337	0.23	19,521	0.42
Total	<u>\$134,026</u>	<u>\$3,857</u>	<u>2.69</u>	<u>\$272,408</u>	<u>5.88</u>

The purchase price for both related parties and unrelated parties are similar.

Processing Fee

Processing fee incurred for the years ended December 31, 2002 and 2001 is as follows:

	2002			2001	
	NTD	USD	Percentage to Total Processing Fee	NTD	Percentage to Total Processing Fee
Phihong International Corp.	\$369,246	\$10,626	37.01	\$639,794	57.55
Phitek International Co., Ltd.	240,731	6,927	24.13	62,688	5.64
Total	<u>\$609,977</u>	<u>\$17,553</u>	<u>61.14</u>	<u>\$702,482</u>	<u>63.19</u>

The processing fee is determined by the Company and its affiliates' mutual agreement.

Accounts Receivable

Accounts receivable from affiliates as at December 31, 2002 and 2001 are summarized as follows:

	2002			2001	
	NTD	USD	%	NTD	%
Phihong USA Corp.	\$179,722	\$5,172	12.02	\$69,839	6.34
Other.	20,745	597	1.39	22,007	2.00
Total	<u>\$200,467</u>	<u>\$5,769</u>	<u>13.41</u>	<u>\$91,846</u>	<u>8.34</u>

Notes Payable

Notes payable due to related party as at December 31, 2002 and 2001 are summarized as follows:

	2002			2001	
	NTD	USD	%	NTD	%
Axis Corp.	<u>\$18,661</u>	<u>\$537</u>	<u>2.81</u>	<u>\$31,977</u>	<u>5.07</u>

Accounts Payable

Accounts payable due to related parties as at December 31, 2002 and 2001 are summarized as follows:

	2002			2001	
	NTD	USD	%	NTD	%
Phihong International Corp.	\$ 988,494	\$28,446	48.91	\$1,930,084	69.24
Other.	17,203	495	0.85	17,490	0.63
Total	<u>\$1,005,697</u>	<u>\$28,941</u>	<u>49.76</u>	<u>\$1,947,574</u>	<u>69.87</u>

Other Receivables

Other receivables from affiliates as at December 31, 2002 and 2001 are as follows:

	2002			2001	
	NTD	USD	%	NTD	%
Phitek International Co., Ltd.	\$56,468	\$1,625	45.65	\$231,067	80.62
Other.	5,106	147	4.13	10,402	3.63
Total	<u>\$61,574</u>	<u>\$1,772</u>	<u>49.78</u>	<u>\$241,469</u>	<u>84.25</u>

Other Payable

Other payable to affiliates as at December 31, 2002 and 2001 is as follows:

	2002			2001	
	NTD	USD	%	NTD	%
Phihong Japan Corp.	<u>\$3,264</u>	<u>\$94</u>	<u>1.92</u>	<u>\$—</u>	<u>—</u>

Property Transactions

Sales of property, plant and equipment to related parties for the years ended December 31, 2002 and 2001 are as follows:

Related Party	Items	2002					
		Book Value		Selling Price		Gain (Loss)	
		NTD	USD	NTD	USD	NTD	USD
Phihong International Corp.	Machinery and equipment	\$ 8,652	\$249	\$11,411	\$328	\$2,759	\$ 79
	Office equipment	946	27	948	27	2	—
Phitek International Co., Ltd.	Machinery and equipment	608	17	2,174	62	1,566	45
	Office equipment	58	2	58	2	—	—
Phihong USA Corp. . .	Machinery and equipment	101	3	101	3	—	—
	Office equipment	1	—	2	—	1	—
Phihong PWM Brasil Ltda.	Machinery and equipment	188	5	196	6	8	1
Total		<u>\$10,554</u>	<u>\$303</u>	<u>\$14,890</u>	<u>\$428</u>	<u>\$4,336</u>	<u>\$125</u>

Related Party	Items	2001		
		NTD		
		Book Value	Selling Price	Gain (Loss)
Phihong International Corp.	Machinery and equipment	\$29,875	\$38,991	\$ 9,116
Phitek International Co., Ltd.	Machinery and equipment	3,310	6,302	2,992
Phihong USA Corp.	Machinery and equipment	489	524	35
Phihong PWM Brasil Ltda.	Machinery and equipment	233	892	659
Cheng-Hsieh Chang	Transaction equipment	710	400	(310)
Total		<u>\$34,617</u>	<u>\$47,109</u>	<u>\$12,492</u>

Commission Income

	2002			2001	
	NTD	USD	%	NTD	%
Densei-Lambda K.K.	<u>\$3,300</u>	<u>\$95</u>	<u>100.00</u>	<u>\$1,548</u>	<u>100.00</u>

Mold Development Revenue

	2002			2001	
	NTD	USD	%	NTD	%
Phihong USA Corp.	<u>\$6,952</u>	<u>\$200</u>	<u>15.50</u>	<u>\$3,815</u>	<u>15.17</u>

Commission Expenses

	2002			2001	
	NTD	USD	%	NTD	%
Phihong USA Corp.	\$48,083	\$1,384	63.16	\$72,897	75.04
Phihong Japan Corp.	<u>13,243</u>	<u>381</u>	<u>17.40</u>	<u>588</u>	<u>0.61</u>
Total	<u>\$61,326</u>	<u>\$1,765</u>	<u>80.56</u>	<u>\$73,485</u>	<u>75.65</u>

Credit Guarantees

See Note 20.

19. PLEDGED PROPERTIES

At December 31, 2001, the carrying value of following assets are pledged to secure loans from banks:

	NTD
Land	\$39,758
Buildings	<u>7,373</u>
Total	<u>\$47,131</u>

20. COMMITMENTS AND CONTINGENCIES

The Company has guaranteed the payments of loans of Phihong USA Corp. of \$86,868 as at December 31, 2002.

On December 10, 2002, the Company entered into a Real Estate Sales Agreement with Mr. Liu Sie Lung, a non-related party, to sell the plant and office building in San Chung City at a total price of \$50,000. As at December 31, 2002, the Company has received 40% of the total price. The Company expected to change the title to Mr. Liu in March 2003, and complete the transaction in May 2003.

21. SUBSEQUENT EVENTS

In January, 2003, Phihong PWM Brasil Ltda., the Company's subsidiary, invested US\$1,250,000 to acquire 21.15% ownership interest of First International Computer Do Brasil Ltda. ("FICDBL"); consequently, the Company, which had invested US\$2,000,000 in FICDBL, and its subsidiaries hold 55% ownership interest of FICDBL in total.

On December 26, 2002, the Company applied for an investment of a new subsidiary in Soochow, China, through PHI at US\$8,500. Such investment application has been approved by the investment commission of MOEA on January 17, 2003.

22. OTHERS

In accordance with SFAS No. 27, "Disclosure of Financial Instruments," derivative financial instruments of the Company at December 31, 2002 are summarized as follows:

Type		Contract Amount	Date of Maturity
Forward Exchange Contracts:			
Trading purpose	Purchase	EUR10,000	2003.01.16
Trading purpose	Sale	EUR10,000	2003.01.16
Hedge purpose	Sale	USD10,000	2003.01.06
Option Contracts:			
Trading purpose	Sell put option	USD20,000	2003.06.18
Trading purpose	Sell call option	USD28,500	2003.03.06~2003.06.18
Trading purpose	Sell call option	EUR10,000	2003.02.06
Trading purpose	Sell put option	EUR47,000	2003.02.06~2003.02.14
Trading purpose	Buy call option	EUR10,000	2003.02.06
Trading purpose	Buy put option	EUR 7,000	2003.02.10

The counterparties of the contracts referred to above are all commercial or investment banks or brokers with high credit ratings and thus, the credit risks are considered insignificant.

Market Risk

For the unsettled option contracts as of December 31, 2002, the Company has followed the "Guidelines for Derivatives Trading" to control the related risks.

Liquidity Risk and Cash Flow Risk

The Company has the ability to meet its financial obligations under the derivative contracts and thus, liquidity risks virtually do not exist.

Foreign exchange rates embedded in the derivative contracts are fixed at the inception and thus, cash flow risks are insignificant.

Type, Objective and Strategy for Derivative Instruments

Type	Objective	Strategy
Forward exchange contracts	Trading To hedge foreign currency exposure of assets and liabilities	— A derivative with the characteristic that the change in the derivative's fair value is in inverse relationships, with the change in the hedge item's fair value is employed to offset loss or gain on the hedged item attributable to the risk being hedged
Option contracts	Trading	—

Reporting of Derivative Instruments in the Financial Statements

As of December 31, 2002, the receivable and payable derived from forward exchange contracts are summarized as follows:

	NTD	USD
Forward exchange receivable — foreign currencies	\$349,416	\$10,055
Forward exchange payable — bought	339,478	9,769
Forward exchange receivable, net (recorded as current assets — other receivables)	<u>\$ 9,938</u>	<u>\$ 286</u>
Forward exchange payable — foreign currencies	\$703,731	\$20,251
Forward exchange receivable — sold	703,661	20,249
Forward exchange payable, net (recorded as current liabilities — other payables) .	<u>\$ 70</u>	<u>\$ 2</u>

Foreign exchange gain of the Company from derivative financial instruments for the year ended December 31, 2002 amounted to \$50,318, which was reported as exchange gains.

Fair Value of Financial Instruments

The fair value of non-derivative financial instruments at December 31, 2002 is summarized as follows:

Items	Carrying Value		Fair Value	
	NTD	USD	NTD	USD
Assets:				
Cash and cash equivalents	\$2,043,146	\$58,796	\$2,043,146	\$ 58,796
Notes receivable	5,047	145	5,047	145
Accounts receivable	1,294,671	37,257	1,294,671	37,257
Accounts receivable — affiliates	200,467	5,769	200,467	5,769
Other receivables	52,168	1,501	52,168	1,501
Other receivables — affiliates	61,574	1,772	61,574	1,772
Long-term equity investments	3,944,653	113,515	3,946,547	113,570
Other financial assets	11,922	343	11,922	343
Liabilities:				
Notes payable	645,454	18,574	645,454	18,574
Notes payable — affiliates	18,661	537	18,661	537
Accounts payable	1,015,259	29,216	1,015,259	29,216
Accounts payable — affiliates	1,005,697	28,941	1,005,697	28,941
Income tax payable	92,468	2,661	92,468	2,661
Other payables	169,341	4,873	169,341	4,873
Bonds Payable	829,036	23,857	829,036	23,857
Other financial liabilities	41,636	1,198	41,636	1,198

The fair value of derivative financial instruments at December 31, 2002 is summarized as follows:

	Carrying Value		Fair Value	
	NTD	USD	NTD	USD
Forward exchange contract receivable	\$9,938	\$286	\$9,938	\$286
Forward exchange contract payable	70	2	70	2
Unrealized losses of option transaction.	—	—	542	16

Approaches and assumptions employed in assessing the fair value of financial instruments are summarized as follows:

- (a) Financial instruments classified as current assets and liabilities, cash and cash equivalents, notes receivable, accounts receivable, accounts receivable — affiliates, notes payable, notes payable — affiliates, accounts payable, accounts payable — affiliates, and other financial instruments etc., whose maturity dates are short-term, accordingly, recognize carrying value as fair value.
- (b) Long-term equity investments, provided market prices are available, are valued at market prices. Otherwise, available financial or other useful information is employed to compute fair value.
- (c) Refundable deposits and advance deposits from customers, is stated at discounted value.
- (d) The fair value of a derivative is set at the amount of cash inflow or outflow that would have been derived if the underlying contract were settled at balance sheet date. Most derivative financial instruments have their fair value available from financial institutions that publish them.

INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors and Stockholders of
PHIHONG TECHNOLOGY CO., LTD.:

We have reviewed the balance sheets of Phihong Technology Co., Ltd., which was formerly know as Phihong Enterprise Co., Ltd. (the "Company") as of September 30, 2003 and 2002, and the related statements of income, changes in stockholders' equity and cash flows for the nine-month periods then ended (all expressed in Thousands of New Taiwan dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report based on our reviews.

Except as discussed in the following paragraph, we conducted our reviews in accordance with Statement on Auditing Standards No. 36, "Review of Financial Statements," of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It 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 an opinion on these financial statements.

As mentioned in Note 7, a portion of long-term equity investments accounted for under the equity method for the nine-month periods ended September 30, 2003 and 2002 are based on unreviewed financial statements. As of September 30, 2003 and 2002, the aggregate balance of the Company's investments in its investees whose financial statements have not been reviewed by independent auditors amounted to \$399,933 and \$123,917, respectively. For the nine-month periods ended September 30, 2003 and 2002, the Company's investment income from such investments amounted to \$44,489 and \$23,080, respectively.

Based on our reviews, except for the effects of such adjustments, if any, as might have been determined to be necessary had the long-term equity investments and investment income of investees mentioned above been recognized based on reviewed financial statements, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with accounting principles generally accepted in the Republic of China.

Our reviews also comprehended the translation of the 2003 New Taiwan dollars amounts into United States dollars amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. The translation of the 2003 financial statement amounts into United States dollars has been made solely for the convenience of readers outside the Republic of China.

Deloitte & Touche
Taipei, Taiwan
The Republic of China

October 24, 2003

The accompanying financial statements, which have been translated into English for the convenience of readers outside the Republic of China, 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 other than the Republic of China. Accordingly, the accompanying balance sheets of Phihong Technology Co., Ltd. and the related statements of income, changes in stockholders' equity and cash flows as of and for the nine-month periods ended September 30, 2003 and 2002 are not designed for those who are not informed about accounting principles, procedures and practices in the Republic of China. The standards, procedures and practices utilized in the Republic of China to review such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China.

These English financial statements expressed in thousands of New Taiwan Dollars were translated from the financial statements prepared originally in the Chinese language. The preparations of the financial statements, in both Chinese and English, are the responsibility of the Company's management. Auditor's responsibility is to express their opinion based on the audits of the financial statements prepared by management. Therefore, the Company's management should take the full responsibility of the financial statements originally in Chinese, as well as the translation of the Chinese version financial statements into the English version of financial statements.

PHIHONG TECHNOLOGY CO., LTD.
(Formerly Known as Phihong Enterprise Co., Ltd.)

BALANCE SHEETS
SEPTEMBER 30, 2003 AND 2002
(In Thousands of New Taiwan Dollars and United States Dollars)

	UNAUDITED		
	2003		2002
	NTD	USD	NTD
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (<i>Notes 2 and 3</i>)	\$1,394,772	\$ 41,327	\$2,216,353
Notes receivable (<i>Notes 2 and 4</i>)	3,755	111	4,409
Accounts receivable (<i>Notes 2 and 5</i>)	1,429,091	42,344	1,223,348
Accounts receivable — affiliates (<i>Notes 2, 5 and 18</i>)	192,345	5,699	175,283
Other receivables — affiliates (<i>Note 18</i>)	2,900	86	256,453
Other financial assets — current	62,653	1,856	123,503
Inventories (<i>Notes 2 and 6</i>)	869,007	25,748	742,783
Deferred income tax asset (<i>Notes 2 and 16</i>)	28,100	833	21,800
Other current assets	12,399	367	19,301
Total current assets	3,995,022	118,371	4,783,233
LONG-TERM EQUITY INVESTMENTS (<i>Notes 2 and 7</i>):			
Long-term equity investments at equity method	4,008,055	118,757	3,712,504
Long-term equity investments at cost method	77,820	2,306	—
Total long-term equity investments	4,085,875	121,063	3,712,504
OTHER FINANCIAL ASSETS — NONCURRENT	24,050	713	24,162
PROPERTY, PLANT AND EQUIPMENT (<i>Notes 2 and 8</i>):			
Cost	987,710	29,265	825,182
Revalued appreciation	—	—	32,305
Subtotal	987,710	29,265	857,487
Less accumulated depreciation	(64,889)	(1,923)	(71,618)
Prepayments on purchase of equipment	6,600	196	3,762
Property, plant and equipment, net.	929,421	27,538	789,631
INTANGIBLE ASSETS:			
Deferred pension cost (<i>Note 2</i>)	2,490	74	13,368
OTHER ASSETS	74,148	2,197	39,829
TOTAL	\$9,111,006	\$269,956	\$9,362,727

See notes to financial statements.
These financial statements had been reviewed only and not audited according to ROC GAAS.

PHIHONG TECHNOLOGY CO., LTD.
(Formerly Known as Pihong Enterprise Co., Ltd.)

BALANCE SHEETS — (Continued)
SEPTEMBER 30, 2003 AND 2002
(In Thousands of New Taiwan Dollars and United States Dollars)

	UNAUDITED		
	2003		2002
	NTD	USD	NTD
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Note 9)	\$ —	\$ —	\$ 69,834
Notes payable	567,267	16,808	514,585
Notes payable — affiliates (Note 18)	20,013	593	16,182
Accounts payable	1,198,116	35,500	1,061,738
Accounts payable — affiliates (Note 18)	564,546	16,727	1,297,651
Income tax payable (Notes 2 and 16)	63,863	1,892	65,493
Other payables	157,259	4,660	126,492
Long-term liabilities current portion (Note 10)	844,408	25,019	—
Other current liabilities	12,997	385	9,544
Total current liabilities	3,428,469	101,584	3,161,519
LONG-TERM LIABILITIES:			
Bonds payable (Notes 2 and 10)	—	—	826,862
Long-term debt (Note 11)	500,000	14,815	—
Total long-term liabilities	500,000	14,815	826,862
RESERVE FOR LAND VALUE INCREMENT TAX	—	—	22,317
OTHER LIABILITIES:			
Accrued pension cost (Note 2)	48,748	1,444	49,508
Deferred income tax liability (Notes 2 and 16)	488,600	14,477	494,100
Deferred credits (Note 2)	12,670	376	11,526
Total other liabilities	550,018	16,297	555,134
Total liabilities	4,478,487	132,696	4,565,832
STOCKHOLDERS' EQUITY:			
Capital stock (Note 12)	2,923,816	86,632	2,570,387
Capital surplus	847,414	25,109	854,745
Retained earnings (Note 13)	882,917	26,160	1,206,103
Cumulative translation adjustments	142,906	4,234	165,660
Treasury stock (Notes 2 and 14)	(164,534)	(4,875)	—
Total stockholders' equity	4,632,519	137,260	4,796,895
TOTAL	\$9,111,006	\$269,956	\$9,362,727

See notes to financial statements.

These financial statements had been reviewed only and not audited according to ROC GAAS.

PHIHONG TECHNOLOGY CO., LTD.
(Formerly Known as Phihong Enterprise Co., Ltd.)

STATEMENTS OF INCOME
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002
(In Thousands of New Taiwan Dollars and United States Dollars,
Except for Earnings Per Share Expressed in Dollar)

	UNAUDITED		
	2003		2002
	NTD	USD	NTD
GROSS SALES AND REVENUES EARNED	\$5,276,543	\$156,342	\$5,317,038
LESS SALES RETURNS AND ALLOWANCES	(51,780)	(1,534)	(50,473)
NET SALES AND REVENUES EARNED	5,224,763	154,808	5,266,565
COST OF GOODS SOLD	4,708,260	139,504	4,594,963
GROSS PROFIT	516,503	15,304	671,602
(UNREALIZED) REALIZED GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	(3,220)	(96)	15,176
REALIZED GROSS PROFIT	513,283	15,208	686,778
OPERATING EXPENSES	432,782	12,823	427,619
INCOME FROM OPERATIONS	80,501	2,385	259,159
NON-OPERATING INCOME:			
Interest income	10,625	315	15,383
Investment income, net (<i>Note 7</i>)	35,853	1,062	101,042
Gain on disposal of property, plant and equipment.	30,037	890	1,298
Gain on disposal of investment	2,398	71	—
Foreign exchange gains, net	46,149	1,367	57,235
Mold development revenue	33,328	987	41,293
Others	42,711	1,266	73,254
Total non-operating income	201,101	5,958	289,505
NON-OPERATING EXPENSES:			
Interest expense	47,611	1,411	14,202
Loss on disposal of property, plant and equipment.	3,577	106	484
Others	85,875	2,544	31,950
Total non-operating expenses	137,063	4,061	46,636
INCOME BEFORE INCOME TAX	144,539	4,282	502,028
CREDIT (PROVISION) FOR INCOME TAX (<i>Notes 2 and 16</i>)	6,500	193	(65,000)
NET INCOME	\$151,039	\$ 4,475	\$ 437,028

(Continued)

See notes to financial statements.
These financial statements had been reviewed only and not audited according to ROC GAAS.

PHIHONG TECHNOLOGY CO., LTD.
(Formerly Known as Phihong Enterprise Co., Ltd.)

STATEMENTS OF INCOME — (Continued)
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002
(In Thousands of New Taiwan Dollars and United States Dollars,
Except for Earnings Per Share Expressed in Dollar)

	UNAUDITED					
	Before Tax	After Tax	Before Tax	After Tax	Before Tax	After Tax
	NTD		USD		NTD	
EARNINGS PER SHARE						
(Notes 2 and 17):						
Basic	<u>\$0.50</u>	<u>\$0.53</u>	<u>\$0.01</u>	<u>\$0.02</u>	<u>\$1.85</u>	<u>\$1.62</u>
Diluted	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$1.81</u>	<u>\$1.57</u>
						(Concluded)

See notes to financial statements.
These financial statements had been reviewed only and not audited according to ROC GAAS.

PHIHONG TECHNOLOGY Co., LTD.
(Formerly Known as Pihong Enterprise Co., Ltd.)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002
(In Thousands of New Taiwan Dollars and United States Dollars)

	UNAUDITED											
	Capital Surplus											
	Capital Stock	Additional Paid-in Capital	Additional Capital-Bond Conversion	Revaluation Increment on Property, Plant and Equipment	Gain on Disposal of Property, Plant and Equipment	Effect of Transactions Relating to Long-term Equity Investments	NTD			Cumulative Translation Adjustments	Treasury Stock	Total
							Legal Reserve	Retained earnings Unappropriated Earnings	Interest Payable from Bond Conversion			
BALANCE, JANUARY 1, 2002	\$1,960,500	\$150,000	\$ —	\$9,987	\$11,174	\$1,765	\$ —	\$256,028	\$1,062,016	\$284,722	\$ —	\$3,736,192
Capital surplus — gain on disposal of property, plant and equipment transferred to retained earnings					(11,174)				11,174			—
Appropriation and distribution of 2001 net income:												
Legal reserve								63,645	(63,645)			—
Bonuses to directors and supervisors									(28,008)			(28,008)
Bonuses to employees	42,010								(42,010)			—
Stock dividends	352,890								(352,890)			—
Cash dividends									(137,235)			(137,235)
Convertible bonds convert to common stock	214,987		679,357				13,636					907,980
Translation adjustments on foreign long-term equity investments										(119,062)		(119,062)
Net income for the nine-month period ended September 30, 2002										437,028		437,028
BALANCE, SEPTEMBER 30, 2002	\$2,570,387	\$150,000	\$679,357	\$9,987	\$ —	\$1,765	\$13,636	\$319,673	\$ 886,430	\$165,660	\$ —	\$4,796,895
BALANCE, JANUARY 1, 2003	\$2,571,195	\$150,000	\$681,911	\$9,987	\$ —	\$1,765	\$13,738	\$319,673	\$ 999,907	\$165,103	\$86,342	\$4,826,937
Appropriation and distribution of 2002 net income:												
Legal reserve								55,050	(55,050)			—
Bonuses to directors and supervisors									(29,385)			(29,385)
Bonuses to employees (Note 12)	44,078								(44,078)			—
Stock dividends (Note 12)	308,543								(308,543)			—
Cash dividends									(205,696)			(205,696)
Realized revaluation increment on property plant and equipment				(9,987)							(9,987)	(9,987)
Translation adjustments on foreign long-term equity investments										(22,197)	(78,192)	(22,197)
Treasury stock buy back (Note 14)												(78,192)
Net income for the nine-month period ended September 30, 2003									151,039			151,039
BALANCE, SEPTEMBER 30, 2003	\$2,923,816	\$150,000	\$681,911	\$ —	\$ —	\$1,765	\$13,738	\$374,723	\$ 508,194	\$142,906	\$ (164,534)	\$4,632,519

See notes to financial statements.

These financial statements had been reviewed only and not audited according to ROC GAAS.

PHIHONG TECHNOLOGY Co., LTD.
(Formerly Known as Pihong Enterprise Co., Ltd.)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (Continued)
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002
(In Thousands of New Taiwan Dollars and United States Dollars)

	UNAUDITED											
	Capital Surplus											
	Capital Stock	Additional Paid-in Capital	Additional Paid-in Capital-Bond Conversion	Revaluation Increment on Property, Plant and Equipment	Gain on Disposal of Property, Plant and Equipment	Effect of Transactions Relating to Long-term Equity Investments	Interest Payable from Bond Conversion	Retained earnings		Cumulative Translation Adjustments	Treasury Stock	Total
								Legal Reserve	Unappropriated Earnings			
USD												
BALANCE, JANUARY 1, 2003	\$76,184	\$4,444	\$20,205	\$296	\$—	\$52	\$408	\$ 9,471	\$29,627	\$4,892	\$(2,558)	\$143,021
Appropriation and distribution of 2002 net income:												
Legal reserve								1,631	(1,631)			—
Bonuses to directors and supervisors									(870)			(870)
Bonuses to employees (Note 12) . . .	1,306								(1,306)			—
Stock dividends (Note 12)	9,142								(9,142)			—
Cash dividends									(6,095)			(6,095)
Realized revaluation increment on property plant and equipment				(296)								(296)
Translation adjustments on foreign long-term equity investments										(658)		(658)
Treasury stock buy back (Note 14) . . .											(2,317)	(2,317)
Net income for the nine-month period ended September 30, 2003.									4,475			4,475
BALANCE, SEPTEMBER 30, 2003	\$86,632	\$4,444	\$20,205	\$ —	\$—	\$52	\$408	\$11,102	\$15,058	\$4,234	\$(4,875)	\$137,260

See notes to financial statements.
These financial statements had been reviewed only and not audited according to ROC GAAS.

PHIHONG TECHNOLOGY Co., LTD.
(Formerly Known as Pihong Enterprise Co., Ltd.)

STATEMENTS OF CASH FLOWS
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002
(In Thousands of New Taiwan Dollars and United States Dollars)

	UNAUDITED		
	2003		2002
	NTD	USD	NTD
OPERATING ACTIVITIES:			
Net income.	\$ 151,039	\$ 4,475	\$ 437,028
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization.	33,100	981	28,607
Amortization for the issuing costs of convertible bonds	2,882	85	2,000
Recovery from inventory devaluation.	(12,043)	(357)	(5,000)
Loss on inventory disposition	30,043	890	—
Investment income recognized under equity method.	(35,853)	(1,062)	(101,042)
Cash dividends received from investees recognized under equity method	—	—	7,553
Unrealized gross profit from inter-affiliate transactions increase (decrease).	3,220	95	(15,176)
Gain on disposal of long-term equity investment	(779)	(23)	—
Net gain on disposal of property, plant and equipment	(26,460)	(784)	(814)
Changes in assets and liabilities provided (used) cash:			
Notes receivable	1,292	38	1,605
Accounts receivable.	(134,420)	(3,983)	(213,135)
Accounts receivable — affiliates	8,122	240	(84,571)
Other receivables — affiliates	58,674	1,738	(227,680)
Inventories	(217,069)	(6,432)	369,763
Other financial assets — current	(10,485)	(311)	(68,428)
Other current assets	3,300	98	(8,415)
Deferred income tax asset — current	(9,000)	(266)	19,272
Forward foreign exchange receivable, net.	9,938	294	(9,938)
Option contract premium received, net-trading	1,784	53	16,826
Notes payable.	(78,187)	(2,316)	(116,431)
Notes payable — affiliates	1,352	40	16,182
Accounts payable	182,857	5,418	253,625
Accounts payable — affiliates.	(441,151)	(13,071)	(681,910)
Income tax payable	(28,605)	(847)	(31,913)
Other payables	(64,218)	(1,903)	(49,508)
Other current liabilities	(8,986)	(266)	19,808
Foreign exchange adjustment on convertible bonds	(23,230)	(688)	67,249
Interest expenses compensation payable	38,602	1,143	9,804
Reserve for land value increment tax	(11,047)	(327)	—
Deferred income tax liability	(4,400)	(130)	(67,706)
Reserve for retirement plan.	7,112	211	8,376
Total adjustments	(723,655)	(21,442)	(860,997)
Net cash used in operating activities	(572,616)	(16,967)	(423,969)

(Continued)

See notes to financial statements.
These financial statements had been reviewed only and not audited according to ROC GAAS.

PHIHONG TECHNOLOGY CO., LTD.
(Formerly Known as Phihong Enterprise Co., Ltd.)

STATEMENTS OF CASH FLOWS — (Continued)
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002
(In Thousands of New Taiwan Dollars and United States Dollars)

	UNAUDITED		
	2003		2002
	NTD	USD	NTD
INVESTING ACTIVITIES:			
Forward foreign exchange payable (receivable)			
net increase (decrease) — hedging.	\$ 11,320	\$ 335	\$ (70)
Increase in long-term equity investments	(134,097)	(3,973)	(275,508)
Proceeds from disposal of long-term equity investments	7,310	217	50,000
Acquisition of property, plant and equipment	(185,090)	(5,484)	(233,331)
Proceeds from disposal of property, plant and equipment	67,572	2,002	13,806
Increase in refundable deposits	119	4	(1,610)
Increase in deferred charges	(29,619)	(878)	(53,699)
Net cash used in investing activities	(262,485)	(7,777)	(500,412)
FINANCING ACTIVITIES:			
Decrease in short-term borrowings.	—	—	(134,951)
Decrease in short-term obligations.	—	—	(254,455)
Issuance of convertible bonds	—	—	1,678,600
Bonuses to directors and supervisors	(29,385)	(870)	(28,008)
Cash dividends	(205,696)	(6,095)	(137,235)
Increase in long-term loans.	500,000	14,815	—
Increase in treasury stock	(78,192)	(2,317)	—
Net cash provided by financing activities	186,727	5,533	1,123,951
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS.	(648,374)	(19,211)	199,570
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,043,146	60,538	2,016,783
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$1,394,772</u>	<u>\$41,327</u>	<u>\$2,216,353</u>

(Continued)

See notes to financial statements.
These financial statements had been reviewed only and not audited according to ROC GAAS.

PHIHONG TECHNOLOGY CO., LTD.
(Formerly Known as Phihong Enterprise Co., Ltd.)

STATEMENTS OF CASH FLOWS — (Continued)
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002
(In Thousands of New Taiwan Dollars and United States Dollars)

	UNAUDITED		
	2003		2002
	NTD	USD	NTD
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest (excluding interest capitalized)	\$ 10,079	\$ 299	\$ 3,566
Income tax	\$ 34,968	\$ 1,036	\$ 125,308
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Translation adjustments on foreign long-term equity investments	\$ (22,197)	\$ (658)	\$ (119,062)
Stock dividends and transfer of bonuses to capital stock	\$ 352,621	\$10,448	\$ 394,900
Convertible bonds converted into common stock	\$ —	\$ —	\$ 907,980
Long-term liabilities — current portion	\$ 844,408	\$25,019	\$ —
Cash paid during the period for acquisition of property, plant and equipment:			
Increase in property, plant and equipment acquired	\$ 208,772	\$ 6,186	\$ 233,331
Less payables for acquisition of property, plant and equipment at end of period	(23,682)	(702)	—
Cash paid for acquisition of property, plant and equipment during the period	\$ 185,090	\$ 5,484	\$ 233,331

(Concluded)

See notes to financial statements.
These financial statements had been reviewed only and not audited according to ROC GAAS.

PHIHONG TECHNOLOGY CO., LTD.
(Formerly Known as Pihong Enterprise Co., Ltd.)

NOTES TO FINANCIAL STATEMENTS
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002
(Amounts are Expressed in Thousands of New Taiwan Dollars and United States Dollars,
Except for Per Share Data and Other Specified Items)

1. ORGANIZATION AND OPERATIONS

Pihong Technology Co., Ltd., which was formerly known as Pihong Enterprise Co., Ltd. (the "Company") was incorporated on December 12, 1972. According to the resolution of the shareholders' meeting in June, 2003, the Company changed its name to Pihong Technology Co., Ltd. The Company is primarily engaged in the manufacturing and sale of AC/DC power adapters, charger bases, power supply modules, UPS's for computers, ballast, etc.. There are 197 employees in the Company at September 30, 2003. In February 2000, the Company received authorization to have its stock listed on the Over-the-Counter Exchange in Taiwan. In September 2001, the Company's stock was authorized to trade on the Taiwan Stock Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF MEASUREMENT

The financial statements are prepared in conformity with accounting principles generally accepted in the Republic of China. Significant accounting policies and basis of measurement are summarized as follows:

Classification of Current and Non-Current

Assets expected to be converted into cash, sold, or consumed in twelve months or in the normal operating cycle are recorded as current assets. Liabilities expected to be liquidated in twelve months or in the normal operating cycle are recorded as current liabilities. Assets (liabilities) not being recorded as current assets (liabilities) are recorded as non-current assets (liabilities).

Cash and Cash Equivalents

Cash includes cash on hand and unrestricted bank deposits. Cash equivalents refer to time certificates of deposit and commercial paper, which can be readily converted into cash without significant penalty or the value will not be significantly affected by variation of interest.

Short-Term Investments

Short-term investments are stated at the lower of aggregate cost or market. The cost of short-term investments sold is determined on the weighted-average method. Stock dividends received are not recognized as income, instead they are reflected as an increase in the number of shares held.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based upon the management's evaluation of the collectibility and, past loss experience of notes and accounts receivable and intercompany receivables, and other pertinent factors.

Inventories

Inventories are stated at the lower of cost or market, with cost being determined based on the weighted-average method. Market values for raw materials are determined by replacement cost, while work-in-process and finished goods are determined by their net realizable values.

Long-Term Equity Investments

Investments in companies where the Company's ownership interest is 20% or more, or where the Company can exercise significant influence, are accounted for under the equity method. When equity method is used, the difference between the underlying equity in net assets of the investee and the cost of the investment as of acquisition date is amortized on a straight line basis over a ten-year period. Other long-term equity investments are accounted for under the cost method.

Property, Plant and Equipment

Property, plant and equipment are stated at cost plus revalued appreciation less accumulated depreciation. Expenditures that would increase the value or extend the useful lives of property, plant and equipment are capitalized. Interest costs are capitalized starting with the first expenditure related to construction of asset, and capitalization continues until such asset is substantially completed and ready for its intended use. Depreciation is provided on the straight-line basis over the estimated useful lives of the related assets, with an additional year for salvage.

For land revaluation an estimated land value increment tax equal to between 40% and 60% of the appreciation amount must be recorded as long-term land value incremental tax payable. The remainder of the appreciation amount is credited to capital surplus. For revaluation of properties other than land, a new basis of such assets for depreciation purposes is established.

When assets are retired or disposed of, their costs and related accumulated depreciation are removed from the accounts. Any resulting gain or loss is credited to non-operating income or charged to non-operating expense.

In accordance with the Approval Documents Jing-Sun No. 09102050200 of Ministry of Economic Affairs, the Company reversed its capital reserve from gain on disposal of property, plant and equipment accumulated as of December 31, 2000, to retained earnings. Additional legal reserve has been appropriated accordingly.

An additional service life and a new residual value will be determined for any depreciable asset which is still in use after the end of its initially prescribed useful life. Depreciation is computed on the straight-line method.

Deferred Charges

Deferred charges, except for issuing costs of convertible bonds and long-term loans, which are amortized over the term of the bonds and loans, are amortized on a straight-line basis over two to three years.

Convertible Bonds

The convertible bonds, issued by the Company, contains put right. Each holder has the right, at the holder's option and on specified dates, to require the company to repurchase all or any portion of such holder's bonds. The interest compensation, which is the amount of agreed put price over face value of such bonds, will be recognized as a liability under the interest method from the issue date to the date the put right expires. As at the balance sheet, the convertible bonds are classified as current liabilities or long-term liabilities based on the earlier date of the repurchase date or the maturity date.

When the holder exercises the conversion right, the net amount of the unamortized issuing costs, accrued interest, accrued interest compensation and face value of convertible bonds will be the cost basis of entitlement certificates. The difference of the net carrying amount of the convertible bonds over the par value of the entitlement certificates should be recognized as capital surplus.

Retirement Plan

The Company has a retirement plan covering all eligible employees. The benefits are based primarily upon an employee's years of service and average compensation for the six-month period before retirement. Contributions to the plan are assessed at 2% of monthly employee salaries and wages.

The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 18, "Accounting for Pension," which requires that pension expense shall be computed at actuarial basis.

Deferred Credits

Deferred credits represent those unrealized profit resulting from transactions between the Company and its affiliated companies accounted for under equity method.

Foreign Currency Transactions

Foreign currency transactions are recorded in New Taiwan dollars at the exchange rates prevailing on the respective transaction date. Gains or losses, caused by different foreign exchange rates applied when foreign currency receivables and payables are settled, are credited or charged to income. Assets and liabilities denominated in foreign currencies are translated at the balance-sheet-date exchange rate, and resulting gains or losses are credited or charged to current income.

Income Tax

The Company adopted the provisions of SFAS No. 22, "Accounting for Income Tax," which require an asset and liability approach to account for income tax. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized, if needed.

Under the Amended Income Tax Law of the ROC, undistributed earnings of the Company from 1998 onward are subject to 10% additional income tax which will be shown as income tax expense in the following year when the decision to retain the earnings is made by the shareholders in their meeting.

Cumulative Translation Adjustments

Long-term equity investments denominated in foreign currencies are restated to New Taiwan dollars at the balance-sheet-date exchange rates. The related translation adjustments are reported as a separate component of stockholders' equity.

Treasury Stock

Treasury stock is recorded at purchases cost, while fair value is adopted when stocks are received from donation. When the Company does not dispose or write off these stocks, their cost is listed as a deduction of stockholders' equity.

When treasury stock is retired, the book value of the treasury stock and the proportionate part of capital surplus-stock issuance premium are written-off. If the book value of the treasury stock is more than the total of the par value and related stock issuance premium, the difference is charged to the capital surplus of the same class of stock. If the capital surplus is not sufficient, retained earnings is debited instead. If the book value of the treasury stock is less than the total of the par value and related stock issuance premium, the difference is credited to the capital surplus of the same class of stock.

Earnings per Share

Basic earnings per common share are calculated by dividing net earnings applicable to common stock by the weighted average number of common shares outstanding. On a diluted basis, both net earnings and shares outstanding are adjusted to assume the conversion of convertible bonds from the date of issue. However, if the convertible bonds contains an anti-dilutive effect, they will be excluded from the calculation.

Derivative Financial Instruments

Forward exchange contracts that are designated and effective as a hedge of net foreign assets or liabilities positions are recorded on the respective transaction date. The discounts or premiums (the differences between the contract rates and the spot rates on the date of purchase multiplied by principal amount of foreign currencies) involved in all forward contracts are separately accounted for and amortized to income over the duration of the contracts.

Forward exchange contracts designated for trading purposes are recorded at the contracted forward rate on the date the contract was entered into. A gain or loss is computed by multiplying the foreign currency amount by the difference between the forward rate available for the remaining maturity of the contract and the contracted forward rate.

Receivables or payables from forward exchange contracts are shown on the accompanying balance sheets in the net balance.

The premiums which shall be received or paid while foreign exchange options contracts were entered into, are deferred and recognized as revenue or expense as such contracts expired.

Non-Derivative Financial Instruments

The recognition, valuation, and measurement of non-derivative financial assets and liabilities are made in accordance with the above accounting policies and accounting principles generally accepted in the Republic of China.

Convenience Translation of New Taiwan Dollars

The Financial statements are originally stated in or translated to New Taiwan Dollars, the currency of the country in which the Company is incorporated and operates. The translation of New Taiwan dollar amounts into United States dollar amounts are included solely for the convenience of readers outside the ROC and has been made at the rate of NT\$33.75 to US\$1 (the exchange rate of September 30, 2003). Such translation should not be construed as representation that the New Taiwan dollar amounts could be converted into United States dollars at the above or any other rate.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at September 30, 2003 and 2002 consist of the following:

	2003		2002
	NTD	USD	NTD
Cash on hand	\$ 987	\$ 29	\$ 669
Checking accounts.	1,645	49	7,753
Savings accounts.	668,299	19,802	264,112
Foreign-currency savings accounts.	305,508	9,052	314,929
Time certificates of deposit	418,333	12,395	1,628,890
Total	<u>\$1,394,772</u>	<u>\$41,327</u>	<u>\$2,216,353</u>

4. NOTES RECEIVABLE

Notes receivable at September 30, 2003 and 2002 consist of the following:

	2003		2002
	NTD	USD	NTD
Notes receivable — non-affiliates	\$3,755	\$111	\$4,409
Less allowance for doubtful accounts	<u>—</u>	<u>—</u>	<u>—</u>
Net	<u><u>\$3,755</u></u>	<u><u>\$111</u></u>	<u><u>\$4,409</u></u>

5. ACCOUNTS RECEIVABLE

Accounts receivable at September 30, 2003 and 2002 consist of the following:

	2003		2002
	NTD	USD	NTD
Accounts receivable	\$1,444,519	\$42,800	\$1,238,776
Less allowance for doubtful accounts	<u>(15,428)</u>	<u>(456)</u>	<u>(15,428)</u>
Net	1,429,091	42,344	1,223,348
Accounts receivable — affiliates (<i>Note 18</i>)	<u>192,345</u>	<u>5,699</u>	<u>175,283</u>
Total	<u><u>\$1,621,436</u></u>	<u><u>\$48,043</u></u>	<u><u>\$1,398,631</u></u>

6. INVENTORIES

Inventories at September 30, 2003 and 2002 consist of the following:

	2003		2002
	NTD	USD	NTD
Raw materials	\$410,723	\$12,170	\$349,811
Work-in-process	322,865	9,566	247,194
Finished goods	<u>158,936</u>	<u>4,709</u>	<u>182,140</u>
Total	892,524	26,445	779,145
Less valuation allowance	<u>(23,517)</u>	<u>(697)</u>	<u>(36,362)</u>
Net	<u><u>\$869,007</u></u>	<u><u>\$25,748</u></u>	<u><u>\$742,783</u></u>

As of September 30, 2003 and 2002, insurance coverage for inventories amounted to \$489,993 and \$325,766, respectively.

7. LONG-TERM EQUITY INVESTMENTS

Long-term equity investments at September 30, 2003 and 2002 consist of the following:

	2003				2002	
	Original	Carrying Value		Ownership	Carrying	Ownership
	Cost	NTD	USD	Percentage	Value	Percentage
	NTD				NTD	
Accounted for under equity method:						
Phihong International Corp. . .	\$ 143,312	\$2,636,233	\$ 78,111	100.00	\$2,706,550	100.00
Phihong USA Corp.	207,203	243,111	7,203	100.00	62,597	100.00
Phitek International Co., Ltd. .	63,286	68,670	2,035	100.00	8,647	100.00
Phihong Japan Corp.	22,550	9,386	278	100.00	7,320	100.00
Guang-Lai Investment Co., Ltd.	300,000	294,664	8,731	99.99	294,707	99.99
Hon-Sheng Investment Co., Ltd.	300,000	302,280	8,956	99.99	298,369	99.99
Phihong PWM Brasil Ltda. . .	8,258	79,313	2,350	60.00	41,697	60.00
FIC Do Brasil Ltda.	67,618	68,123	2,018	33.85	—	—
E.P.I. Technology (H.K.) Co., Ltd.	—	—	—	—	12,303	48.00
Prepayments on investments —						
Phihong International Corp. . .	306,275	306,275	9,075	—	212,696	—
FIC Do Brasil Ltda.	—	—	—	—	67,618	—
Subtotal	<u>1,418,502</u>	<u>4,008,055</u>	<u>118,757</u>		<u>3,712,504</u>	
Accounted for under cost method:						
AsiaTech Taiwan Venture Fund	26,143	26,143	775	1.58	—	—
Celxpert Energy Corp.	15,000	15,000	444	5.00	—	—
Prepayments on investments —						
Integrated System Solution Corp.	<u>36,677</u>	<u>36,677</u>	<u>1,087</u>	—	—	—
Subtotal	<u>77,820</u>	<u>77,820</u>	<u>2,306</u>		—	
Total	<u>\$1,496,322</u>	<u>\$4,085,875</u>	<u>\$121,063</u>		<u>\$3,712,504</u>	

Long-term equity investment income (loss) for the nine-month periods ended September 30, 2003 and 2002 is summarized as follows:

	2003		2002
	NTD	USD	NTD
Phihong International Corp.	\$ (4,591)	\$ (136)	\$112,608
Phihong USA Corp.	17,118	507	8,046
Phitek International Co., Ltd.	(5,411)	(160)	(27,332)
Phihong Japan Corp.	(2,312)	(69)	970
Guang-Lai Investment Co., Ltd.	(1,440)	(43)	(5,488)
Hon-Sheng Investment Co., Ltd.	2,973	88	(1,826)
Phihong PWM Brasil Ltda.	25,578	758	17,625
FIC Do Brasil Ltda.	4,105	122	—
E.P.I. Technology (H.K.) Co., Ltd.	<u>(167)</u>	<u>(5)</u>	<u>(3,561)</u>
Total	<u>\$35,853</u>	<u>\$1,062</u>	<u>\$101,042</u>

For the nine-month period ended September 30, 2003 and 2002, the investees for which the Company recognized its investment income (loss) under the equity method based on unreviewed financial statements include Phihong USA Corp., Phihong Japan Corp., Phihong PWM Brasil Ltda., FIC Do Brasil Ltda. and E.P.I. Technology (H.K.) Co., Ltd.

Phihong International Corp. (“PHI”) was incorporated in British Virgin Islands in 1996. The Company made additional investments in Phihong (Dongguan), Phihong (Shanghai), Phitek (Tianjin) and Phihong (Suzhou) to manufacture various power supplies through PHI in Mainland China. Under the approval of the investment commission of MOEA, the Company made additional investments by cash of

\$259,402 (US\$7,469) and machinery equipment of \$46,873 (HK\$10,846), totally \$306,275 to PHI and its subsidiaries in mainland China as at September 2003. As legal registration process is not completed, such investment is recorded as “prepayment on investments.”

Phitek International Co., Ltd. (“PHK”) was incorporated in British Virgin Islands in 1999. The Company made additional investments in Phitek (Dongguan) to manufacture various power supplies through PHK in Mainland China.

Phihong USA Corp (“PHA”), was incorporated in USA in 1997, and is engaged as an agent in sale of the Company’s products and provision of related customer services. In December 2002, the Company made additional investment in Phihong USA Corp. by \$207,203 (US\$6,200).

Guang-Lai Investment Co., Ltd. and Hon-Sheng Investment Co., Ltd. were incorporated in October 2001. They are primarily engaged in investing activities.

Phihong Japan Corp. (“PHJ”) was incorporated in Japan in 2000 and is engaged as an agent in sale of the Company’s products and provision of related customer service. In April 2002, the Company made additional investments in Phihong Japan Corp. by \$22,550 (JPY¥80,000).

Phihong PWM Brasil Ltda. was incorporated in Brasil in 2000 and is engaged in the manufacturing and sale of various power supplies.

The Company invested \$67,618 (US\$2,000) to acquire 33.85% ownership of FIC Do Brasil Ltda., which is mainly engaged in the manufacture of and sale of personal computer related products.

E.P.I. Technology (H.K.) Co., Ltd. was incorporated in Hong Kong in 2001. The Company made additional investments in Chuohong (Shen Zhen), to manufacture electronic components of fax machines through E.P.I. in mainland China. In February 2003, the Company sold its holding shares of E.P.I. to Excel Japan Co., Ltd., a non-related party, and recognized a gain on disposal of investment of \$779.

The Company plans to make investments in AsiaTech Taiwan Venture Fund by US\$1,000. The Company has paid \$26,143 (US\$750) as at September 30, 2003.

Celxpert Energy Corp. was incorporated in November, 1997 and is engaged in manufacturing and sale of batteries and electronic parts. In June 2003, Celxpert Energy Corp. increased its capital from \$95,000 to \$200,000, the Company subscribed 1,000,000 shares at \$15 per share.

Integrated System Solution Corp. was incorporated in May, 1999 and is the SoC solution provider in wireless and IA products. The Company subscribed 1,746,500 shares at \$21 per share in the first half of 2003. As the legal registration process is not completed, its was included in prepayments on investment as of September 30, 2003.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at September 30, 2003 and 2002 consist of the following:

	2003				2002
	Cost	Accumulated Depreciation	Carrying Value		Carrying Value
	NTD	NTD	NTD	USD	NTD
Land	\$581,897	\$ —	\$581,897	\$17,241	\$621,655
Buildings and improvements	247,092	6,280	240,812	7,135	105,328
Machinery and equipment	76,794	36,828	39,966	1,184	39,268
Transportation equipment	7,414	3,252	4,162	123	5,405
Furniture, fixtures and office equipment .	73,208	18,462	54,746	1,622	14,090
Other equipment	1,305	67	1,238	37	123
Prepayments on purchase of equipment .	6,600	—	6,600	196	3,762
Total	<u>\$994,310</u>	<u>\$64,889</u>	<u>\$929,421</u>	<u>\$27,538</u>	<u>\$789,631</u>

On December 10, 2002, the Company entered into a Real Estate Agreement with Mr. Lin Sie Lung, a non-related party, to sell the plant and office building in San Chung City at a total price of \$50,000. The Company changed the title to Mr. Liu on February 19, 2003 and completed the transaction in May, 2003. Accordingly, the Company recognized the gain on disposal of such assets of \$26,050 for the nine-month period ended September 30, 2003.

At September 30 2002, certain property, plant and equipment were pledged to secure short-term borrowings. The carrying value of the collateralized real properties are as follows:

	NTD
Land	\$39,758
Buildings and improvements	<u>6,365</u>
Total	<u><u>\$46,123</u></u>

At September 30, 2003 and 2002, insurance coverage for property, plant and equipment, excluded land and prepayment on purchase of equipment, amounted to \$202,069 and \$189,097, respectively.

9. SHORT-TERM BORROWINGS

Short-term borrowings at September 30, 2003 and 2002 consist of the following:

	2003		2002	
	Annual Interest Rate	Balance	Annual Interest Rate	Balance
		NTD		NTD
		USD		
Procurement loans	—	<u>\$—</u>	<u>\$—</u>	2.47%–2.76%
		<u>\$—</u>		<u>\$69,834</u>

10. BONDS PAYABLE

Bonds payable as at September 30, 2003 and 2002 consist of the following:

	2003		2002
	NTD	USD	NTD
Convertible bonds	\$786,375	\$23,300	\$817,058
Add interest compensation	<u>58,033</u>	<u>1,719</u>	<u>9,804</u>
	844,408	25,019	826,862
Less current portion.	<u>(844,408)</u>	<u>(25,019)</u>	<u>—</u>
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$826,862</u>

Convertible Bonds

- (a) Date of issuance: July 2, 2002
- (b) Par value: US\$10
- (c) Location of issuance: Luxembourg
- (d) Price of issuance: 100%
- (e) Total amount: US\$50,000
- (f) Interest rate: 1.00% per annum; 1.25% per annum (considering the income tax effect)
- (g) Date of maturity: July 2, 2007

(h) Conversion price:

The initial price at which shares will be issued upon conversion is \$50 per share at the issue date. The above conversion price will be adjusted accordingly if there is a capital increase in cash or dividend distribution by the Company. After stock dividends and transfer of bonuses to employee to capital stock in 2003, the current adjusted conversion price is \$29.20 per share.

(i) Redemption at the option of the Company:

On or at any time after July 2, 2004, the Company may, having given not less than 40 nor more than 60 days' notice to the bondholders, redeem all or part of the bonds at their principal amount plus accrued interest, if any, if the closing price of the shares of the Company translated into U.S. Dollars at the prevailing rate, for each of the 30 consecutive trading days is at least 130 percent of the conversion price then in effect, translated into U.S. Dollars at the fixed exchange rate on each trading day.

On or at any time after July, 2004, the Company may, having given not less than 30 nor more than 60 days' notice to the bondholders, redeem all or part of the bonds at their principal amount if 90 percent of the bonds have been previously redeemed, repurchased, or converted and cancelled.

At any time, the Company may, having given not less than 30 nor more than 60 days' notice to the bondholders, redeem all but not some of the bonds at their principal amount, where withholding or deduction in respect of the ROC withholding tax on premium or interest payments is in excess of 20 percent.

(j) Redemption at the option of bondholders:

The Company will, at the option of the bondholder, redeem all or part of the bonds on July 2, 2004 at a put price calculated by compounding the principal amount with the interest rate of 4.64% and on July 2, 2005 at the principal amount.

11. LONG-TERM DEBT

Long-term debt as at September 30, 2003 consist of the following:

	NTD	USD
Credit Lyonnais Bank		
Middle-term credit loan. The period is from September 29, 2003 to September 29, 2008. Interest rate as at September 30, 2003 was 2.687%. Interest is made annually. Principal will be repaid on maturity date	<u>\$500,000</u>	<u>\$14,815</u>

12. CAPITAL STOCK

	September 30,	
	2003	2002
Registered capital:		
Share (In Thousands)	<u>520,000</u>	<u>430,000</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital.	<u>\$5,200,000</u>	<u>\$4,300,000</u>
Issued capital:		
Share (In Thousands)	<u>292,382</u>	<u>257,039</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital.	<u>\$2,923,816</u>	<u>\$2,570,387</u>

In July 2002, the Company issued additional \$394,900 common shares through stock dividends and bonuses to employees. In September 2002, the Company's bond holders converted bonds into common shares of \$214,987. Consequently, as of September 30, 2002, the Company's outstanding capital amounted to \$2,570,387, divided into 257,038,652 common shares with a par value \$10 each.

In July 2003, the Company issued additional \$352,621 common shares through stock dividends and bonuses to employees. Consequently, as of September 30, 2003, the Company's outstanding capital stock amounted to \$2,923,816, divided into 292,381,563 common shares with a par value \$10 each.

13. RETAINED EARNINGS

According to the Company Law of the ROC and the Company's Articles of Incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, should first be appropriated as legal reserve until such reserve equals to the amount of the Company's capital, and then appropriate necessary special reserve as regulated by laws or domestic authorities.

Any remaining balance, unless to be retained partially by the Company or resolved otherwise by the stockholders, shall then be appropriated as follows:

- a. 3%–10% as bonuses to employees,
- b. 5% bonuses to directors and supervisors, and
- c. 85%–92% as dividends to stockholders, while stock dividends are in prior consideration. If the year of earnings distribution generated a operating cash inflow and no major capital investment in the following year, such dividends, not less than 10% of distributed earnings, can be paid by cash.

Regarding the 2002 retained earnings proposition by the board of directors and the approval by the stockholders' meeting, please refer to the Market Observation Post System ("MOPS") of Taiwan Stock Exchange.

The Company's board of directors proposed the 2002 earnings distribution of \$308,543 stock dividends and \$44,078 as bonuses to employees (represents 1.83% of the outstanding common shares at the year end of 2002) and of \$29,385 as bonuses to directors and supervisors. In 2002, the earnings per share after income tax (before retroactive adjustment for stock dividend in 2003) was \$2.28, if the earnings distribution to employees, director, and supervisors are accounted for as expenses, the pro-forma earnings per share after income tax is \$1.98.

14. TREASURY STOCK

The changes of treasury stock for the nine-month period ended September 30, 2003 is summarized as follows (in shares):

<u>Reason</u>	<u>2003.01.01</u>	<u>Increase</u>	<u>Decrease</u>	<u>2003.09.30</u>
Buy the stock back to distribute to employees. .	2,895,000	2,670,000	—	5,565,000

According to the Stock Exchange Law of the R.O.C., the shares of treasury stock should not be over 10% of the Company's issued and outstanding shares and the amount of treasury stock should not be over the total of retained earnings and realized additional paid-in capital. The Company has bought 5,565,000 shares of common stock with total amounts \$164,534 at September 30, 2003, which met the regulation of the Stock Exchange Law of the R.O.C. The ceiling shares and amount were 29,238,156 shares and \$1,728,566, respectively if it was accounted according to the financial data as of September 30, 2003.

According to the Stock Exchange Law of the R.O.C., the treasury stock of the Company should not be pledged and does not have the same right as the common stock does.

15. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel expense, depreciation, depletion and amortization for the nine-month periods ended September 30, 2003 and 2002 are summarized as follows:

Character/Function	2003						2002		
	Attribute to		Attribute to		Total		Attribute to	Attribute to	Total
	Operating Costs		Operating Expenses				Operating Costs	Operating Expenses	
	NTD	USD	NTD	USD	NTD	USD	NTD	NTD	NTD
Personnel expenses:									
Salaries	\$8,451	\$250	\$142,156	\$4,212	\$150,607	\$4,462	\$9,890	\$107,221	\$117,111
Labor insurance and health insurance	373	11	7,527	223	7,900	234	421	5,638	6,059
Pension cost	403	12	8,699	258	9,102	270	1,555	8,778	10,333
Others	453	13	7,419	220	7,872	233	964	6,868	7,832
Depreciation expenses	69	2	17,819	528	17,888	530	622	13,893	14,515
Amortization expenses	775	23	17,319	513	18,094	536	3,897	12,195	16,092

16. INCOME TAX

The credit for income tax for the nine-month period ended September 30, 2003 is as follows:

	NTD	USD
Income tax expense — current period	\$(23,653)	\$(701)
Research and development tax credits	23,000	682
Income tax expense on interest of commercial papers.	(198)	(6)
Adjustments of prior years' income tax expense	<u>7,351</u>	<u>218</u>
Income tax credit — net.	<u>\$ 6,500</u>	<u>\$ 193</u>

The components of deferred tax asset (liability) as of September 30, 2003 are as follows:

	NTD	USD
Deferred tax asset (liability):		
Unrealized inventory devaluation losses	\$ 5,900	\$ 175
Unrealized gain on disposal of property, plant and equipment	1,800	53
Unrealized pension expense	12,000	356
Unrealized profit from inter-affiliate transactions.	1,350	40
Unrealized exchange losses.	1,850	55
Unrealized compensation losses.	2,000	59
Research and development tax credits	17,000	504
Long-term equity investments income	<u>(502,400)</u>	<u>(14,886)</u>
Deferred tax liability	(460,500)	(13,644)
Deferred tax asset — current	<u>(28,100)</u>	<u>(833)</u>
Deferred tax liability — noncurrent	<u>\$(488,600)</u>	<u>\$(14,477)</u>

Current income tax expense for the nine-month period ended September 30, 2003 and income tax payable as of September 30, 2003 is reconciled as follows:

	NTD	USD
Income tax expense at statutory rate of 25%	\$36,000	\$1,067
Long-term equity investments income accounted for by equity method	(9,000)	(267)
Tax-free of the gain on disposal of land	(7,000)	(207)
Others	<u>3,653</u>	<u>108</u>
Current income tax expense	23,653	701
Reversal of deferred income tax (asset) liability:		
Unrealized exchange losses	(7,650)	(226)
Unrealized gain on disposal of property, plant and equipment	(600)	(18)
Unrealized devaluation loss on inventory	(3,000)	(89)
Unrealized bad debt expenses	(100)	(3)
Unrealized profit from inter-affiliate transaction	750	22
Unrealized pension expense	2,000	59
Unrealized compensation losses	2,000	59
Long-term equity investment income	3,000	89
Investment tax credits	<u>(6,000)</u>	<u>(178)</u>
Income tax payable	14,053	416
Less current period's withholding income tax	(3,884)	(115)
Add prior year's income tax payable	<u>53,694</u>	<u>1,591</u>
Income tax payable as at September 30, 2003	<u>\$63,863</u>	<u>\$1,892</u>

Temporary tax payment of \$12,247 as at September 30, 2003 was prior year's withholding income tax.

The income tax returns for the years through 2001, except for 1999, have been examined and approved by the tax authority.

The informations of the integrated income tax system as of September 30, 2003 is as follows:

	NTD	USD
Balance of Imputation Credit Account	<u>\$ 31,709</u>	<u>\$ 945</u>
Undistributed earnings for the years of 1997 and before	<u>\$141,379</u>	<u>\$ 4,189</u>
Undistributed earnings for the years of 1998 and after	<u>\$366,815</u>	<u>\$10,869</u>
IC ratio on distributed earnings for the year of 2003	<u>14.69%</u>	
IC ratio of earnings distribution for the year of 2002	<u>17.39%</u>	

17. EARNING PER SHARE

For the nine-month periods ended September 30, 2003 and 2002, earnings per share before income tax and earnings per share after income tax are as follows:

	2003								
					The Weighted Averaged Number of Common Shares Outstanding (In Thousands)	Earnings Per Share			
	Income before Tax		Income after Tax			Income before Tax		Income after Tax	
	NTD	USD	NTD	USD		NTD	USD	NTD	USD
Basic earnings per share									
— Net income	\$144,539	\$4,282	\$151,039	\$4,475	287,245	\$0.05	\$0.01	\$0.53	\$0.02

	2002				
	The Weighted Averaged			Earnings Per Share	
	Income before Tax	Income after Tax	Number of Common Shares Outstanding (In Thousands)	Income before Tax	Income after Tax
	NTD	NTD		NTD	NTD
Basic earnings per share — Net income	\$502,028	\$437,028	270,802	<u>\$1.85</u>	<u>\$1.62</u>
Effect of dilutive potential common share — Convertible bonds	<u>11,847</u>	<u>8,885</u>	<u>13,470</u>		
Basic earnings per share — Net income plus the effect of dilutive potential common shares	<u>\$513,875</u>	<u>\$445,913</u>	<u>284,272</u>	<u>\$1.81</u>	<u>\$1.57</u>

Diluted earnings per share is not calculated as the anti-dilutive effect of convertible bonds.

For the nine-month period ended September 30, 2002, the weighted average number of shares used in the calculation of earnings per share has been restated for the retroactive effect of the stock dividends issued in 2003.

18. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are as follows:

Name	Relationship
Phihong USA Corp.	The Company holds a 100% ownership interest
Phihong International Corp.	The Company holds a 100% ownership interest
Phitek International Co., Ltd.	The Company holds a 100% ownership interest
Phihong Japan Corp.	The Company holds a 100% ownership interest
Phihong PWM Brasil Ltda.	The Company holds a 60% ownership interest
Densei-Lambda K.K.	One of the directors of the Company
Axis Corp. (“Axis”)	The Company’s chairman is one of the directors of Axis
Value Dynamic Investment Ltd.	Phihong International Corp. holds a 100% ownership interest

The Company’s major transactions with the related parties are summarized as follows:

Sales

Sales to related parties for the nine-month periods ended September 30, 2003 and 2002 are summarized as follows:

	2003			2002	
	NTD	USD	Percentage to Net Sales	NTD	Percentage to Net Sales
Phihong USA Corp.	\$626,924	\$18,575	12	\$370,873	7
Phihong PWM Brasil Ltda.	137,687	4,080	3	77,424	1
Other.	<u>513</u>	<u>15</u>	<u>—</u>	<u>455</u>	<u>—</u>
Total	<u>\$765,124</u>	<u>\$22,670</u>	<u>15</u>	<u>\$448,752</u>	<u>8</u>

The price that the Company sold its finished goods to affiliates is determined by each other in considering the product type, cost and market price, etc.

Cost of Sales — Purchases

Purchases from related parties for the nine-month periods ended September 30, 2003 and 2002 are summarized below:

	2003			2002		
	NTD	USD	Percentage to Total Purchases	NTD		Percentage to Total Purchases
Axis Corp.	\$ 73,182	\$2,168	2	\$60,648		2
Phihong USA Corp.	27,865	826	—	23,513		1
Other.	28,430	842	1	8,460		—
Total	<u>\$129,477</u>	<u>\$3,836</u>	<u>3</u>	<u>\$92,621</u>		<u>3</u>

The purchase price for both related parties and unrelated parties are similar.

Processing Fee

Processing fee incurred for the nine-month periods ended September 30, 2003 and 2002 is as follows:

	2003			2002		
	NTD	USD	Percentage to Total Processing Fee	NTD		Percentage to Total Processing Fee
Phihong International Corp. . .	\$419,351	\$12,425	57	\$369,245		55
Phitek International Co., Ltd. .	96,892	2,871	13	35,979		5
Total	<u>\$516,243</u>	<u>\$15,296</u>	<u>70</u>	<u>\$405,224</u>		<u>60</u>

The processing fee is determined by the Company and its affiliates' mutual agreement.

Accounts Receivable

Accounts receivable from affiliates as at September 30, 2003 and 2002 are summarized as follows:

	2003			2002		
	NTD	USD	%	NTD		%
Phihong USA Corp.	\$154,537	\$4,579	10	\$136,374		10
Phihong PWM Brasil Ltda. . . .	37,808	1,120	2	38,739		3
Phihong Japan Corp.	—	—	—	170		—
Total	<u>\$192,345</u>	<u>\$5,699</u>	<u>12</u>	<u>\$175,283</u>		<u>13</u>

Notes Payable

Notes payable due to related party as at September 30, 2003 and 2002 are summarized as follows:

	2003			2002		
	NTD	USD	%	NTD		%
Axis Corp.	<u>\$20,013</u>	<u>\$593</u>	<u>3</u>	<u>\$16,182</u>		<u>3</u>

Accounts Payable

Accounts payable due to related parties as at September 30, 2003 and 2002 are summarized as follows:

	2003			2002	
	NTD	USD	%	NTD	%
Phihong International Corp. . .	\$530,216	\$15,710	30	\$1,282,634	54
Phitek International Co., Ltd. .	11,468	340	1	—	—
Others	<u>22,862</u>	<u>677</u>	<u>1</u>	<u>15,017</u>	<u>1</u>
Total	<u>\$564,546</u>	<u>\$16,727</u>	<u>32</u>	<u>\$1,297,651</u>	<u>55</u>

Other Receivables

Other receivables from affiliates as at September 30, 2003 and 2002 are as follows:

	2003			2002	
	NTD	USD	%	NTD	%
Phitek International Co., Ltd. .	\$ —	\$—	—	\$253,624	67
Others	<u>2,900</u>	<u>86</u>	<u>4</u>	<u>2,829</u>	<u>1</u>
Total	<u>\$2,900</u>	<u>\$86</u>	<u>4</u>	<u>\$256,453</u>	<u>68</u>

Property Transactions

Sales of property, plant and equipment to related parties for the nine-month periods ended September 30, 2003 and 2002 are as follows:

Related Party	Items	2003					
		Book Value		Selling Price		Gain (Loss)	
		NTD	USD	NTD	USD	NTD	USD
Phihong International Corp.	Machinery and equipment	<u>\$1,711</u>	<u>\$51</u>	<u>\$1,205</u>	<u>\$36</u>	<u>\$(506)</u>	<u>\$(15)</u>

Related Party	Items	2002			
		Book Value	Selling Price	Gain	
Phihong International Corp.	Machinery and equipment	\$7,012	\$9,699	\$2,687	
	Office equipment	946	948	2	
Phitek International Co., Ltd.	Machinery and equipment	608	2,174	1,566	
	Office equipment	58	58	—	
Phihong PWM Brasil Ltda.	Machinery and equipment	188	196	8	
Total		<u>\$8,812</u>	<u>\$13,075</u>	<u>\$4,263</u>	

Mold Development Revenue

	2003			2002	
	NTD	USD	Percentage to Total Mold Development Revenue	NTD	Percentage to Total Mold Development Revenue
Phihong USA Corp.	<u>\$17,163</u>	<u>\$509</u>	<u>52</u>	<u>\$4,579</u>	<u>1</u>

Commission Expenses

	2003			2002	
	NTD	USD	Percentage to Total Mold Development Revenue	NTD	Percentage to Total Mold Development Revenue
Phihong USA Corp.	\$25,871	\$766	62	\$47,640	72
Phihong Japan Corp.	<u>4,210</u>	<u>125</u>	<u>10</u>	<u>9,658</u>	<u>15</u>
Total	<u>\$30,081</u>	<u>\$891</u>	<u>72</u>	<u>\$57,298</u>	<u>87</u>

Credit Guarantees

See Note 20

19. PLEDGED PROPERTIES

At September 30, 2002 the following assets are pledged for loans securing:

	NTD
Land	\$39,758
Buildings	<u>6,365</u>
Total	<u>\$46,123</u>

20. COMMITMENTS AND CONTINGENCIES

Loan Guarantees

The Company has guaranteed the payments of loans of Phihong USA Corp. \$84,375 (US\$2,500) as at September 30, 2003.

Contingencies

In September 2003, the Company received a notification from San Diego High Court, relating to a breach of Non-Compete Agreement entered into between the Company and Solteras, Inc. (a company incorporated in Delaware, USA). Solteras alleged the Company has infringed its rights. As the result, the Company has estimated compensation loss of \$5,738 (US\$170) in the third quarter of 2003.

21. SUBSEQUENT EVENTS

On October 20, 2003, the Company's board of directors decided to issue a second offering of Euro-dollar convertible bonds at the ceiling of US\$30,000. The Company intends to use the proceeds to redeem the first Euro-dollar convertible bonds and to procure raw materials overseas.

22. OTHERS

In accordance with SFAS No. 27, “Disclosure of Financial Instruments,” derivative financial instruments of the Company at September 30, 2003 is summarized as follows:

	<u>Contract Amount</u>	<u>Call Option</u>	<u>Put Option</u>	<u>Exchange Rate</u>	<u>Credit Risk</u>	<u>Date of Maturity</u>
Forward exchange contracts:						
Hedge purpose . .	Sell EUR5,000	—	—	1.0786	\$—	2003.11.26
Hedge purpose . .	Sell EUR15,000	—	—	126.27~127.37	—	2003.11.12~2003.11.26
Hedge purpose . .	Sell USD5,000	—	—	111.91	—	2003.10.29
Hedge purpose . .	Sell USD20,000	—	—	34.005~34.187	—	2003.10.09~2003.12.12
Sell option contracts:						
Trading purpose .	USD15,000	USD	YEN	103.5~113.85	\$—	2003.12.18~2004.02.27
Trading purpose .	EUR35,000	EUR	USD	1.18~1.20	—	2003.12.17~2004.04.19
Trading purpose .	EUR10,000	USD	EUR	1.07~1.10	—	2003.12.17~2004.04.19
Trading purpose .	EUR70,000	YEN	EUR	119.75~130	—	2003.10.14~2004.06.25
Trading purpose .	EUR30,000	EUR	YEN	141~145	—	2003.11.26~2004.06.25
Trading purpose .	USD15,000	NTD	USD	33~33.89	—	2003.12.11~2004.07.15
Trading purpose .	USD45,000	USD	YEN	115~120	—	2003.12.18~2004.06.25
Trading purpose .	USD20,000	AUD	USD	0.64~0.648	—	2004.03.22
Trading purpose .	USD10,000	USD	NTD	35	—	2004.07.15
Buy option contracts:						
Trading purpose .	EUR5,000	EUR	USD	1.1	—	2003.12.17
Trading purpose .	USD5,000	USD	NTD	33.89	—	2003.12.11
Trading purpose .	USD15,000	YEN	USD	112~112.5	—	2003.12.18~2004.01.28
Trading purpose .	EUR30,000	YEN	EUR	126~130	—	2003.11.26~2003.12.24
Trading purpose .	EUR15,000	EUR	YEN	132~132.5	—	2003.11.10~2003.11.13

The counterparties of the contracts referred to above are all commercial or investment banks or brokers with high credit ratings and thus, the credit risks are considered insignificant.

Market Risk

For the unsettled option contracts as of September 30, 2003, the Company has followed the “Guidelines for Derivatives Trading” to control the related risks.

Liquidity Risk and Cash Flow Risk

The Company has the ability to meet its financial obligations under the derivative contracts and thus, liquidity risks virtually do not exist.

Foreign exchange rates embedded in the derivative contracts are fixed at the inception and thus, cash flow risks are insignificant.

Type, Objective and Strategy for Derivative Instruments

<u>Type</u>	<u>Objective</u>	<u>Strategy</u>
Forward exchange contracts	To hedge foreign currency exposure of admitted assets and liabilities	A derivative with the characteristic that the change in the derivative’s fair value is in inverse relationships, with the change in the hedged item’s fair value is employed to offset loss or gain on the hedged item attributable to the risk being hedged
Option contracts	Trading	—

Reporting of Derivative Instruments in the Financial Statements

As of September 30, 2003 the receivable and payable derived from foreign exchange contracts are summarized below:

	NTD	USD
Forward exchange payable	\$1,631,002	\$48,326
Less forward exchange receivable	(1,619,612)	(47,989)
Payable (receivable) on forward exchange contracts, net.	<u>\$ 11,390</u>	<u>\$ 337</u>

Foreign Exchange gain of the company from derivative financial instruments for the nine-month period ended September 30, 2003 amounted to \$42,479, which was reported as exchange gains.

Fair Value of Financial Instruments

The fair value of non-derivative financial instruments at September 30, 2003 and 2002 are summarized as follows:

Items	2003				2002	
	Carrying Value		Fair Value		Carrying Value	Fair Value
	NTD	USD	NTD	USD	NTD	NTD
Assets:						
Cash and cash equivalents	\$1,394,772	\$41,327	\$1,394,772	\$41,327	\$2,216,353	\$2,216,353
Notes receivable	3,755	111	3,755	111	4,409	4,409
Accounts receivable.	1,429,091	42,344	1,429,091	42,344	1,223,348	1,223,348
Accounts receivable — affiliates	192,345	5,699	192,345	5,699	175,283	175,283
Other receivables — affiliates.	2,900	86	2,900	86	256,453	256,453
Other financial assets — current	62,653	1,856	62,653	1,856	123,503	123,503
Long-term equity investments	4,085,875	121,063	4,095,000	121,333	3,712,504	3,720,606
Other financial assets — non current . .	24,050	713	24,050	713	24,162	24,162
Liabilities:						
Short-term borrowings	—	—	—	—	69,834	69,834
Notes payable	567,267	16,808	567,267	16,808	514,585	514,585
Notes payable — affiliates	20,013	593	20,013	593	16,182	16,182
Accounts payable	1,198,116	35,500	1,198,116	35,500	1,061,738	1,061,738
Accounts payable — affiliates.	564,546	16,727	564,546	16,727	1,297,651	1,297,651
Other payables	157,259	4,660	157,259	4,660	126,492	126,492
Other current financial liabilities	12,997	385	79,967	2,369	9,544	19,579
Bonds payable	—	—	—	—	826,862	826,862
Current portion of long-term liabilities	844,408	25,019	844,408	25,019	—	—

The fair value of derivative financial instruments at September 30, 2003 and 2002 are summarized as follows:

Items	2003				2002	
	Carrying Value		Fair Value		Carrying Value	Fair Value
	NTD	USD	NTD	USD	NTD	NTD
Sell (buy) forward exchange assets	\$11,390	\$337	\$11,390	\$337	\$—	\$—
Unsettled option transaction	—	—	(66,970)	(1,984)	—	(10,035)

Approaches and assumptions employed in assessing the fair value of financial instruments is summarized as follows:

- (a) Financial instruments classified as current assets and liabilities, cash and cash equivalents, notes receivable, accounts receivable, accounts receivable — affiliates, other financial assets and liabilities — current, other financial assets and liabilities, short-term borrowings, notes payable, notes payable — affiliates, accounts payable, accounts payable — affiliates, etc., whose maturity dates are short-term, accordingly, recognize carrying value as fair value.

- (b) Short-term investments and long-term equity investments, provided market prices are available, are valued at market prices. Otherwise, available financial or other useful information is employed to compute fair value.
- (c) Refundable deposits and advance deposits from customers, is stated at discounted value.
- (d) The fair value of a derivative is set at the amount of cash inflow or outflow that would have been derived if the underlying contract were settled at balance sheet date. Most derivative financial instruments have their fair value available from financial institutions that publish them.
- (e) Long-term borrowings are stated at discount value.

23. RECLASSIFICATIONS

Certain accounts in the 2002 financial statements have been reclassified to conform to the 2003 method of presentation.

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APPENDIX A — FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC

The information presented in this appendix has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Managers 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.

On September 30, 2003, the ROC Executive Yuan approved the amendment to Rules governing Investment in Securities by Overseas Chinese and Foreign National (“Overseas Rules”). According to the Overseas Rules, as amended, the ROC SFC abolished the mechanism of the so-called qualified foreign institutional investors and general foreign investor as stipulated in the Overseas Rules before the amendment.

Under the Overseas Rules, overseas Chinese and foreign nationals are classified as “onshore overseas Chinese and foreign nationals” and “offshore overseas Chinese and foreign nationals” according to their respective geographical location. Both onshore and offshore overseas Chinese and foreign nationals are allowed to invest in ROC securities after they register with the TSE. In addition, offshore foreign institutional investors have to apply for a prior approval from the CBC for foreign exchange conversion purpose. Offshore overseas Chinese and foreign nationals are not required to apply for the CBC’s approval, but a maximum investment quota will be separately set by the ROC SFC after consultation with the CBC. On the other hand, foreign institution investors are not subject to any ceiling for investment in the ROC securities market.

Overseas Corporate Bonds

Since 1989, the ROC SFC has approved a series of overseas corporate bond issues (“OCBs”) by ROC companies listed on the TSE in offerings directed outside the ROC. Since December 1994, the ROC SFC has also permitted ROC companies whose shares are traded on the GTSM to issue and offer OCBs. In 2002, the ROC SFC further permitted public-issue companies to issue OCBs on a private placement basis.

Under the current ROC laws and policies, OCBs can be converted by bondholders (other than PRC persons) into shares of the relevant ROC companies or (subject to the ROC SFC approval) may be converted into depositary receipts issued under the sponsorship of the same ROC company or under the sponsorship of the issuing company of the exchanged shares, in case of exchangeable bonds. Public issuing companies may issue corporate debt in offerings outside the ROC. Proceeds from sales of the shares converted from OCBs may be used for re-investment in securities listed on the TSE or traded on the GTSM. These reinvestments will need to comply with the limitations and restrictions discussed herein.

Under the current ROC law, a converting bondholder when exercising the conversion right to convert the bonds into shares of an ROC company is required to register with TSE and, if applicable, obtain the approval of the CBC (if such converting holder is an offshore foreign institutional investor) and is required to appoint a local agent (with such qualifications as are set by the ROC SFC) to open a securities trading account with a local brokerage firm and a bank account, pay ROC withholding tax, remit funds, exercise shareholders’ rights and perform such other actions as may be designated by such converting bondholder, on behalf of and as agent for such converting bondholder. In addition, the converting bondholder is also required to appoint a local bank to act as a custodian bank to hold the securities and cash proceeds in safekeeping, to make confirmations, to settle trades and to report all relevant information. Such converting bondholder is also required to appoint a tax guarantor for filing tax returns and making tax payments. Without making this appointment and opening these accounts, the converting bondholder would be unable to subsequently sell the shares received upon conversion of the bonds on the TSE or otherwise.

Unless otherwise limited by the CBC, an ROC Company may, without obtaining further approvals from the CBC or any other government authority of the ROC, convert NT Dollars to other currencies, including U.S. Dollars, in respect of the proceeds of the redemption of the Bonds or payment of interest on, or the repayment of principal upon maturity of, the Bonds. However, a converting bondholder must obtain prior approval from the CBC on a payment-by-payment basis for conversion from NT Dollars into other currencies in respect of the proceeds from the sale of subscription rights for newly issued shares if the proceeds is in excess of U.S.\$100,000 per remittance.

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 ROC SFC promulgated regulations permitting ROC companies with securities listed on the TSE, with the prior approval of the ROC SFC, to sponsor the issuance and sale to foreign investors of depository receipts. Depository receipts evidence depository shares representing deposited shares of ROC companies. In December 1994, a series of new regulations was promulgated by the ROC Ministry of Finance allowing companies whose shares are traded on the GTSM to sponsor, upon approval by the ROC SFC, the issuance and sale of depository receipts. In 2002, the ROC SFC further permitted public companies to participate the issuance of depository receipts on a private placement basis.

The Overseas Rules, as amended, provide that any depository receipt holder may, after the issue date of the depository receipts (in the case that the deposited shares are new shares) or immediately (in the case that the deposited shares are existing shares), request the depository bank either to cause the underlying shares to be sold in the ROC and distribute the proceeds of such sale to the depository receipt holder or to withdraw the underlying shares from the depository receipt facility and deliver such shares to such holder. A citizen of the PRC or an entity organized under the laws of the PRC is not permitted to withdraw and hold the Shares. Proceeds from sales of the shares withdrawn from depository receipts may be used for re-investment in securities listed on the TSE or traded on the GTSM. These reinvestments will need to comply with the limitation and restrictions discussed herein.

Under existing ROC laws and regulations, a depository may, without obtaining further approvals from the CBC or any other government authority or agency of the ROC, convert NT Dollars into other currencies, including U.S. Dollars, in respect of the proceeds of the sale of shares represented by depository receipts or received as stock dividends in respect of such shares and deposited into the depository receipt facility and any cash dividends or distributions received in respect of such shares. In addition, a depository may convert inward remittances of payments into NT Dollars for purchases of underlying shares for deposit in the depository receipt facility against the creation of depository shares. With respect to conversion from NT Dollars into foreign currencies in respect of the proceeds from the sale of subscription rights for new shares, proceeds in excess of U.S.\$100,000 per remittance may not be remitted overseas unless CBC approval is obtained. In addition, a depository receipt holder may, after becoming a holder of shares, convert NT Dollars into other currencies for proceeds from the sale of any underlying shares withdrawn from the depository receipt facility and delivered to the depository receipt holder and for conversion from foreign currencies into NT Dollars for subscription payments in respect of rights offering. A depository must obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT Dollars into foreign currencies in respect of the proceeds from the sale of subscription rights for new shares. It is expected that the CBC will grant such foreign exchange approval as a routine matter.

A non-ROC DR holder wishing to withdraw shares represented by DRs in order to hold the shares will be required to register with TSE and, if applicable, obtain the approval of the CBC (if such converting holder is an offshore foreign institutional investor) and is required to appoint a qualified local agent to, amongst other things, open a securities account with a local securities brokerage firm and a bank account, remit funds and exercise shareholders' rights. In addition, the withdrawing holder is also required to appoint a local bank to act as a custodian bank to hold the securities and any cash proceeds in safekeeping, to make confirmations, to settle trades and to report all relevant information. Without making these appointments

and opening these accounts, the withdrawing holder would be unable to hold or subsequently sell shares withdrawn from a depository receipt facility on the TSE or otherwise. Furthermore, the withdrawing holder is required to appoint a tax guarantor in the ROC for filing tax returns and making tax payments.

Direct Share Offerings

The ROC Government has permitted ROC companies listed on the TSE, or the GTSM to issue shares directly (not through depository receipt facilities) overseas. In addition, public-issue companies may issue shares directly overseas on a private placement basis.

Foreign Investment Approval

In addition to the investment permitted under the Overseas Rules, 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 Ministry of Economic Affairs or other government authority. The Investment Commission or such other government authority reviews each FIA application and approves or disapproves each application after consultation with other government agencies (such as the CBC and the ROC SFC). Under current law, any non-ROC person possessing an FIA may remit capital for the approved investment and is entitled to repatriate annual net profits, interest and cash dividends attributable to such investment. Stock dividends, investment capital and capital gains attributable to such investment may be repatriated after approvals of the Investment Commission or other government authorities have been obtained.

Prohibited and Restricted Industries

In addition to the general restriction against direct investment by non-ROC persons in shares of ROC companies, non-ROC persons are currently prohibited from investing in certain industries in the ROC pursuant to the Negative List as amended by the Executive Yuan from time to time. The prohibition on foreign investment in the prohibited industries specified in the Negative List is absolute and provides no specific exemption from its application. Pursuant to the Negative List, certain other industries are restricted so that non-ROC persons may invest in such industries only up to a specified level and with the specific approval of the relevant competent authority which is responsible for enforcing the relevant legislation which the Negative List is intended to implement. The 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 (the “ROC MOF”) and by the CBC. Current regulations favor trade-related foreign exchange transactions.

Consequently, foreign currency earned from exports of merchandise and services may now be retained and used freely by exporters, and all foreign currency needed for the import of merchandise and services may be purchased freely from the designated banks for conducting foreign exchange.

For non-trade related foreign exchange transactions, ROC companies and resident individuals may also, without foreign exchange approval, remit into and out of the ROC foreign currencies of up to U.S.\$50 million (or its equivalent) and U.S.\$5 million (or its equivalent), respectively, in each calendar year. The above limits apply to remittances involving a conversion between NT Dollars and U.S. Dollars or other foreign currencies. Furthermore, any remittance of foreign currency into the ROC by an ROC company or resident individual in a year will be offset by the amount remitted out of the ROC by the company or individual (as applicable) within its annual quota and will not use up its annual inward remittance quota to the extent of such offset. The above limits apply to remittance involving a conversion between NT Dollars and U.S. Dollars or other foreign currencies. A requirement is also imposed on all enterprises to register medium-and-long-term foreign debt with the CBC.

In addition, foreign persons may, subject to certain required documents, but without foreign exchange approval of the CBC, remit outside and into the ROC foreign currencies of up to U.S.\$100,000 (or its equivalent) for each remittance. The above limit applies only to remittances involving a conversion between NT Dollars and U.S. Dollars or other foreign currencies.

APPENDIX B — THE SECURITIES MARKET OF THE ROC

The information presented in this appendix has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Managers 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 593 by the end of May 2002. As of the end of May 2002, the market capitalization of companies listed on the TSE was NT\$10,807 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 GTSM. The ROC SFC also has regulations which permit foreign issuers to list their equity securities directly on the TSE or through the use of depositary receipts. To date, two foreign issuers have listed their equity securities on the TSE through the use of depositary receipts in accordance with these regulations.

The TSE requirements for listing are based on the following company attributes:

- ▶ the number and distribution of stockholders;
- ▶ length of time in business;
- ▶ amount of capital; and
- ▶ profitability.

However, special listing criteria apply to technology companies and key businesses engaging in national economic development or in key public construction BOT projects.

The GreTai Securities Market and the ROC Over-the-Counter Securities Exchange

To complement the TSE, the GTSM was established in September 1982 on the initiative of the ROC SFC to encourage the trading of securities of companies who do not qualify for listing on the TSE. As of December 8, 2003, 416 companies have listed equity securities on the GTSM and the total market capitalization of those companies was NT\$1,184,467 billion.

In addition, the Emerging Market on the GTSM 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 GTSM. The price of the emerging stock is decided by negotiation between securities firms and investors. As of June 27, 2002, 101 companies have registered equity securities on the Emerging Market on the GTSM.

The following table sets forth, for the periods indicated, certain information relating to the GTSM 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	1,899,925	207.18	138.99	207.18
2000	300	4,479,663	329.47	99.86	104.93
2001	333	2,326,889	136.23	106.74	136.23
2002	384	2,794,724	163	89.71	94.38
2003 (through October)	407	1,701,350	114.63	79.56	110.12

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>No. of listed companies at period end</u>	<u>Index high</u>	<u>Index low</u>	<u>Index at period end</u>
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	638	6,462.30	3,850.04	4,452.45
2003 (through October)	667	6,108.13	4,139.50	6,045.12

Sources: Status of Securities Listed on Taiwan Stock Exchange.

As indicated above, the performance of the TSE has in recent years been characterized by extreme price volatility.

Price Limits, Commissions, Transaction Tax and Other Matters

The TSE has placed limits on block trading and on the range of daily price movements. Transactions that involve 500 trading lots or more must be registered and executed pursuant to certain TSE guidelines. Fluctuations in the price of stock traded on the TSE are currently subject to a restriction of 7% above and below the previous day's closing price (or reference price set by the TSE if the previous day's closing price is not available because of lack of trading activity) in the case of equity securities, and 5% in the case of debt securities. Brokerage commissions are proposed by the TSE and approved by the ROC SFC. The current approved maximum brokerage commission is 0.1425% of the transaction price for equity securities; however, a lower rate may be charged to clients by securities firms at their sole discretion, provided that they must report such rate to the TSE. A securities transaction tax, currently levied at the rate of 0.3% of the transaction price, is payable by the seller of equity securities and a tax at the rate of 0.1% of the transaction price is payable by the seller of debt securities other than government bonds. Such securities transaction taxes are withheld at the time of the transaction. 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 GTSM 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 GTSM has primary responsibility for reviewing applications by issuers to list securities on the GTSM. The ROC SFC reviews all securities offerings by listed companies. If issuers of listed securities violate relevant laws and regulations or encounter significant difficulties, the TSE and the GTSM may, with the approval of the ROC SFC, delist securities of such issuers.

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